



EC-FOUNDER (HOLDINGS) COMPANY LIMITED
方正數碼(控股)有限公司*

(Incorporated in Bermuda with limited liability)

Websites: www.ecfounder.com.hk www.irasia.com/listco/hk/ecfounder
 (Stock code: 0618)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

The Board of Directors (the “Board”) of EC-Founder (Holdings) Company Limited (the “Company”) is pleased to announce the audited consolidated results and financial position of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2005 together with the comparative figures. The consolidated financial statements have been reviewed by the audit committee of the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
REVENUE	2		
Continuing operations		1,900,652	1,200,752
Discontinued operation	6	–	56,798
		1,900,652	1,257,550
Cost of sales		(1,806,164)	(1,183,573)
Gross profit		94,488	73,977
Other income and gains		1,802	8,186
Selling and distribution costs		(41,348)	(39,720)
Administrative expenses		(34,922)	(39,793)
Other expenses, net		(2,438)	(612)
Gain on disposal of a discontinued operation	6	–	3,255
Finance costs	3	(814)	(45)
Share of profits of associates		11,621	5,172
PROFIT BEFORE TAX	4		
Continuing operations		28,233	8,581
Discontinued operation	6	156	1,839
		28,389	10,420
Tax	5	(1,833)	(1,235)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Continuing operations		26,400	8,576
Discontinued operation	6	156	609
		26,556	9,185
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – BASIC	7		
For profit for the year		2.4 cents	0.8 cents
For profit from continuing operations		2.4 cents	0.8 cents

CONSOLIDATED BALANCE SHEET

31 December 2005

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		5,918	6,324
Goodwill		2,892	2,892
Interests in associates		30,921	22,972
		<hr/>	<hr/>
Total non-current assets		39,731	32,188
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		129,199	108,010
Trade and bills receivables	8	255,159	195,356
Prepayments, deposits and other receivables		75,308	36,076
Pledged deposits		38,903	32,805
Cash and cash equivalents		253,839	156,907
		<hr/>	<hr/>
Total current assets		752,408	529,154
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and bills payables	9	406,907	308,548
Other payables and accruals		130,976	67,479
Interest-bearing bank borrowings		38,400	–
Tax payable		1,008	–
		<hr/>	<hr/>
Total current liabilities		577,291	376,027
		<hr/>	<hr/>
NET CURRENT ASSETS		175,117	153,127
		<hr/>	<hr/>
Net assets		214,848	185,315
		<hr/>	<hr/>
EQUITY			
Issued capital		110,056	110,056
Reserves		104,792	75,259
		<hr/>	<hr/>
Total equity		214,848	185,315
		<hr/>	<hr/>

Notes:

1.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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.

1.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year’s financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 20, 23, 27, 28, 32, 33, 37, 39 and HKFRS 5 has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s financial statements.

HKAS 1 has affected certain presentation in the consolidated income statement and other disclosures. In prior years, the Group’s share of tax attributable to associates was presented as a component of the Group’s total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group’s share of the post-acquisition results of associates is presented net of the Group’s share of tax attributable to associates.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group’s related party disclosures.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payment. In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no material impact to the financial statements.

1.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	The Effect of Changes in Foreign Exchanges Rates – Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group’s objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

1.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

Effect of new policies	Effect of adopting HKAS 1 Share of post-tax profits of associates Year ended 31 December	
	2005 HK\$'000	2004 HK\$'000
Decrease in share of profits of associates	(2,753)	(1,248)
Decrease in tax	2,753	1,248
Total change in profit	<u>—</u>	<u>—</u>

2. REVENUE AND SEGMENT INFORMATION

Revenue, which is also the Group's 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 tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

