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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 2010**

INTERIM RESULTS

The board of directors (the “Board”) of Founder Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2010, together with the comparative figures for the corresponding period in 2009. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

| | <i>Notes</i> | For the six months ended | |
|-------------------------------------------|--------------|---------------------------------|--------------------|
| | | 2010 | 2009 |
| | | (Unaudited) | (Unaudited) |
| | | HK\$’000 | HK\$’000 |
| REVENUE | 2 | 1,007,139 | 684,749 |
| Cost of sales | | (886,061) | (587,760) |
| Gross profit | | 121,078 | 96,989 |
| Other income and gains | 3 | 27,214 | 19,373 |
| Selling and distribution costs | | (68,748) | (57,148) |
| Administrative expenses | | (34,523) | (31,573) |
| Other expenses, net | | (42,518) | (47,418) |
| Finance costs | 4 | (2,923) | (1,052) |
| Share of profits and losses of associates | | 919 | 5,647 |

| | | For the six months ended | |
|-------------------------------------------------------------------------|--------------|---------------------------------|----------------------------|
| | | 30 June | |
| | | 2010 | 2009 |
| | | (Unaudited) | (Unaudited) |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| PROFIT/(LOSS) BEFORE TAX | 5 | 499 | (15,182) |
| Income tax expense | 6 | <u>(1,373)</u> | <u>(19)</u> |
| LOSS FOR THE PERIOD | | <u>(874)</u> | <u>(15,201)</u> |
| Attributable to: | | | |
| Owners of the parent | | (951) | (15,258) |
| Non-controlling interests | | <u>77</u> | <u>57</u> |
| | | <u>(874)</u> | <u>(15,201)</u> |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 7 | | |
| – Basic | | <u>(0.08 cents)</u> | <u>(1.35 cents)</u> |
| – Diluted | | <u>(0.08 cents)</u> | <u>(1.35 cents)</u> |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

| | For the six months ended | |
|--------------------------------------------------------------|--------------------------|------------------------|
| | 30 June | |
| | 2010 | 2009 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Loss for the period | (874) | (15,201) |
| Exchange differences on translation of foreign operations | <u>2,176</u> | <u>2,092</u> |
| Other comprehensive income for the period, net of tax | <u>2,176</u> | <u>2,092</u> |
| Total comprehensive income/(loss) for the period, net of tax | <u><u>1,302</u></u> | <u><u>(13,109)</u></u> |
| Attributable to: | | |
| Owners of the parent | 1,220 | (13,171) |
| Non-controlling interests | <u>82</u> | <u>62</u> |
| | <u><u>1,302</u></u> | <u><u>(13,109)</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

| | | 30 June 2010 | 31 December 2009 |
|--------------------------------------------------------------------------------|--------------|-------------------------|---------------------|
| | | (Unaudited) | (Audited) |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 115,229 | 119,262 |
| Investment properties | | 30,560 | 30,560 |
| Interests in associates | | 126,760 | 123,882 |
| Available-for-sale investment | | 802 | 802 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 273,351 | 274,506 |
| CURRENT ASSETS | | | |
| Inventories | | 45,113 | 26,349 |
| Gross amount due from contract customers | | 39,314 | 94,048 |
| Trade and bills receivables | 8 | 135,921 | 211,472 |
| Prepayments, deposits and other receivables | | 118,057 | 344,053 |
| Pledged deposits | | 17,051 | 92,572 |
| Cash and cash equivalents | | 152,566 | 333,031 |
| | | <hr/> | <hr/> |
| | | 508,022 | 1,101,525 |
| Assets of a disposal group classified as held for sale | 9 | 619,468 | – |
| | | <hr/> | <hr/> |
| Total current assets | | 1,127,490 | 1,101,525 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 10 | 69,843 | 368,913 |
| Gross amount due to contract customers | | 26,965 | 44,758 |
| Receipts in advance, other payables and accruals | | 159,115 | 363,835 |
| Interest-bearing bank borrowings | 11 | 86,692 | 102,733 |
| Tax payable | | 86 | 7 |
| | | <hr/> | <hr/> |
| | | 342,701 | 880,246 |
| Liabilities directly associated with the assets classified as held for sale | 9 | 562,115 | – |
| | | <hr/> | <hr/> |
| Total current liabilities | | 904,816 | 880,246 |

