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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 2018

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 2018 together with the comparative figures.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
REVENUE	4	1,058,857	993,493
Cost of sales		<u>(542,733)</u>	<u>(554,710)</u>
Gross profit		516,124	438,783
Other income and gains	4	105,668	124,431
Selling and distribution expenses		(246,806)	(232,624)
Administrative expenses		(97,383)	(92,987)
Other expenses, net		(181,035)	(140,039)
Finance costs	5	(7,882)	(6,571)
Share of (losses)/profits of associates		<u>(209)</u>	<u>233</u>
PROFIT BEFORE TAX	6	88,477	91,226
Income tax	7	<u>(966)</u>	<u>(1,397)</u>
PROFIT FOR THE YEAR		<u>87,511</u>	<u>89,829</u>

	<i>Notes</i>	2018 HK\$'000	2017 <i>HK\$'000</i>
Attributable to:			
Owners of the parent		87,336	89,836
Non-controlling interests		175	(7)
		<u>87,511</u>	<u>89,829</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	<u>HK7.3 cents</u>	<u>HK7.5 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
PROFIT FOR THE YEAR	<u>87,511</u>	<u>89,829</u>
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Changes in fair value of available-for-sale investments	–	15,834
Share of other comprehensive (losses)/income of associates	<u>(677)</u>	<u>310</u>
	(677)	16,144
Exchange differences:		
Exchange differences on translation of foreign operations	(39,045)	44,026
Reclassification adjustments for a foreign operation deregistered during the year	<u>(890)</u>	<u>–</u>
	(39,935)	44,026
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	<u>(40,612)</u>	<u>60,170</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	(12,995)	–
Revaluation surplus of land and buildings, net of tax	<u>15,894</u>	<u>16,216</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>2,899</u>	<u>16,216</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	<u>(37,713)</u>	<u>76,386</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>49,798</u></u>	<u><u>166,215</u></u>
Attributable to:		
Owners of the parent	49,638	166,210
Non-controlling interests	<u>160</u>	<u>5</u>
	<u><u>49,798</u></u>	<u><u>166,215</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		337,289	359,419
Investment properties		147,223	117,879
Investments in associates		2,544	3,430
Available-for-sale investments		–	19,718
Equity investments at fair value through other comprehensive income		6,709	–
Intangible assets		–	–
Deferred tax assets		4,569	2,268
Pledged deposits		4,804	7,201
		<hr/>	<hr/>
Total non-current assets		503,138	509,915
CURRENT ASSETS			
Inventories		93,569	103,810
Gross amount due from contract customers		–	17,744
Contract assets		45,003	–
Trade and bills receivables	9	139,700	161,384
Prepayments, other receivables and other assets		472,591	511,569
Financial assets at fair value through profit or loss		803	2,287
Pledged deposits		8,073	7,396
Cash and cash equivalents		548,222	509,277
		<hr/>	<hr/>
Total current assets		1,307,961	1,313,467
CURRENT LIABILITIES			
Trade and bills payables	10	69,987	78,615
Contract liabilities		86,373	–
Gross amount due to contract customers		–	19,247
Other payables and accruals		246,133	358,791
Interest-bearing bank borrowings		160,914	161,119
Tax payable		3,982	5,443
		<hr/>	<hr/>
Total current liabilities		567,389	623,215
		<hr/>	<hr/>
NET CURRENT ASSETS		740,572	690,252

	2018	2017
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,243,710</u>	<u>1,200,167</u>
NON-CURRENT LIABILITIES		
Deferred tax liabilities	<u>58,009</u>	<u>61,033</u>
Net assets	<u>1,185,701</u>	<u>1,139,134</u>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	119,975	119,975
Reserves	<u>1,065,726</u>	<u>1,018,975</u>
	1,185,701	1,138,950
Non-controlling interests	<u>–</u>	<u>184</u>
Total equity	<u>1,185,701</u>	<u>1,139,134</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2018

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 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 following new and revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014–2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 4 and *Annual Improvements to HKFRSs 2014–2016 Cycle*, which are not relevant to the preparation of the Group’s financial statements, the nature and the impact of the new and revised HKFRSs are described below:

- (a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee’s tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee’s tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.
- (b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	<i>Notes</i>	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39	New carrying amount under HKFRS 9
Due from associates		Loans and receivables	Financial assets at amortised cost	31	31
Available-for-sale investments	(i)	Available-for-sale financial assets	Equity investments at fair value through other comprehensive income	19,718	19,718
Pledged deposits		Loans and receivables	Financial assets at amortised cost	14,597	14,597
Contract assets	(ii)	Not applicable	Financial assets at amortised cost	50,401	47,514
Trade receivables	(ii)	Loans and receivables	Financial assets at amortised cost	109,408	109,408
Bills receivable	(iii)	Loans and receivables	Financial assets at fair value through other comprehensive income	36,906	36,906
Financial assets included in prepayments, other receivables and other assets		Loans and receivables	Financial assets at amortised cost	467,412	467,412
Financial assets at fair value through profit or loss		Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	2,287	2,287

	<i>Notes</i>	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39	New carrying amount under HKFRS 9
Cash and cash equivalents		Loans and receivables	Financial assets at amortised cost	509,277	509,277
Trade and bills payables		Financial liabilities at amortised cost	Financial liabilities at amortised cost	78,615	78,615
Contract liabilities		Financial liabilities at amortised cost	Financial liabilities at amortised cost	123,736	123,736
Financial liabilities included in other payables and accruals		Financial liabilities at amortised cost	Financial liabilities at amortised cost	229,182	229,182
Interest-bearing bank borrowings		Financial liabilities at amortised cost	Financial liabilities at amortised cost	161,119	161,119

Notes:

- (i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income. As the carrying amount of the available-for-sale investments amounting to HK\$19,718,000 as at 31 December 2017 is approximate to the fair value as at 1 January 2018, no transition adjustment to the financial asset at 1 January 2018 was recognised.
- (ii) The gross carrying amounts of the trade receivables and the contract assets under the column “Original carrying amount under HKAS 39” represent the amounts after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of HKFRS 15 are included in note 2.2(c) to the financial statements.
- (iii) The Group’s bills receivables are managed with a business model under which bills receivable are held to collect contractual cash flows or endorsed to suppliers prior to their expiry date. Accordingly, the bills receivables are reclassified as financial assets at fair value through other comprehensive income upon adoption of HKFRS 9.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017	Re-measurement	Transfer (note)	ECL allowance under HKFRS 9 at 1 January 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract assets	–	2,887	4,554	7,441

Note: The amount represented a transfer of HK\$4,554,000 from the loss allowance for impairment of trade receivables.

Impact on reserves and retained profits/(accumulated losses)

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits/ (accumulated losses)
	<i>HK\$'000</i>
Equity investments at fair value through other comprehensive income revaluation reserve under HKFRS 9 (available-for-sale investment revaluation reserve under HKAS 39)	
Balance as at 31 December 2017 under HKAS 39	15,834
Reversal of impairment losses under HKAS 39 for equity investments at fair value through other comprehensive income previously classified as available- for-sale investments	(10,133)
Balance as at 1 January 18 under HKFRS 9	<u>5,701</u>
Retained profits/(accumulated losses)	
Balance as at 31 December 2017 under HKAS 39	(271,540)
Reversal of impairment losses under HKAS 39 for equity investments at fair value through other comprehensive income previously classified as available- for-sale investments	10,133
Recognition of expected credit losses for contract assets under HKFRS 9	(2,887)
Balance as at 1 January 2018 under HKFRS 9	<u>(264,294)</u>

- (c) HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of accumulated losses as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	<i>Notes</i>	Increase/ (decrease) HK\$'000
Assets		
Trade and bills receivables	(i)	(19,624)
Financial assets included in prepayments, other receivables and other assets	(i)	(29,950)
Gross amount due from contract customers	(i)	(17,744)
Contract assets	(i)	<u>67,318</u>
Total assets		<u><u>–</u></u>
Liabilities		
Gross amount due to contract customers	(ii)	(19,247)
Other payables and accruals	(ii)	(104,489)
Contract liabilities	(ii)	<u>123,736</u>
Total liabilities		<u><u>–</u></u>

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on the consolidated statement of profit or loss, other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of financial position as at 31 December 2018:

	Notes	Amounts prepared under		Increase/ (decrease) HK\$'000
		HKFRS 15 HK\$'000	Previous HKFRS HK\$'000	
Gross amount due from contract customers	(i)	–	24,452	(24,452)
Trade and bills receivables	(i)	168,916	188,487	(19,571)
Financial assets included in prepayment, other receivables and other assets	(i)	477,810	495,683	(17,873)
Contract assets	(i)	61,896	–	61,896
Total assets		1,811,099	1,811,099	–
Other payables and accruals	(ii)	246,133	309,721	(63,588)
Contract liabilities	(ii)	86,373	–	86,373
Gross amount due to contract customers	(ii)	–	22,785	(22,785)
Total liabilities		625,398	625,398	–
Net assets		1,185,701	1,185,701	–
Accumulated losses		158,587	158,587	–
Total equity		1,185,701	1,185,701	–

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 for the year ended 31 December 2018 are described below:

- (i) Before the adoption of HKFRS 15, retention receivables, which were conditional on the satisfaction of the goods or service quality by the customers over a certain period as stipulated in the contracts, were included in trade receivables. Upon adoption of HKFRS 15, retention receivables are reclassified to contract assets. Accordingly, the Group reclassified HK\$19,624,000 from trade receivables to contract assets as at 1 January 2018.

Before the adoption of HKFRS 15, performance deposits which were conditional on the completion of the projects, were included in prepayments, other receivables and other assets. Upon adoption of HKFRS 15, performance deposits are reclassified to contract assets. Accordingly, the Group reclassified HK\$29,950,000 from financial assets included in prepayments, other receivables and other assets to contract assets as at 1 January 2018.

Before the adoption of HKFRS 15, contract costs were recognised as an asset, provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as a gross amount due from contract customers in the statement of financial position before the services were billed to customers. Upon the adoption of HKFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified HK\$17,744,000 from the gross amount due from contract customers to contract assets as at 1 January 2018.

As at 31 December 2018, the adoption of HKFRS 15 resulted in a decrease in trade receivables of HK\$19,571,000, a decrease in the financial assets included in prepayments, other receivables and other assets of HK\$17,873,000, a decrease in gross amount due from contract customers of HK\$24,452,000 and an increase in contract assets of HK\$61,896,000.

- (ii) Before the adoption of HKFRS 15, the obligation to transfer goods and services to a customer for which the Group has received consideration or issued progress billing, was recognised as receipt in advance, which was included in other payables and accruals, and the gross amount due to contract customers. They are reclassified to contract liabilities under HKFRS 15. Accordingly, the Group reclassified HK\$104,489,000 from other payables and accruals and HK\$19,247,000 from gross amount due to contract customers to contract liabilities as at 1 January 2018. As at 31 December 2018, the adoption of HKFRS 15 resulted in a decrease in other payables and accruals and amount due to contract customers of HK\$86,373,000.
- (d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.
- (e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Mainland China	1,054,219	982,089
Hong Kong	3,246	10,673
Others	1,392	731
	<u>1,058,857</u>	<u>993,493</u>

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

(b) *Non-current assets*

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Mainland China	263,351	274,852
Hong Kong	221,111	202,363
Others	2,594	3,513
	<u>487,056</u>	<u>480,728</u>

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

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 (2017: Nil).

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue from contracts with customers		
Software development, systems integration and information products distribution	1,055,113	989,462
Revenue from other sources		
Rental income	3,744	4,031
	<u>1,058,857</u>	<u>993,493</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Total
HK\$'000

Type of goods or service

Sale of information products and software	800,663
Sale of software development and system integration service	254,450

Total revenue from contracts with customers 1,055,113

Geographical markets

Mainland China	1,053,721
Others	1,392

Total revenue from contracts with customers 1,055,113

Timing of revenue recognition

Goods transferred at a point in time	800,663
Services transferred over time	254,450

Total revenue from contracts with customers 1,055,113

Revenue from contracts with customers

(i) Disaggregated revenue information

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:

2018
HK\$'000

Revenue recognised that was included in contract liabilities at the beginning of the reporting period:

Sale of information products and software	72,120
Sale of software development and system integration service	12,193

84,313

(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 service

The performance obligation is satisfied over time as services are rendered and payment is generally due within 90 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 transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	<i>HK\$'000</i>
Within one year	237,637
More than one year	<u>30,382</u>
	<u><u>268,019</u></u>

The remaining performance obligations expected to be recognised in more than one year relate to software development and system integration services that are to be satisfied within two years. The amounts disclosed above do not include variable consideration which is constrained.

