



EC-FOUNDER (HOLDINGS) COMPANY LIMITED

方正數碼(控股)有限公司*

(Incorporated in Bermuda with limited liability)

Website: www.irasia.com/listco/hk/ecfounder

(Stock Code: 0618)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

AUDITED RESULTS

The Board of Directors (the “Directors”) of EC-Founder (Holdings) Company Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2004 together with the comparative figures as follows:

| | <i>Notes</i> | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> (Restated) |
|--|--------------|--------------------------------|---------------------------------------|
| TURNOVER | | | |
| Continuing operations | | 1,200,752 | 444,633 |
| Discontinued operations | 4 | 56,798 | 180,339 |
| | | <hr/> | <hr/> |
| Cost of sales | 2 | 1,257,550 (1,183,573) | 624,972 (568,308) |
| | | <hr/> | <hr/> |
| Gross profit | | 73,977 | 56,664 |
| Other revenue and gains | | 8,186 | 6,503 |
| Selling and distribution costs | | (39,720) | (36,577) |
| Administrative expenses | | (39,793) | (39,435) |
| Other operating expenses, net | | (612) | (112) |
| Gain/(loss) on disposal of discontinued operations | 4 | 3,255 | (13,260) |
| | | <hr/> | <hr/> |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES | | | |
| | 3 | 5,293 | (26,217) |
| Finance costs | 5 | (45) | (832) |
| Share of profits of associates | | 6,420 | 6,224 |
| | | <hr/> | <hr/> |
| PROFIT/(LOSS) BEFORE TAX | | | |
| Continuing operations | | 9,829 | 4,555 |
| Discontinued operations | 4 | 1,839 | (25,380) |
| | | <hr/> | <hr/> |
| Tax | 6 | 11,668 (2,483) | (20,825) (2,002) |
| | | <hr/> | <hr/> |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | | |
| | | 9,185 | (22,827) |
| | | <hr/> <hr/> | <hr/> <hr/> |
| EARNINGS/(LOSS) PER SHARE – BASIC | | | |
| | 7 | 0.8 cents | (2.4 cents) |
| | | <hr/> <hr/> | <hr/> <hr/> |

NOTES:

1. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKASs”), herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has resolved to early adopt the following new HKFRSs in the financial statements for the year ended 31 December 2004:

- HKFRS 3 “Business combinations”
- HKAS 36 “Impairment of assets”
- HKAS 38 “Intangible assets”

The major effects on the Group’s accounting policies and amounts disclosed in these financial statements are summarised as follows:

HKFRS 3 prescribes the accounting for business combinations. The early adoption of HKFRS 3 requires the early adoption of HKAS 36 and HKAS 38. The early adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill.

Prior to the adoption:

- goodwill arising on acquisitions after 1 January 2001 was recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life subject to a maximum 20 years;
- goodwill arising on acquisitions before 1 January 2001 was eliminated against consolidated reserves in the year of acquisition;
- goodwill was assessed for impairment at each balance sheet date;
- impairment loss was charged to the consolidated profit and loss account; and
- on disposal of subsidiaries, the gain or loss on disposal was calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remained unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition was written back and included in the calculation of the gain or loss on disposal.

Upon adoption:

- the Group ceased the amortisation of goodwill from 1 January 2004;
- the accumulated amortisation of goodwill arising on acquisitions of subsidiaries as at 1 January 2004 has been eliminated with a corresponding decrease in the respective cost of goodwill at that date;
- from the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment;
- upon impairment of goodwill previously eliminated against consolidated reserves, the impairment loss is not charged to the consolidated profit and loss account; and
- on disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is not recognised in the consolidated profit and loss account upon disposal.

HKFRS 3 is prospectively applied and the effect of its adoption on these financial statements in respect of the year ended 31 December 2004 is summarised below:

- the accumulated amortisation of goodwill arising on acquisitions of subsidiaries as at 1 January 2004 of approximately HK\$321,000 has been eliminated with a corresponding decrease in the cost of goodwill as at that date; and
- the impairment loss of goodwill remaining eliminated against consolidated contributed surplus of approximately HK\$48,500,000 was transferred to consolidated accumulated losses as a movement in reserves and was not charged to the consolidated profit and loss account.

The Group has already commenced an assessment of the impact of other new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of systems integration contracts; and the value of services rendered during the year.