| | | 30 June 2010 (Unaudited) <i>HK\$'000</i> | 31 December 2009 (Audited) <i>HK\$'000</i> |
|----------------------------------------------------|-----------|-------------------------------------------------------------|-----------------------------------------------------|
| NET CURRENT ASSETS | | <u>222,674</u> | <u>221,279</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>496,025</u> | <u>495,785</u> |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | <i>11</i> | – | 1,062 |
| Deferred tax liabilities | | <u>5,907</u> | <u>5,907</u> |
| Total non-current liabilities | | <u>5,907</u> | <u>6,969</u> |
| Net assets | | <u>490,118</u> | <u>488,816</u> |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | | 113,030 | 113,030 |
| Reserves | | <u>376,299</u> | <u>375,079</u> |
| | | 489,329 | 488,109 |
| Non-controlling interests | | <u>789</u> | <u>707</u> |
| Total equity | | <u>490,118</u> | <u>488,816</u> |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2010

1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2009, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

| | |
|-----------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| HKFRSs Amendments | <i>Improvements to HKFRSs 2009</i> |
| HKFRS 1 (Revised) | <i>First-time Adoption of Hong Kong Financial Reporting Standards</i> |
| HKFRS 1 Amendments | <i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i> |
| HKFRS 2 Amendments | <i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> |
| HKFRS 3 (Revised) | <i>Business Combinations</i> |
| HKAS 27 (Revised) | <i>Consolidated and Separate Financial Statements</i> |
| HKAS 32 Amendment | <i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i> |
| HKAS 39 Amendment | <i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> |
| HK(IFRIC)-Int 17 | <i>Distributions of Non-cash Assets to Owners</i> |
| Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008 | <i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i> |
| HK Interpretation 4 (Revised in December 2009) | <i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> |

The adoption of the above new and revised HKFRSs has had no significant effect on these condensed consolidated interim financial statements.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into operating segments based on their products and services. The following table presents revenue and results for the Group's segments for the six months ended 30 June 2010 and 2009:

| | Software development and systems integration for media business | | Software development and systems integration for non-media business | | Corporate | | Others | | Total | |
|-------------------------------------------|-----------------------------------------------------------------|---------------------------------|---------------------------------------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2010 (Unaudited) HK\$'000 | 2009 (Unaudited) HK\$'000 | 2010 (Unaudited) HK\$'000 | 2009 (Unaudited) HK\$'000 | 2010 (Unaudited) HK\$'000 | 2009 (Unaudited) HK\$'000 | 2010 (Unaudited) HK\$'000 | 2009 (Unaudited) HK\$'000 | 2010 (Unaudited) HK\$'000 | 2009 (Unaudited) HK\$'000 |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | 340,924 | 231,970 | 666,070 | 452,696 | - | - | 145 | 83 | 1,007,139 | 684,749 |
| Intersegment sales | 6,870 | 455 | - | 419 | - | - | - | - | 6,870 | 874 |
| | <u>347,794</u> | <u>232,425</u> | <u>666,070</u> | <u>453,115</u> | <u>-</u> | <u>-</u> | <u>145</u> | <u>83</u> | <u>1,014,009</u> | <u>685,623</u> |
| <i>Reconciliation:</i> | | | | | | | | | | |
| Elimination of intersegment sales | | | | | | | | | <u>(6,870)</u> | <u>(874)</u> |
| Revenue | | | | | | | | | <u><u>1,007,139</u></u> | <u><u>684,749</u></u> |
| Segment results | (3,035) | (20,486) | 1,956 | 1,805 | (3,284) | (4,719) | 117 | 46 | (4,246) | (23,354) |
| <i>Reconciliation:</i> | | | | | | | | | | |
| Interest income and unallocated gains | | | | | | | | | <u>6,749</u> | <u>3,577</u> |
| Finance costs | | | | | | | | | <u>(2,923)</u> | <u>(1,052)</u> |
| Share of profits and losses of associates | | | | | | | | | <u>919</u> | <u>5,647</u> |
| Profit/(loss) before tax | | | | | | | | | <u><u>499</u></u> | <u><u>(15,182)</u></u> |