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Other income		
Bank interest income	6,124	3,226
Other interest income	25,138	21,442
Government grants (<i>note</i>)	58,102	54,716
Others	12,813	11,328
	<u>102,177</u>	<u>90,712</u>
Gains		
Fair value gains on investment properties	2,595	14,115
Foreign exchange differences, net	–	8,114
Fair value gains on financial assets at fair value through profit or loss	–	1,544
Gain on disposal of items of property, plant and equipment	6	3,086
Gain on disposal of intangible assets	–	6,636
Gain on disposal of an associate	–	224
Gain on deregister of a subsidiary	890	–
	<u>3,491</u>	<u>33,719</u>
	<u>105,668</u>	<u>124,431</u>

Note: Various government grants have been received for the sale of software approved by the People's Republic of China (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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest on bank borrowings	<u>7,882</u>	<u>6,571</u>

6. PROFIT BEFORE TAX

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Auditor's remuneration	2,460	2,460
Cost of inventories sold**	370,985	387,742
Cost of services provided**	92,401	81,542
Depreciation	17,878	15,202
Amortisation of patents and acquired software*	–	1,011
Minimum lease payments under operating leases	16,751	14,651
Impairment of trade receivables*	824	827
(Reversal of impairment)/impairment of other receivables*	(575)	1,643
Reversal of impairment of contract assets	(2,143)	–
Loss on write-off of inventories*	2,024	–
Provision for obsolete inventories**	4,690	3,092
Research and development costs:		
Current year expenditure*	176,773	133,605
Amortisation of capitalised software costs*	–	1,147
	<u>176,773</u>	<u>134,752</u>
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	314,287	291,342
Pension scheme contributions***	42,895	31,701
	<u>357,182</u>	<u>323,043</u>
Foreign exchange differences, net	7,635	(8,114)
Direct operating expenses (including repair and maintenance) arising on rental-earning investment properties	768	800
Fair value losses/(gains) on financial assets at fair value through profit or loss	<u>1,475</u>	<u>(1,544)</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.

*** At 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2017: Nil).

7. INCOME TAX

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current – Hong Kong		
Charge for the year	596	1,944
Current – Mainland China		
Charge for the year	4,904	3,525
Underprovision in prior years	1,613	1,863
Deferred	<u>(6,147)</u>	<u>(5,935)</u>
Total tax charge for the year	<u>966</u>	<u>1,397</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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 assessed at the rate of 8.25% as Founder Electronics (HK) Limited elects the two-tiered profits tax rates in 2018.

Taxes on profits assessable in Mainland China have been calculated at the applicable 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 10% or 15%.

The share of tax attributable to associates amounting to HK\$42,000 (2017: HK\$73,000) is included in “Share of profits/(losses) of associates” in the consolidated statement of profit or loss.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,199,746,993 (2017: 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 2018 and 2017.

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 are generally due within 90 days from delivery or from the date of billing. 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.

Included in the Group’s trade and bills receivables are amounts due from subsidiaries of Peking Founder of HK\$12,304,000 (2017: HK\$12,495,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

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:

	2018	2017
	HK\$'000	HK\$'000
Within 6 months	111,440	134,936
7 to 12 months	10,476	8,590
13 to 24 months	7,492	7,552
Over 24 months	10,292	10,306
	139,700	161,384

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:

	2018	2017
	HK\$'000	HK\$'000
Within 6 months	28,297	36,991
7 to 12 months	2,894	11,305
13 to 24 months	9,855	16,533
Over 24 months	28,941	13,786
	69,987	78,615

Included in the Group's trade and bills payables are amounts due to subsidiaries of Peking Founder of approximately HK\$1,410,000 (2017: HK\$1,058,000), which are repayable on credit terms similar to those offered by the related companies to their major customers.

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

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 (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE

The Group reported a profit attributable to equity holders of the parent for the year ended 31 December 2018 of approximately HK\$87.3 million (year ended 31 December 2017: HK\$89.8 million). The Group's turnover for the current year increased by 6.6% to approximately HK\$1,058.9 million (year ended 31 December 2017: HK\$993.5 million) due to increase in sales of software products. Gross profit for the current year increased by 17.6% to HK\$516.1 million compared with last year's HK\$438.8 million. Gross profit ratio increased from 44.2% for the last year to 48.7% for the current year as a result of increase in proportion of sales of software and technical services with higher gross profit margin.