	Continuing operations						Discontinued operation		Consolidated	
	Distribution of information products		Corporate		Total		Provision of software solutions and services		2005	2004
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	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>1,900,652</u>	<u>1,200,752</u>	<u>—</u>	<u>—</u>	<u>1,900,652</u>	<u>1,200,752</u>	<u>—</u>	<u>56,798</u>	<u>1,900,652</u>	<u>1,257,550</u>
Segment results	<u>20,773</u>	<u>7,434</u>	<u>(4,531)</u>	<u>(4,708)</u>	<u>16,242</u>	<u>2,726</u>	<u>59</u>	<u>1,773</u>	<u>16,301</u>	<u>4,499</u>
Interest income					1,184	728	97	66	1,281	794
Finance costs					(814)	(45)	—	—	(814)	(45)
Share of profits of associates					11,621	5,172	—	—	11,621	5,172
Profit before tax					28,233	8,581	156	1,839	28,389	10,420
Tax					(1,833)	(5)	—	(1,230)	(1,833)	(1,235)
Profit for the year	<u>26,400</u>	<u>8,576</u>	<u>156</u>	<u>609</u>	<u>26,556</u>	<u>9,185</u>			<u>26,556</u>	<u>9,185</u>

	Continuing operations		Discontinued operation		Consolidated	
	Distribution of information products		Provision of software solutions and services			
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities						
Segment assets	750,430	510,074	5,392	19,991	755,822	530,065
Interests in associates	–	–	–	–	30,921	22,972
Corporate and other unallocated assets	–	–	–	–	5,396	8,305
Total assets					<u>792,139</u>	<u>561,342</u>
Segment liabilities	538,823	361,591	384	11,974	539,207	373,565
Corporate and other unallocated liabilities	–	–	–	–	38,084	2,462
Total liabilities					<u>577,291</u>	<u>376,027</u>
Other segment information:						
Depreciation	1,528	1,048	35	2,337	1,563	3,385
Corporate and other unallocated amounts	–	–	–	–	28	29
					<u>1,591</u>	<u>3,414</u>
Capital expenditure	1,266	4,983	–	469	1,266	5,452
Corporate and other unallocated amounts	–	–	–	–	21	24
					<u>1,287</u>	<u>5,476</u>

(b) *Geographical segments*

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

	Mainland China		Hong Kong		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	1,735,682	1,112,207	164,970	145,343	–	–	1,900,652	1,257,550
Intersegment sales	–	–	253,713	171,347	(253,713)	(171,347)	–	–
Attributable to a discontinued operation	–	(56,798)	–	–	–	–	–	(56,798)
Revenue from continuing operations	<u>1,735,682</u>	<u>1,055,409</u>	<u>418,683</u>	<u>316,690</u>	<u>(253,713)</u>	<u>(171,347)</u>	<u>1,900,652</u>	<u>1,200,752</u>

	Mainland China		Hong Kong		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:						
Segment assets	672,114	466,506	120,025	94,836	792,139	561,342
Capital expenditure	<u>1,266</u>	<u>5,445</u>	<u>21</u>	<u>31</u>	<u>1,287</u>	<u>5,476</u>

3. FINANCE COSTS

	2005	2004
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	<u>814</u>	<u>45</u>

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2005	2004
	HK\$'000	HK\$'000
Cost of inventories sold	1,683,967	1,156,949
Depreciation	1,591	3,414
Loss on disposal of items of property, plant and equipment	<u>45</u>	<u>272</u>

5. TAX

	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Group:		
Current – Hong Kong	12	5
Current – Elsewhere	1,821	–
Deferred	<u>–</u>	<u>1,230</u>
Total tax charge for the year	<u>1,833</u>	<u>1,235</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

The corporate income tax provision of the People's Republic of China (the "PRC") in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. No provision for PRC corporate income tax had been made for prior 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 prior year.

Beijing Founder Century Information System Co., Ltd. ("PRC Century"), a wholly-owned PRC subsidiary of the Group, is exempted from PRC corporate income 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%.

The share of tax attributable to associates amounting to approximately HK\$2,753,000 (2004: HK\$1,248,000) is included in "Share of profits of associates" on the face of the consolidated income statement.