3. OTHER INCOME AND GAINS

| | For the six months ended 30 June | |
|-----------------------------------|-------------------------------------|---------------|
| | 2010 | 2009 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Bank interest income | 832 | 1,094 |
| Other interest income | 5,031 | – |
| Gross rental income | 599 | 628 |
| Government grants | 16,845 | 13,224 |
| Foreign exchange differences, net | 886 | 2,483 |
| Others | 3,021 | 1,944 |
| | <u>27,214</u> | <u>19,373</u> |

4. FINANCE COSTS

| | For the six months ended 30 June | |
|------------------------|-------------------------------------|--------------|
| | 2010 | 2009 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Interest on bank loans | <u>2,923</u> | <u>1,052</u> |

5. PROFIT/(LOSS) BEFORE TAX

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

| | For the six months ended 30 June | |
|-------------------------------------------------------------------|-------------------------------------|--------------|
| | 2010 | 2009 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Depreciation | 3,604 | 3,553 |
| (Gain)/loss on disposal of items of property, plant and equipment | (121) | 1 |
| Impairment of trade receivables | 9,048 | 7,556 |
| (Reversal of provision)/provision for obsolete inventories | <u>(530)</u> | <u>1,176</u> |

6. INCOME TAX

| | For the six months ended | |
|------------------------------------------------------|--------------------------|-------------|
| | 30 June | |
| | 2010 | 2009 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Current – The People’s Republic of China (the “PRC”) | | |
| Charge for the period | 1,373 | – |
| Underprovision in prior years | – | 19 |
| Total tax charge for the period | <u>1,373</u> | <u>19</u> |

No provision for Hong Kong profits tax has been made as the relevant subsidiaries either did not generate any assessable profits arising in Hong Kong during the period or have available tax losses brought forward from prior years to offset the assessable profits generated during the period (six months ended 30 June 2009: Nil).

On 16 March 2007, the PRC promulgated the Law of the People’s Republic of China on Enterprise Income Tax (the “New Corporate Income Tax Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council issued Implementation Regulation of the New Corporate Income Tax Law. The New Corporate Income Tax Law and Implementation Regulation changed the tax rate of the PRC subsidiaries to 25% from 1 January 2008 onwards.

Pursuant to the relevant approval document issued by the PRC tax bureau, Beijing Founder Electronics Co., Ltd. (“Founder Electronics”), a wholly-owned subsidiary of the Company, being registered as a major new and high technology enterprise, is granted a tax concession to pay PRC corporate income tax at a preferential rate of 10% on its assessable profits.

北京方正奧德計算機系統有限公司 (Beijing Founder Order Computer Systems Co., Ltd.*) (“Founder Order”), a wholly-owned subsidiary of the Company, was registered as a new and high technology enterprise. Pursuant to the New Corporate Income Tax Law, Founder Order is subject to PRC corporate income tax at a rate of 15% on its assessable profits.

The share of tax attributable to associates amounting to approximately HK\$550,000 (six months ended 30 June 2009: HK\$543,000) is included in “Share of profits and losses of associates” in the consolidated income statement.