The improvement in the Group's operating results attributable to the equity holders of the parent for the year was mainly the net results of:

- a. an increase in the gross profit by 17.6% to HK\$516.1 million (year ended 31 December 2017: HK\$438.8 million) as a result of increase in proportion of sales of software and technical services;
- b. a decrease in other income and gains by 15.1% to HK\$105.7 million (year ended 31 December 2017: HK\$124.4 million) arising from (i) decrease in fair value gains on investment properties; (ii) decrease in foreign exchange difference net; and (iii) gain on disposal of intellectual properties in prior year; and
- c. an increase in total selling and distribution expenses, administrative expense and other expenses, net by 12.8% to HK\$525.2 million (year ended 31 December 2017: HK\$465.7 million) as a result of expansion of research and development team for the development of new software products.

Basic and diluted earnings per share attributable to equity holders of the parent for the year was HK7.3 cents (year ended 31 December 2017: HK7.5 cents).

OPERATING REVIEW AND PROSPECTS

Operating Review

Font Library Business

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

In 2018, 北京北大方正電子有限公司 (Beijing Founder Electronics Co., Ltd.*) (“Founder Electronics”), the wholly-owned subsidiary of the Company continued to consolidate its leading position in the font library market by introducing new fonts that leads a new trend in the font industry. Meanwhile, through convening font release conference and holding lectures and salons on font design, Founder has made font design knowledge more popular in the whole society to attract numerous young font designers and design lovers.

- 1) Legal aspect: We actively maintain the intellectual property rights of our fonts through legal channels and promote the font copyright through various means to convey the value of fonts.
- 2) Marketing and service aspect: We have stepped up in promoting the positive publicity by establishing cooperation relationships with designers and advertising companies. Following the launch of a PC client-end “Font +”, we have established a comprehensive service system covering the official website of Founder font library, “Font +” mobile APP, and a PC client-end “Font +”.
- 3) Font design aspect: In 2018 we introduced over 100 new fonts. In addition to the design of our own exquisite font library, we also conducted extensive cooperation with independent font designers, medium-to-small font library manufacturers and other manufacturers in Japanese and English-speaking countries, including establishment of comprehensive cooperation with Monotype, a renowned font design manufacturers of western languages in the world, with a view to provide clients with complete font solutions that have abundant fonts and support more than 95% of the languages in the world.

Printing business

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

In 2018, Founder POD project achieved market breakthroughs and large inkjet printing revolving equipment has been installed, enabling the introduction of a new record of 11 new production lines. Meanwhile, we have established a complete process covering design, production, implementation, installation and maintenance. As an ancillary facility, the self-developed Founder Yunshu (方正雲舒) software gained over 20 new publishing press clients, the deployment of which have been basically completed.

Since the establishment of Hongyan POD Alliance (鴻雁POD聯盟) in May 2017, more and more publishers and printers have become the members of the alliance and cooperated with Founder Electronics in hardware and software, which made them pioneers in the industry. Currently, more than 60 publishers, printers, equipment and consumable suppliers have joined Hongyan POD Alliance.

Media Business

The traditional media and publication industry continued to be subdued, recording a decline in the overall results with the newspaper advertising revenue in free fall over the last few years and a substantial decrease in publication volume, with the “shutdown, suspension, integration and transfer” of metropolitan newspapers. Meanwhile, the promotion of macroeconomic policies has offered new market opportunities to media and publishing businesses. The policies attached great importance to the integrated development of mainstream media and hence vigorously pushed ahead with the integrated development of traditional and emerging media at central and provincial level, and promoted the deep integration of the “mobile media as priority” strategy, as represented by the “centralized kitchen (中央廚房)”, at the same time. On the other hand, we introduced the policy of “integrated media center of district and county level” in the second half of the year which has enhanced the expansion of media integration to media markets of district and county level. The government of the publishing sector vigorously promoted “Demonstration of Application Service in the Industrialization of Digital Publication (數字出版產業化應用服務示範工程)”, “Promotion of Nationwide Digital Reading (全民數字閱讀推廣工程)” and “Promotion of Digital Publication in respect of Ethnic Group Culture (少數民族文化數字出版促進工程)”.