6. DISCONTINUED OPERATION

(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 Suzhou”), 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 北大方正集團有限公司 (Peking University Founder Group Company Limited*) (formerly known as 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 Suzhou 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 activities of EC-Founder Co., Ltd. was the provision of software solutions and services in the PRC and was loss-making. The main purpose of the disposal of EC-Founder Co., Ltd. was to enable the Group to scale down its loss-making operations and to focus its resources on its profit making information products distribution business.

(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 HK\$4.6 million) to the Company.

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

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK\$26,556,000 (2004: HK\$9,185,000), and the weighted average number of 1,100,562,040 (2004: 1,100,562,040) ordinary shares in issue during the year.

The calculation of basic earnings per share amounts from continuing operations is based on the profit from continuing operations attributable to ordinary equity holders of the parent of approximately HK\$26,400,000 (2004: HK\$8,576,000), and the weighted average number of 1,100,562,040 (2004: 1,100,562,040) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2005 and 2004 have not been disclosed as the impact of the outstanding share options was anti-dilutive.

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. The credit period is generally for a period of one month, extending up to three months for major customers. 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, net of provisions, as at the balance sheet date is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within 6 months	241,600	178,545
7 – 12 months	6,425	15,306
13 – 24 months	7,134	1,435
Over 24 months	–	70
	<hr/> 255,159 <hr/>	<hr/> 195,356 <hr/>

9. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables as at the balance sheet date is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within 6 months	405,802	306,497
Over 6 months	1,105	2,051
	<hr/> 406,907 <hr/>	<hr/> 308,548 <hr/>

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 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

The Group has achieved satisfactory results for the year ended 31 December 2005. Turnover has increased by 51.1% to approximately HK\$1,900.7 million compared to last year's turnover of HK\$1,257.6 million and gross profit has increased by 27.7% to HK\$94.5 million. However, gross profit ratio has dropped from 5.9% in 2004 to 5.0% in 2005 as a result of the absence of the discontinued operation of the provision of software solutions and services business during the year and the strong competition in the distribution of information products business.

Despite having recorded a large leap in turnover and net profit for the year, total administrative expenses and selling and distribution costs have recorded a decrease of 4.1%.

The Group's audited consolidated profit for the year attributable to the shareholders was HK\$26.6 million (2004: HK\$9.2 million).

The encouraging improvement in operating results for the year was mainly due to :

- a. segment results of the distribution of information products business has increased by 1.8 times to HK\$20.8 million (2004: HK\$7.4 million); and
- b. an increase in the share of profits of associates by 1.2 times to HK\$11.6 million (2004: HK\$5.2 million).

Basic earnings per share for the year was HK2.4 cents (2004: HK0.8 cents).

Operation Review and Prospects

Continuing operations

Distribution of information products (“Distribution Business”)

The Group recorded a turnover of HK\$1,900.7 million for the year which was 58.3% higher than last year and segment results also increased by 1.8 times to HK\$20.8 million for the current year (2004: HK\$7.4 million). Gross profit has recorded an increase of 45.5% to HK\$94.5 million (2004: HK\$64.9 million) while gross profit ratio has decreased from 2004’s 5.4% to the current year’s 5.0%.

The Distribution Business is mainly focused on the distribution of information products such as switches, networking products, servers, storage devices, workstations, notebook computers and screen projectors of a number of internationally famed and branded information product manufacturers such as HP, Huawei-3Com, Apple Computer, IBM, Netgear, CommScope and SGI. With the continued effort to enrich and explore the depth of products for distribution, the Group is also dedicated to develop a closer relationship with the vendors for greater understanding of the market situation. The Group believes that the success in operation was mainly attributable by the close relationship developed between both the upstream vendors and the downstream customers such as the second tier distributors and systems integrators. The Distribution Business has been awarded by various upstream vendors such as HP and Huawei-3Com for the excellent distribution services in terms of distribution channel, coverage, sales growth and overall performance in the PRC.

The Distribution Business was ranked the 5th place in 2005 by Computer Partner World (電腦商報) of the PRC among the top 200 information products distribution enterprises in the PRC’s information products distribution business. In addition, the Distribution Business was also ranked the 6th and 7th places by China Information World (中國計算機報) in 2005 as one of PRC’s top 100 largest and top 100 dominant information products distributors respectively.