* For identification purpose only

7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amounts is based on the unaudited loss for the period attributable to ordinary equity holders of the parent of approximately HK\$951,000 (six months ended 30 June 2009: HK\$15,258,000), and the weighted average number of approximately 1,130,300,000 (six months ended 30 June 2009: 1,130,300,000) ordinary shares in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 2010 and 2009 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

8. 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. Trade receivables are non-interest-bearing.

An aged 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 2010 (Unaudited) HK\$'000 | 31 December 2009 (Audited) HK\$'000 |
|-----------------|------------------------------------------------------|----------------------------------------------|
| Within 6 months | 89,678 | 149,191 |
| 7 to 12 months | 37,097 | 33,833 |
| 13 to 24 months | 7,893 | 26,461 |
| Over 24 months | 1,253 | 1,987 |
| | <u>135,921</u> | <u>211,472</u> |

Included in the Group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK\$3,747,000 (31 December 2009: HK\$497,000) and HK\$843,000 (31 December 2009: HK\$3,613,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

9. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DIRECTLY ASSOCIATED LIABILITIES

On 24 June 2010, Sparkling Idea Limited ("Sparkling Idea"), a wholly-owned subsidiary of the Company, entered into a disposal agreement with Founder International Co., Ltd. ("Founder International"), a joint venture company established in the PRC and is owned as to 37.36% by 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company. Pursuant to the disposal agreement, Sparkling Idea agrees to sell, and Founder International agrees to purchase, the entire equity interest in Founder Order, within the software development and systems integration for non-media business segment, for a cash consideration of HK\$47,500,000. Further details of the transaction were set out in the announcement of the Company dated 24 June 2010 and the circular of the Company dated 14 July 2010.

The disposal agreement was duly approved at the Company's special general meeting held on 3 August 2010. The completion date for the transaction is expected to be before October 2010. Therefore, the assets of the disposal group and the directly associated liabilities were reclassified as held for sale as at 30 June 2010.

The major classes of assets and liabilities of the disposal group classified as held for sale as at 30 June 2010 are as follows:

| | 30 June 2010 (Unaudited) <i>HK\$'000</i> | 31 December 2009 (Audited) <i>HK\$'000</i> |
|--------------------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------|
| Assets | | |
| Property, plant and equipment | 1,798 | – |
| Interests in associates | 2,410 | – |
| Inventories | 6,899 | – |
| Gross amount due from contract customers | 121,771 | – |
| Trade and bills receivables | 178,781 | – |
| Prepayments, deposits and other receivables | 93,077 | – |
| Pledged deposits | 59,837 | – |
| Cash and cash equivalents | 154,895 | – |
| | <hr/> | <hr/> |
| Assets of a disposal group classified as held for sale | 619,468 | – |
| | <hr/> <hr/> | <hr/> <hr/> |
| Liabilities | | |
| Trade and bills payables | (366,363) | – |
| Gross amount due to contract customers | (2,776) | – |
| Receipts in advance, other payables and accruals | (163,052) | – |
| Interest-bearing bank borrowings | (29,924) | – |
| | <hr/> | <hr/> |
| Liabilities directly associated with the assets classified as held for sale | (562,115) | – |
| | <hr/> <hr/> | <hr/> <hr/> |

Included in the disposal group's trade and bills receivables are amounts due from the Group's related companies and associates of approximately HK\$192,000 and HK\$1,025,000, respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

Included in the disposal group's prepayments, deposits and other receivables are amounts due from the Group's related companies and associates of approximately HK\$7,820,000 and HK\$4,352,000, respectively. The balances are unsecured, interest-free and have no fixed terms of repayment.

Included in the disposal group's trade and bills payables are amounts due to the Group's related companies and associates of approximately HK\$11,647,000 and HK\$142,348,000, respectively, which are repayable on similar credit terms to those offered by the related companies and associates to their major customers.

Included in the disposal group's receipt in advance, other payables and accruals are amounts due to the Group's related companies and associates of approximately HK\$8,104,000 and HK\$6,256,000, respectively. The balances are unsecured, interest-free and have no fixed terms of repayment.