(a) Business segments

The following table presents revenue and profit/(loss) for the Group's business segments.

| | Distribution of information products | | Provision of software solutions and services (Discontinued) | | Electronic products (Discontinued) | | Corporate | | Consolidated | |
|---|--------------------------------------|----------------|---|----------------|------------------------------------|-----------------|----------------|----------------|------------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | <u>1,200,752</u> | <u>444,633</u> | <u>56,798</u> | <u>62,202</u> | <u>-</u> | <u>118,137</u> | <u>-</u> | <u>-</u> | <u>1,257,550</u> | <u>624,972</u> |
| Segment results | <u>7,434</u> | <u>5,447</u> | <u>1,635</u> | <u>(6,837)</u> | <u>-</u> | <u>(18,257)</u> | <u>(4,570)</u> | <u>(7,267)</u> | <u>4,499</u> | <u>(26,914)</u> |
| Interest income | | | | | | | | | <u>794</u> | <u>697</u> |
| Profit/(loss) from operating activities | | | | | | | | | <u>5,293</u> | <u>(26,217)</u> |
| Finance costs | | | | | | | | | <u>(45)</u> | <u>(832)</u> |
| Share of profits of associates | | | | | | | | | <u>6,420</u> | <u>6,224</u> |
| Profit/(loss) before tax | | | | | | | | | <u>11,668</u> | <u>(20,825)</u> |
| Tax | | | | | | | | | <u>(2,483)</u> | <u>(2,002)</u> |
| Net profit/(loss) from ordinary activities attributable to shareholders | | | | | | | | | <u>9,185</u> | <u>(22,827)</u> |

(b) Geographical segments

The following table presents revenue for the Group's geographical segments.

| | Mainland China | | Hong Kong | | Overseas | | Eliminations | | Consolidated | |
|-----------------------------|------------------|----------------|----------------|----------------|----------|----------------|------------------|-----------------|------------------|----------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | <u>1,112,207</u> | <u>448,612</u> | <u>145,343</u> | <u>63,143</u> | <u>-</u> | <u>113,217</u> | <u>-</u> | <u>-</u> | <u>1,257,550</u> | <u>624,972</u> |
| Intersegment sales | <u>-</u> | <u>-</u> | <u>171,347</u> | <u>74,258</u> | <u>-</u> | <u>-</u> | <u>(171,347)</u> | <u>(74,258)</u> | <u>-</u> | <u>-</u> |
| Total | <u>1,112,207</u> | <u>448,612</u> | <u>316,690</u> | <u>137,401</u> | <u>-</u> | <u>113,217</u> | <u>(171,347)</u> | <u>(74,258)</u> | <u>1,257,550</u> | <u>624,972</u> |

3. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Amortisation of goodwill | – | 321 |
| Depreciation | 3,414 | 7,624 |
| Loss/(gain) on disposal of fixed assets | 272 | (123) |
| | <u> </u> | <u> </u> |

4. DISCONTINUED OPERATIONS

(a) Disposal of EC-Founder Co., Ltd. – Provision of software solutions and services business

On 20 October 2004, Founder Data Corporation International Limited entered into a conditional disposal agreement with 方正軟件(蘇州)有限公司 (Founder Software (Suzhou) Company Limited*) (“Founder Software”), 上海方正信息安全技術有限公司 (Shanghai Founder Information Security Technology Company Limited*) (“Shanghai Founder”), associates of Peking University Founder Group Corporation (“Peking Founder”) which is a substantial shareholder of the Company, and Peking Founder to dispose of its entire equity interest in EC-Founder Co., Ltd. to Founder Software and Shanghai Founder and to waive the entire outstanding balances on current accounts owed by EC-Founder Co., Ltd. to the Group at a total cash consideration of RMB13.4 million (equivalent to approximately HK\$12.6 million). The disposal was completed on 3 December 2004.

The principal activity of EC-Founder Co., Ltd. was the provision of software solutions and services.

(b) Discontinued operation of Beijing AdTargeting Inc. (“Beijing ADT”) – Provision of software solutions and services business

On 15 October 2004, the Company and Beijing ADT entered into a termination agreement with a subsidiary of a then shareholder which held 8.47% of the shares of the Company, to terminate the advertising sales representative agreement. Pursuant to the termination agreement, the subsidiary of the then shareholder paid an ex gratia payment of approximately RMB4.9 million (equivalent to approximately HK\$4.6 million) to the Company.

The principal activity of Beijing ADT was the provision of internet advertising agency services.