At present, the Distribution Business has developed an efficient and effective distribution channel and network with branch offices/representative offices spanning 14 major cities in the PRC.

Although the Group has recorded a large increase in the sales of information products, the operation is still faced with severe competition and recorded a gross profit ratio for the year of 5.0% compared with 5.4% of last year. In addition, selling and distribution costs for the year has also recorded an increase of 57.0% which is in line with the increase in turnover for the current year of 58.3%. However, the Group’s continued effort to control operating costs was proved to be successful, administrative expenses for the year has recorded a decrease of 1.4% when compared to 2004. As a result, the Distribution Business has recorded an increase in its segment results to turnover ratio from 2004’s 0.6% to 1.1% for the current year.

Operating in a strong competition environment, the drive to maintain a high rate of growth would require more working capital to support the distribution chain. The Group's working capital ratio has dropped from 2004's 1.41 to 1.30 for the current year and total liabilities to equity ratio also increased to 2.69 from 2004's 2.03. In order to support the expected future growth, the Distribution Business also plans to open up more branch offices/representative offices in the PRC. Therefore, the Group envisaged that working capital management and costs control will be vital to the future growth of the Distribution Business.

Discontinued operation

Software solutions and services business ("Software Business")

The Software Business was disposed of and terminated during the second half of 2004. As a result, no turnover was recorded for the year and the segment results for the year was approximately HK\$59,000. The 2004 segment results of HK\$1.8 million were mainly due to the gain on disposal of EC-Founder Co., Ltd. of HK\$3.3 million and the gain on compensation received for the termination of advertising agency services carried out by Beijing ADT of HK\$4.6 million.

Employee

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay level 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 schemes 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 year.

Due to the increase in the size of operation of the Distribution Business, the Group has approximately 415 employees as at 31 December 2005 (31 December 2004: 330).

Financial Review

Liquidity, financial resources and capital commitments

As at 31 December 2005, the Group recorded total assets of HK\$792.1 million (2004: HK\$561.3 million) which were financed by liabilities of HK\$577.3 million (2004: HK\$376.0 million) and equity of HK\$214.8 million (2004: HK\$185.3 million). The Group's net asset value as at 31 December 2005 increased by 15.9% to HK\$214.8 million as compared to approximately HK\$185.3 million as at 31 December 2004.

The Group had total cash and bank balances of HK\$292.7 million as at 31 December 2005 (2004: HK\$189.7 million). The Group had bank loan as at 31 December 2005 of HK\$38.4 million (2004: Nil), hence the Group recorded a net cash balance of HK\$254.3 million as at 31 December 2005 as compared to HK\$189.7 million as at 31 December 2004. As at 31 December 2005, the Group's current ratio was 1.30 (2004: 1.41) and the Group had no long term debt as at 31 December 2005 and 31 December 2004.

As at 31 December 2005, 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, Renminbi and United States dollars.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's payables and borrowings are denominated in Hong Kong dollars, Renminbi and United States dollars while the sales of the Group are mainly denominated in 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 or disposals of subsidiaries and associates in 2005.

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 2005, bank deposits of approximately HK\$38.9 million were pledged to banks to secure general banking facilities granted.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2005 (2004: Nil).

CORPORATE GOVERNANCE

In the opinion of the directors, the Company met with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2005, except for deviations in respect of (i) the service term and the rotation of directors under code provisions A.4.1 and A.4.2 of the Code; (ii) establishment of a remuneration committee under code provision B.1.1 of the Code; and (iii) the chairman of the Board should attend the annual general meeting under code provision E.1.2 of the Code. Details of these deviations are already set out in the Company's interim report for the six months ended 30 June 2005. To comply with code provision A.4.2 of the Code, relevant amendments to the Bye-laws of the Company were approved by the shareholders of the Company in the special general meeting on 4 January 2006. Since then, the Company has complied with all code provisions of the Code.

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.

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

Hong Kong, 21 April 2006

As at the date of this announcement, the Board comprises the 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 of 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