* For identification purpose only

10. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 30 June 2010 (Unaudited) HK\$'000 | 31 December 2009 (Audited) HK\$'000 |
|-----------------|------------------------------------------------------|----------------------------------------------|
| Within 6 months | 63,021 | 275,996 |
| 7 to 12 months | 4,663 | 57,470 |
| 13 to 24 months | 680 | 27,365 |
| Over 24 months | 1,479 | 8,082 |
| | <u>69,843</u> | <u>368,913</u> |

Included in the Group's trade and bills payables are amounts due to the Group's related companies and associates of approximately HK\$679,000 (31 December 2009: HK\$17,864,000) and HK\$2,745,000 (31 December 2009: HK\$92,305,000), respectively, which are repayable on similar credit terms to those offered by the related companies and associates to their major customers.

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

11. INTEREST-BEARING BANK BORROWINGS

On 12 May 2010, Founder (Hong Kong) Limited, a wholly-owned subsidiary of the Company, as borrower (the "Borrower"), the Company as guarantor and DBS Bank (Hong Kong) Limited as lender (the "Lender") entered into a facility agreement (the "Facility Agreement"), pursuant to which a banking facility relating to a revolving term loan and credit facility of up to US\$5,000,000 (the "Facility") was made available by the Lender to the Borrower on the terms and conditions therein contained. The Facility Agreement imposes a covenant relating to specific performance of the controlling shareholder of the Company.

The Facility Agreement provides that it would constitute an event of default under the Facility Agreement if Peking Founder holds less than 32% of the shareholding interest in the Company, and in such event (amongst other things) the loans under the Facility may immediately become payable on demand.

As at 30 June 2010, the banking facility drawn by the Group under the Facility Agreement amounted to approximately HK\$15,114,000.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

The Group recorded an unaudited consolidated loss attributable to owners of the parent of HK\$1.0 million for the six months ended 30 June 2010 (six months ended 30 June 2009: loss of HK\$15.3 million). The Group recorded a significant increase in turnover during the current interim period by approximately 47.1% to HK\$1,007.1 million (six months ended 30 June 2009: HK\$684.7 million) and a decrease in gross profit ratio from 14.2% for the six months ended 30 June 2009 to 12.0% for the current interim period.

Basic loss per share attributable to equity holders of the parent for the current interim period was HK0.08 cents (six months ended 30 June 2009: HK1.35 cents).

Operating Review and Prospects

(A) *Software development and systems integration for media sector (“Media Business”)*

The turnover of the Media Business for the current interim period increased by 47.0% to approximately HK\$340.9 million (six months ended 30 June 2009: HK\$232.0 million) while the segment results recorded a loss of approximately HK\$3.0 million (six months ended 30 June 2009: HK\$20.5 million). With the restructuring and reinforcement of our sales and research and development teams, our abilities to monitor the completion status of sales contracts, capture opportunities in the market and provide more value-added services to the customers are greatly enhanced, leading to the significant improvement in turnover and results of the Media Business during the period under review. The gross profit ratio for the Media Business for the current interim period has decreased to 29.5% as compared to 33.4% for the six months ended 30 June 2009 as a results of increase in the proportion of hardware in the systems integration contracts which generated lower gross profit margin.

At present, the PRC broadcasting industry is at the turning point of overwhelmingly adopting broadcasting system with high definition. After several years of development of digital broadcasting systems for various major PRC TV stations, Founder Electronics has achieved good progress in building up the know-how and technology in this area and therefore enjoyed a commanding position in this industry. In addition, under the trend of digital publishing and non-paper newspaper, Founder Electronics continued to provide application solutions for PRC publishing companies so as to capture this opportunity and meet the customers’ needs.

