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*(Incorporated in Bermuda with limited liability)*

(Stock Code: 0618)

## **CONTINUING CONNECTED TRANSACTIONS**

### **REVISION OF CAPS**

The Company refers to the announcement jointly made by the Company and Founder dated 21 November 2005 in respect of the continuing connected transactions under the Master Agreement entered into between the Company and Founder in relation to the sales of information hardware products by the Group to the Founder Group on normal commercial terms. Due to the increase business needs of the Founder Group and the closer cooperation between the Group and the Founder Group, the actual value of the Founder Sales (based on the unaudited management accounts of the Group) for the nine months ended 30 September 2006 has already exceeded the relevant approved annual cap amount. The Company proposes to increase the annual caps for the Founder Sales for the three years ending 31 December 2008 to RMB107,360,000, RMB126,672,000 and RMB145,014,000 respectively. On 15 November 2006, the Company entered into the Supplemental Agreement with Founder to amend the cap amounts subject to the approval of the independent shareholders of the Company.

Founder is the controlling shareholder of the Company holding approximately 33% of the issued share capital of the Company. Founder is a connected person of the Company for the purposes of the Listing Rules. Accordingly, the transactions under the Master Agreement constitute continuing connected transactions for the Company under the Listing Rules.

The Company is required to comply with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the Supplemental Agreement and the proposal to revise the annual caps for the Founder Sales. Founder and its associates are required to abstain from voting at the SGM in respect of the resolution to approve the Supplemental Agreement and the revised annual caps.

The Independent Director will advise the independent shareholders of the Company on the terms of the Supplemental Agreement and the proposed revised annual caps. The Company will appoint an independent financial adviser to advise the Independent Director and independent shareholders in this regard. The Company will despatch to its shareholders a circular containing further details of the Supplemental Agreement and the proposed revised annual caps, the letters from the Independent Director and the independent financial adviser, and a notice convening the SGM as soon as practicable.

### **THE MASTER AGREEMENT**

The Company refers to the announcement jointly made by the Company and Founder dated 21 November 2005 in respect of the continuing connected transactions under the Master Agreement entered into between the Company and Founder in relation to the sales of information hardware products to the Founder Group by the Group on 5 January 2006. Under the Master Agreement, the Group sells information hardware products to the Founder Group on normal commercial terms for a term of three years up to 31 December 2008.

Pursuant to the Master Agreement, the Group should provide information hardware products at terms determined at the relevant time: (i) with reference to the prices and credit terms at which such products are supplied, on normal commercial terms in its ordinary and usual course of business, to independent third party customers in the local market and/or adjacent regions; or (ii) where no comparables as stated in (i) are available, with reference to the prices and credit terms at which such products are supplied, on normal commercial terms in its ordinary and usual course of business, to independent third party customers in the PRC; or (iii) where none of the above comparables is available, with reference to the prices and credit terms agreed between the parties on arm's length basis and that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The Founder Sales are normally settled in cash.

The Directors consider that the Founder Sales under the Master Agreement are on normal commercial terms and are in the interests of the Company and its shareholders as a whole.

### **PROPOSAL TO REVISE THE ANNUAL CAPS**

The existing annual caps for the Founder Sales for each of the three years ending 31 December 2008 (as approved by the independent shareholders of the Company on 4 January 2006) are RMB45.0 million, RMB49.5 million and RMB54.5 million respectively.

Based on the unaudited management accounts of the Group, for the six months ended 30 June 2006, the value of the Founder Sales amounted to approximately RMB40.5 million, representing a significantly increase of approximately 4.3 times as compared with the amount for the six months ended 30 June 2005; whilst the value of the Founder Sales for the nine months ended 30 September 2006 further increased to approximately RMB66.1 million and has exceeded the relevant approved cap by approximately RMB21.1 million. The principal reasons for such increase include (i) the increasing demand of the Founder Group for information hardware products for use in its software development business and systems integration projects and (ii) the closer cooperation between the Group and the Founder Group to jointly develop new market for the information hardware products of the Group. The Company believes that the trend in the increasing demand for the Group's information hardware products under the Founder Sales will continue and the existing caps for the Founder Sales may not be sufficient in view of such increasing trend. Accordingly, the Company proposes to revise the annual caps for the Founder Sales for the three years ending 31 December 2008.

Currently, the Founder Sales are mainly carried out between Founder Century, a wholly owned subsidiary of the Company, and Founder Order and Founder Electronics, both wholly owned subsidiaries of Founder.

### **PROPOSED NEW ANNUAL CAPS**

The following table sets out the proposed new caps and existing caps for the Founder Sales for each of the three years ending 31 December 2008, and the actual amount of Founder Sales for the nine months ended 30 September 2006.

<b>Year ending 31 December</b>	<b>Revised caps (RMB)</b>	<b>Existing caps (RMB)</b>	<b>Actual amount for the nine months ended 30 September 2006 (RMB)</b>
2006	107,360,000	45,000,000	66,054,000
2007	126,672,000	49,500,000	N/A
2008	145,014,000	54,500,000	N/A

The proposed caps were determined by the Company based on the following major factors:

- (i) the actual value of the transactions for the nine months ended 30 September 2006 amounting to approximately HK\$66.1 million;
- (ii) the estimated Founder Sales to Founder Electronics based on the historical seasonal sale factor of the transactions in 2005 where the amount of the Founder Sales to Founder Electronics in the last three months of 2005 accounted for approximately 24% of the total amount of Founder Sales to Founder Electronics in 2005;
- (iii) the estimated sales in respect of the Founder Sales for the three months ending 31 December 2006 based on the projects of Founder Order currently on hand which are expected to complete in 2006;
- (iv) the estimated Founder Sales in respect of other non-tender projects of Founder Order based on the average monthly sales amount for the nine months ended 30 September 2006;
- (v) the Company's estimates of the estimated growth rate of the information technology business in the PRC where the Company has applied an average annual growth factor of approximately 14.5% for the years 2007 and 2008 which was adopted by the Company based on certain market information available to it; and
- (vi) a general buffer of 5%.