Under such conditions, Founder Electronics actively worked on the integration of media and the technology of large-scale data and rearranged “Founder Solution for Hyper-integration of Media”, “Media Cloud Solution”, “Integrated Media Center Solution of District and County Level”, “Solution for Joint Compilation of Books”, “Knowledge Service Solution” and “Smart Review Solution”. Meanwhile, Founder Electronics actively explored and propelled the transformation of the SaaS service including the SaaS service for media large-scale data and the SaaS service platform for Xinkong Cloud pan-media, extending its services from solutions of software products to data services and SaaS services, with a view to laying a solid foundation for sustainable development in the future.

In respect of sales, Founder Electronics actively sought for the cooperation with leading companies in the media publishing area, exerting all efforts in expanding its market share in the areas of new media, pan-media and pan-publishing. Meanwhile, it maintained its strengths in the establishment of platforms for integrated media in the newspaper industry at the province level as well as at the level of provincial capitals and cities. “Founder Solution for Hyper-integration of Media” was adopted by Malaysia Sin Chew Media Corporation, the largest overseas Chinese media; platforms for integrated media for the central editorial department of “Guangzhou Daily Newspaper Group” were officially launched. “Founder Zhihui (方正智匯) Knowledge Service Solution” was adopted to conduct the project of “Cihai (辭海) Cloud Platform for Digital Publication” of Shanghai Cishu Press to help revise the seventh edition of Cihai and establish its online version. Meanwhile, Founder has been actively seeking cooperation with external parties to enhance the completeness of solutions. “Mobile Collecting and Editing APP” has been launched in various app stores. “Flying 7.1 version” has been released to support the diversification of presses and newspaper offices and the production of interactive publications for H5 integrated media.

PROSPECTS

To deal with the business growth, 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 2018, the number of employees of the Group was approximately 1,230 (31 December 2017: 1,278).

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 2018, the Group had interest-bearing bank borrowings of approximately HK\$160.9 million (31 December 2017: HK\$161.1 million), of which HK\$120.9 million (31 December 2017: HK\$121.1 million) were fixed interest bearing and HK\$40.0 million (31 December 2017: HK\$40.0 million) were floating interest bearing. The bank borrowings were denominated in Hong Kong Dollars (“HKD”) and Renminbi (“RMB”), and were repayable within one year. The Group’s banking facilities were secured by corporate guarantees given by the Company, 北大方正集團有限公司 (Peking University Founder Group Company Limited*) (“Peking Founder”) (a substantial shareholder of the Company), certain of the Group’s investment properties and bank deposits. As at 31 December 2018, the Group recorded total assets of HK\$1,811.1 million which were financed by liabilities of HK\$625.4 million and equity of HK\$1,185.7 million. The Group’s net asset value per share as at 31 December 2018 amounted to HK\$0.99 (31 December 2017: HK\$0.95).

The Group had total cash and bank balances of HK\$561.1 million as at 31 December 2018 (31 December 2017: HK\$516.7 million). After deducting total bank borrowings of HK\$160.9 million (31 December 2017: HK\$161.1 million), the Group recorded net cash and bank balances of HK\$400.2 million as at 31 December 2018 as compared to HK\$355.6 million as at 31 December 2017. The Group’s borrowings, which are subject to little seasonality, consist of mainly short term bank loans and trust receipt loans. As at 31 December 2018, the Group’s gearing ratio, measured by the ratio of total borrowings to total shareholders’ equity, was 0.14 (31 December 2017: 0.14) while the Group’s working capital ratio was 2.31 (31 December 2017: 2.11).

As at 31 December 2018, 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 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 2018, the major contracts in hand amounted to approximately HK\$339.4 million (31 December 2017: HK\$394.0 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 2018.

Charges on assets

As at 31 December 2018, the Group's investment properties in Hong Kong of approximately HK\$79 million and bank deposits of approximately HK\$12.9 million were pledged to banks to secure banking facilities granted.

Future plans for material investments or capital assets

The Group did not have any concrete future plans for material investments or capital assets as at 31 December 2018. However, the Group always seeks for new investment opportunities in the software development and systems integration business to broaden the revenue and profit base of the Group and enhance shareholders' value in long term.

Contingent liabilities

At 31 December 2018, the Group did not have any significant contingent liabilities.

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 2018.

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 2018.

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 2018.

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 2018 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 2018 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.irasia.com/listco/hk/founder) in due course.

By Order of the Board
Founder Holdings Limited
Cheung Shuen Lung
Chairman

Hong Kong, 25 March 2019

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

* *For identification purpose only*