Founder Electronics obtained the special honours of “Key Software Enterprise in National Plan Department of 2009” (2009年度國家規劃佈局內重點軟件企業) and a preferential income tax concession pursuant to the certification as a major new and high technology enterprise (重點高新技術企業). On 1 February 2010, one of the patents developed by Founder Electronics was awarded as Chinese Outstanding Patented Invention (中國專利獎金獎) by State Intellectual Property Organisation (國家知識產權局). On 22 April 2010, our vice general manager of research and development centre of Founder Electronics obtained the special honours of Invention entrepreneurship award (發明創業獎) for the development of digital workflow system and digital printing system in Chinese Inventors Forum (中國發明家論壇) jointly organised by China Invention Association (中國發明協會), State Office of Science and Technology Awards (國家科學技術獎勵工作辦公室), Science Daily (科技日報社) and China Intellectual Property Newspaper (中國知識產權報社).

The Group’s self-developed and advanced technology computer-to-plate (“CTP”) product, Founder DiaoLong (方正雕龍) has received encouraging support and strong demand from both domestic and overseas market since 2007. The development of the CTP product has enabled the Group to integrate vertically as a software and hardware developer and horizontally as a system integrator and service provider. On 7 July 2010, Founder Electronics entered into sales contract with People’s Daily China News Investment Management Center (人民日報社中聞投資管理中心) for the sales of CTP systems to the printing centres of People’s Daily China News in Xian, Jinan, Wuhan, Fuzhou and Ningjing. In addition, the Group’s self-developed Document Management System (DMS) for newspaper layout process received strong demand from various newspaper publishers in the PRC. Newspaper publishing process management system provides fast, efficient and cost-effecting publishing and printing process for newspaper advertising, editorial, layout proofs, the issue of transmission version, utilisation of the digital asset and printing plate.

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

The turnover of the Non-Media Business for the current interim period increased by 47.1% to approximately HK\$666.1 million (six months ended 30 June 2009: HK\$452.7 million) while its segment results has recorded a profit of approximately HK\$2.0 million (six months ended 30 June 2009: HK\$1.8 million).

The major products and services provided by the Non-Media Business include various solutions for the banking, insurance and securities industries, call center solutions, security and identity verification systems, documents imaging systems. The major customers are the finance, insurance and securities industries and various government bureaus in China. On 18 March 2010, Beijing immunisation management information system (北京市免疫規劃信息管理系統) jointly developed by Founder Order and other systems integration services provider for Beijing Municipal Health Bureau (北京市衛生局) were awarded as Top 10 2009 Application Information Results in Beijing (2009信息北京十大應用成果) by Beijing Municipal Party Committee Propaganda Department (北京市委宣傳部).

The improvement in segment revenue and results is mainly due to the increase in sales of information products to customers in Hong Kong. With the disposal of Founder Order which is engaged in the Non-Media Business in the PRC as disclosed in “Material acquisitions and disposals of subsidiaries and associates” section below, the Group will allocate more resources on the existing media and non-media business so as to generate more profitable results and increase the shareholders’ value.

Prospects

To deal with the business growth, the management will closely monitor changes in China’s economy and its IT market. The Group will continue the development of innovative solutions and provide our customers with more cost-effective products and solutions to meet our customers’ demands for enhancing their competitiveness. In addition, the Group will closely monitor the performance of each business sector to achieve effective cost control and minimise the loss.

Employees

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group’s salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

The Group operates share option scheme for the purpose of providing incentives and rewards to eligible directors and employees of the Group who contribute to the success of the Group’s operations. The Group had not granted any share options to its eligible directors and employees during the current period.

At 30 June 2010, the number of employees of the Group was approximately 1,552.