(c) Disposal of MIT Holdings Limited (“MIT”) – Electronic products business

On 1 August 2003, the Company entered into a conditional disposal agreement with Honour Glory Limited, a company which is 90% owned by Mr. Yung Richard, Jr., a then director of the Company who resigned on 1 November 2004, to dispose of its entire interest in the issued share capital of MIT at a total cash consideration of HK\$45.5 million. The disposal was completed on 26 September 2003.

The principal activities of MIT and its subsidiaries were the design, manufacture and distribution of electronic products.

5. FINANCE COSTS

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|---------------------------------------|-------------------------|-------------------------|
| Interest on bank loans and overdrafts | 45 | 775 |
| Interest on finance leases | – | 57 |
| | <u> </u> | <u> </u> |
| | <u> </u> | <u> </u> |

6. TAX

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Group: | | |
| Current – Hong Kong | 5 | – |
| Deferred | 1,230 | 772 |
| | <u>1,235</u> | <u>772</u> |
| Share of tax attributable to associates | 1,248 | 1,230 |
| | <u>2,483</u> | <u>2,002</u> |

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

No provision for profits tax of the People's Republic of China (the "PRC") has been made for the year as the relevant PRC subsidiaries were either under their tax exemption period or had sufficient tax losses brought forward to offset against the assessable profits arising during the year.

Beijing Founder Century Information System Co., Ltd. ("PRC Century"), a wholly-owned subsidiary of the Group in the PRC, is exempted from PRC profits tax for the three fiscal years which commenced in 2002 and ended on 31 December 2004 and, thereafter, is taxed at 50% of its standard tax rate in the fourth to sixth years, inclusive. At present, the standard tax rate applicable to PRC Century is 15%.

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of approximately HK\$9,185,000 (2003 : net loss of approximately HK\$22,827,000), and the weighted average of 1,100,562,040 (2003: 960,945,601) ordinary shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 31 December 2004 and 2003 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

8. DIVIDEND

No interim dividend was paid during the year and previous year. The Directors does not recommend the payment of any final dividend for the year (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

Following to the restructuring of the Group's business in 2003, the Group's results were significantly improved. The turnover for the year ended 31 December 2004 has increased to HK\$ 1,257.6 million compared to last year's turnover of HK\$625.0 million and the gross profit for the year ended 31 December 2004 has increased by 30.6% to HK\$74.0 million compared to last year's gross profit of HK\$56.7 million. Gross profit ratio has dropped from 9.1% in 2003 to 5.9% in 2004 as a result of the increase in the sales for distribution of information products which had a lower gross profit margin as compared to other business segments of the Group. The Group's audited consolidated net profit attributable to shareholders for the year was approximately HK\$9.2 million (2003: net loss of approximately HK\$22.8 million).

The significant improvement in results was mainly due to:

- a. segment profit of distribution of information products business has increased to HK\$7.4 million;
- b. segment results of provision of software solutions and services business has turned around and recorded a profit of HK\$1.6 million which was mainly contributed by the gain on disposal of EC-Founder Co., Ltd. of HK\$3.3 million and the ex gratia payment received for termination of advertising agency services of Beijing ADT of HK\$4.6 million; and
- c. absence of segment results of electronic products business after the disposal of business in 2003 compared to last year's segment loss of HK\$18.3 million.

Basic earnings per share for the year was HK0.8 cents (2003: loss of HK2.4 cents).

Operating Review And Prospects

Continuing Operations

Distribution of information products ("Distribution Business")

In July 2003, the Group completed the acquisition of the Distribution Business by acquiring the entire interests of PRC Century and Founder Century (Hong Kong) Limited from its controlling shareholder – Founder Holdings Limited. The Group recorded the results of the Distribution Business for a full year in 2004 and the turnover was HK\$1,200.8 million which was 2.7 times compared to 2003 and the segment profit increased to HK\$7.4 million.

The Distribution Business is mainly focused on the distribution of information technology products such as servers, workstations, data storage devices and networking products of various international brand names such as HP, IBM, 華為3COM, SUN, Netgear and Apple. The improvement in the performance of the Distribution Business was mainly attributable to the continued expansion of distribution network in the PRC. In order to strengthen the distribution channels, the Group has established a strong and PRC nationwide distribution network with headquarters in Beijing and 14 branch offices/representative offices in Shanghai, Guangzhou, Nanjing, Chengdu, Xizang Zizhiqu, Wuhan, Shenyang, Xian, Jinan, Hangzhou, Shenzhen, Fuzhou, Harbin and Guiyang. Furthermore, the Distribution Business has gained its ranking from the 7th place in 2003 to the 6th place in 2004 among the top 100 enterprises in the distribution business in the PRC.