On 15 November 2006, the Company entered into the Supplemental Agreement with Founder to amend the cap amounts subject to the approval of the independent shareholders of the Company.

## **REASONS FOR AND BENEFITS OF THE FOUNDER SALES**

The Founder Group (including the Group) is principally engaged in software development and systems integration relating to the media industry and certain other industries, and the distribution of information hardware products in the PRC. The Group is principally engaged in the distribution of information hardware products in the PRC.

The Founder Group has been purchasing from the Group information hardware products for its software and hardware solution business and software development business. Hardware products purchased by the Founder Group may be used by it internally or may be used to establish computer systems to be sold to its clients. Starting in 2006, the Group and the Founder Group has been working closely to widen the distribution channel of the Group's information hardware products by leveraging the status as a system integration service provider of the Founder Group, where the Group introduces clients which require systems integration services to the Founder Group with a view to promoting sale of hardware products by the Group to the Founder Group. In the first nine months of 2006, the value of the Founder Sales already represents approximately 2.6 times the total amount of the Founder Sales for the year ended 31 December 2005. The Company considers that it is beneficial to the Group to continue supply information hardware products to the Founder Group under the Master Agreement and to increase the annual caps.

The Company considers that the terms of the Master Agreement were arrived at after arm's length negotiations between the parties involved. The Master Agreement was entered into in the ordinary and usual course of business of the Group and that the Founder Sales are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole. Having considered the terms of the Founder Sales and the increasing business needs as explained in the paragraph headed "Proposal to revise the annual caps", the Directors (excluding Ms Cao Qian, the only independent non-executive Director who does not have a conflict of interest in the subject transaction whilst the other two independent non-executive Directors, namely Mr Li Fat Chung and Ms Wong Lam Kit Yee are also independent non-executive directors of Founder) consider that the revised annual caps for the Founder Sales and the Supplemental Agreement are fair and reasonable. The Independent Director, Ms Cao Qian will opine on the matter after considering the advice to be given by an independent financial adviser.

## **LISTING RULES REQUIREMENTS**

Founder is the controlling shareholder of the Company holding approximately 33% of the issued share capital of the Company. Founder is a connected person of the Company for the purposes of the Listing Rules. Accordingly, the Founder Sales constitute continuing connected transactions for the Company under the Listing Rules. The terms of the Founder Sales were approved by the independent shareholders of the Company on 4 January 2006 in accordance with the relevant requirements of the Listing Rules. Based on the proposed revised annual caps, it is expected that the annual amount of the Founder Sales for each of the three years ending 31 December 2008 will be not less than HK\$10 million and the applicable percentage ratios under Rule 14.07 of the Listing Rules will be not less than 2.5%. The proposal to increase the annual caps for the Founder Sales is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Director will advise the independent shareholders of the Company on the terms of the Supplemental Agreement and the proposed revised annual caps. The Company will appoint an independent financial adviser to advise the Independent Director and independent shareholders in this regard. The Company will despatch to its shareholders a circular containing further details of the Supplemental Agreement, the proposed revised annual caps, the letters from the Independent Director and the independent financial adviser, and a notice convening the SGM as soon as practicable.

Founder and its associates are required to abstain from voting at the SGM in respect of the resolution to approve the Supplemental Agreement and the revised annual caps.

The Board comprises Mr Zhang Zhao Dong (Chairman), Mr Xia Yang Jun, Mr Xie Ke Hai, Mr Chen Geng (President) and Mr Zheng Fu Shuang (each of whom an executive Director), Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian (each of whom an independent non-executive Director).

## **DEFINITIONS**

"associate(s)"	has the meaning as ascribed to it in the Listing Rules
"Board"	the board of Directors
"Company"	EC-Founder (Holdings) Company Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Director(s)"	the director(s) of the Company

“Founder”	Founder Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Founder Century”	北京方正世紀信息系統有限公司(Beijing Founder Century Information System Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of the Company
“Founder Electronics”	北京北大方正電子有限公司 (Beijing Founder Electronics Co., Ltd.*), a company established in the PRC and a wholly-owned subsidiary of Founder
“Founder Group”	Founder and its subsidiaries, unless otherwise specified
“Founder Order”	北京方正奧德計算機系統有限公司 (Beijing Founder Order Computer System Co., Limited*), a company established in the PRC and a wholly-owned subsidiary of Founder
“Founder Sales”	the transactions contemplated under the Master Agreement in relation to the sales of information hardware products to the Founder Group by the Group
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Director”	Ms Cao Qian, an independent non-executive Director, who will advise the independent shareholders of the Company on the terms of Supplemental Agreement and the proposed revised annual caps
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	the master agreement entered into between the Company and Founder on 5 January 2006 in relation to the sales of information hardware products to the Founder Group by the Group
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region and Taiwan for the purpose of this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be held to approve the revision of the caps for the transactions contemplated under the Master Agreement for the three years ending 31 December 2008 and the Supplemental Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement to the Master Agreement entered into between the Company and Founder on 15 November 2006

By Order of the Board  
**EC-Founder (Holdings) Company Limited**  
**Zhang Zhao Dong**  
*Chairman*

Hong Kong, 15 November 2006

\* *For identification purposes only*

*Please also refer to the published version of this announcement in  
The Standard and Sing Tao Daily.*