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 2010, the Group had interest-bearing bank borrowings of HK\$116.6 million (31 December 2009: HK\$103.8 million), of which HK\$29.9 million (31 December 2009: Nil) were included in liabilities directly associated with the assets classified as held for sale. Bank borrowings of HK\$18.3 million (31 December 2009: HK\$26.6 million) were fixed interest bearing and HK\$98.3 million (31 December 2009: HK\$77.2 million) were floating interest bearing. The bank borrowings were denominated in Hong Kong Dollars (“HKD”), Renminbi (“RMB”) and United States Dollars (“U.S. dollars”), of which approximately HK\$115.5 million (31 December 2009: HK\$102.7 million) and HK\$1.1 million (31 December 2009: HK\$1.1 million) were repayable within one year and two to five years, respectively. The Group’s banking facilities were secured by corporate guarantees given by the Company and Peking Founder, the Government of the Hong Kong Special Administrative Region under the SME Loan Guarantee Scheme, certain of the Group’s land and buildings, investment properties and bank deposits, and certain of bank deposits of a subsidiary of Peking Founder.

At 30 June 2010, the Group recorded total assets of HK\$1,400.8 million which were financed by liabilities of HK\$910.7 million, non-controlling interests of HK\$0.8 million and equity of HK\$489.3 million. The Group’s net asset value per share as at 30 June 2010 amounted to HK\$0.43 (31 December 2009: HK\$0.43).

The Group had total cash and bank balances of HK\$384.3 million as at 30 June 2010 (31 December 2009: HK\$425.6 million), of which HK\$214.7 million (31 December 2009: Nil) were included in assets of a disposal group classified as held for sale. After deducting total bank borrowings of HK\$116.6 million (31 December 2009: HK\$103.8 million), the Group recorded net cash and bank balances of HK\$267.7 million as at 30 June 2010 as compared to HK\$321.8 million as at 31 December 2009. The Group’s borrowings, which are subject to little seasonality, consist of mainly short and long term bank loans and trust receipt loans. As at 30 June 2010, the Group’s gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders’ equity, was 0.24 (31 December 2009: 0.21) while the Group’s working capital ratio was 1.25 (31 December 2009: 1.25).

At 30 June 2010, the Group did not have any material capital expenditure commitments.

Treasury policies

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

Exposure to fluctuations in exchange rates and related hedges

The Group operates mainly in Hong Kong and Mainland China. 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. Given the appreciation of RMB against HKD during the period under review, no financial instrument was used for hedging purposes. It is expected that the appreciation of RMB would have a favourable impact on the Group.

Contracts

At 30 June 2010, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$880 million, which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 24 June 2010, Sparkling Idea has entered into the disposal agreement with Founder International, pursuant to which, Sparkling Idea agrees to sell, and Founder International agrees to purchase, the entire equity interest in Founder Order for a cash consideration of HK\$47.5 million. Details of the disposal are set out in the announcement of the Company dated 24 June 2010 and the circular of the Company dated 14 July 2010. The disposal is expected to be completed before October 2010.

Charges on assets

At 30 June 2010, the Group's land and buildings in Hong Kong of approximately HK\$32.6 million, investment properties of approximately HK\$30.0 million and bank deposits of approximately HK\$76.9 million (of which HK\$59.8 million were included in assets of a disposal group classified as held for sale) were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 30 June 2010, the Group did not have any significant contingent liabilities.

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 period.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, throughout the six months ended 30 June 2010, complied with the code provisions of the Code of Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted a model code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions as set out in Appendix 10 of the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's condensed consolidated interim financial statements for the six months ended 30 June 2010, including the accounting principles adopted by the Group, with the Company's management.

By Order of the Board
FOUNDER HOLDINGS LIMITED
Zhang Zhao Dong
Chairman

Hong Kong
27 August 2010

As at the date of this announcement, the Board of the Company comprises the executive directors of Mr Zhang Zhao Dong (Chairman), Professor Xiao Jian Guo (Deputy Chairman), Mr Liu Xiao Kun (President), Professor Wei Xin, Mr Chen Geng and Mr Xie Ke Hai, and the independent non-executive directors of Mr Li Fat Chung, Dr Hu Hung Lick, Henry and Ms Wong Lam Kit Yee.

* *For identification purpose only*