Although the Distribution Business has gained an encouraging growth in the sales of information products in the past two years, the drive for further improvement in the business would require an expansion in product range and stronger control on operating costs, trade receivables and inventories.

Thus, the Group envisaged that the potential risks associated with the continued enlargement in the distribution network, expansion in product range and increase in trade receivables and inventories would become higher as a result of the future growth of the Distribution Business. In addition, more working capital fund is required for the development of the Distribution Business.

Discontinued Operations

(A) Software solutions and services business (“Software Business”)

The turnover of Software Business for the year has decreased by 8.7% to HK\$56.8 million (2003: HK\$62.2 million) and recorded a segment profit of HK\$1.6 million compared to a segment loss of HK\$6.8 million in 2003.

The Software Business was still facing fierce competition in the PRC market and it was anticipated that this sector cannot perform well in the future. Hence, the management considered that it is in the best interests of the Group to cease such non-performing business. As a result, EC-Founder Co., Ltd. was disposed of in December 2004 for a consideration of RMB13.4 million (equivalent to approximately HK\$12.6 million) and the Group recorded a gain on disposal of HK\$3.3 million. Also, the advertising agency services carried out by Beijing ADT was also terminated and recorded a gain of RMB4.9 million (equivalent to approximately HK\$4.6 million). The gains of the above transactions have off-set the segment operating loss of HK\$6.3 million and hence giving rise to an overall segment profit of HK\$1.6 million in 2004 as compared to a segment loss of HK\$6.8 million in 2003.

(B) Electronic products business

The Electronic products business was disposed of in September 2003 and therefore no turnover and segment results were recorded in the year 2004.

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.

As at 31 December 2004, the Group had 330 employees. These employees of which almost all work in the Mainland China. The Company has also established share option schemes and the share options are granted at Directors’ discretion to motivate and reward the employees with outstanding performance.

Financial Review

Liquidity, financial resources and capital commitments

As at 31 December 2004 the Group recorded total assets of HK\$561.3 million (2003: HK\$457.9 million) which were financed by liabilities of HK\$376.0 million (2003: HK\$281.8 million) and equity of HK\$185.3 million (2003: HK\$176.1 million). The Group’s net asset value as at 31 December 2004 increased by 5.2% to HK\$185.3 million as compared to approximately HK\$176.1 million as at 31 December 2003.

The Group had total cash and bank balances of HK\$189.7 million as at 31 December 2004 (2003: HK\$159.5 million). The Group had no bank loan and overdraft as at 31 December 2004 (2003: Nil), hence the Group recorded a net cash balance of HK\$189.7 million as at 31 December 2004 as compared to HK\$159.5 million as at 31 December 2003. As at 31 December 2004, the Group’s current ratio was 1.41 (2003: 1.50) and the Group had no long term debt as at 31 December 2004 and 31 December 2003.

As at 31 December 2004, the Group did not have any material capital expenditure commitments.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars, Renminbi and United States dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars and United States dollars.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's borrowings are denominated in Hong Kong dollars, Renminbi and United States dollars while the turnover of the Group are mainly denominated in Hong Kong dollars, Renminbi and United States dollars. As the exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable during the year under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

Material acquisitions and disposals of subsidiaries and associates

The Group had no material acquisition in 2004.

In December 2004, the Group completed the disposal of EC-Founder Co., Ltd. for a total cash consideration of RMB13.4 million (equivalent to approximately HK\$12.6 million) and recorded a gain on disposal of subsidiary of approximately HK\$3.3 million.

Charges on assets

As at 31 December 2004, bank deposits of approximately HK\$32.8 million were pledged to banks to secure general banking facilities granted.

Contingent liabilities

As at 31 December 2004, the Company had contingent liabilities in relation to guarantees given to suppliers in connection with credit facilities granted to certain subsidiaries amounting to approximately HK\$19.7 million.

The Group did not have any significant contingent liabilities as at 31 December 2004 (2003: Nil).

PUBLICATION OF DETAILED RESULTS

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be subsequently published on the website of The Stock Exchange of Hong Kong Limited in the due course.

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

Hong Kong, 22 April 2005

As at the date of this announcement, the Board comprises executive directors of Mr Zhang Zhao Dong, Mr Cheung Shuen Lung, Professor Wei Xin, Mr Xia Yang Jun and Mr Xie Ke Hai, a non-executive director, Mr Yung Chih Shin, Richard and the independent non-executive directors of Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian.

* For identification purpose only