



EC-FOUNDER (HOLDINGS) COMPANY LIMITED

方正數碼(控股)有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code : 0618)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

The board of directors (the “Board”) of EC-Founder (Holdings) Company Limited (the “Company”) is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2006, together with the comparative figures for the corresponding period in 2005. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
REVENUE	2	1,157,194	817,205
Cost of sales		(1,100,979)	(780,256)
Gross profit		56,215	36,949
Other income	3	1,284	554
Selling and distribution costs		(26,694)	(15,377)
Administrative expenses		(18,302)	(17,724)
Other expenses, net		(5,218)	(1,284)
Finance costs	4	(1,075)	(61)
Share of profits and losses of associates		5,739	7,483
PROFIT BEFORE TAX	5	11,949	10,540
Tax	6	(978)	(590)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		10,971	9,950
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT — Basic	7	1.00 cents	0.90 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		6,822	5,918
Goodwill		2,892	2,892
Interests in associates		34,824	30,921
Total non-current assets		44,538	39,731
CURRENT ASSETS			
Inventories		147,357	129,199
Trade and bills receivables	8	345,217	255,159
Prepayments, deposits and other receivables		69,825	75,308
Pledged deposits		65,369	38,903
Cash and cash equivalents		149,667	253,839
Total current assets		777,435	752,408
CURRENT LIABILITIES			
Trade and bills payables	9	448,457	406,907
Other payables and accruals		105,422	130,976
Interest-bearing bank and other borrowings		38,956	38,400
Tax payable		851	1,008
Total current liabilities		593,686	577,291
NET CURRENT ASSETS		183,749	175,117
TOTAL ASSETS LESS CURRENT LIABILITIES		228,287	214,848
NON-CURRENT LIABILITIES			
Finance lease payables		450	—
Net assets		227,837	214,848
EQUITY			
Issued capital		110,056	110,056
Reserves		117,781	104,792
Total equity		227,837	214,848

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the new and revised HKFRSs has had no material impact on the accounting policies of the Group and the method of computation in the Group’s condensed consolidated interim financial statements.

2. SEGMENT INFORMATION

The Group’s operating business are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group’s business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

The following table presents revenue and results for the Group’s primary segments for the six months ended 30 June 2006 and 2005.

	Distribution of information products		Corporate and others		Consolidated	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Segment revenue:						
Sales to customers	1,157,194	817,205	—	—	1,157,194	817,205
Segment results	8,788	4,783	(2,501)	(2,219)	6,287	2,564
Interest income					998	554
Finance costs					(1,075)	(61)
Share of profits and losses of associates					5,739	7,483
Profit before tax					11,949	10,540
Tax					(978)	(590)
Profit for the period					10,971	9,950

3. OTHER INCOME

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Bank interest income	998	554
Others	286	—
	1,284	554

4. FINANCE COSTS

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	1,039	61
Interest on finance lease	36	—
	1,075	61

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Depreciation	1,022	845
Provision and write-off of doubtful debts	5,218	1,240
Provision and write-off/(reversal and write-back) of obsolete inventories	(38)	1,867
Loss on disposal of items of property, plant and equipment	—	44

6. TAX

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current — Hong Kong	8	—
Current — Elsewhere	970	590
Total tax charge for the period	978	590

Hong Kong profits tax had been provided at a rate of 17.5% on the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong profits tax has been made as the relevant Hong Kong subsidiaries did not generate any assessable profits arising in Hong Kong during prior period.

The corporate income tax provision in 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 period based on existing legislation, interpretations and practices in respect thereof.

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 amounted to approximately HK\$683,000 (2005: HK\$1,073,000) is included in “Share of profits and losses of associates” on the face of the condensed consolidated income statement.

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

The calculation of basic earnings per share amounts is based on the unaudited profit for the period attributable to equity holders of the parent of approximately HK\$10,971,000 (2005: HK\$9,950,000), and the weighted average number of 1,100,562,040 (2005: 1,100,562,040) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 June 2006 and 2005 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:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within 6 months	325,445	241,600
7-12 months	14,296	6,425
13-24 months	5,476	7,134
	345,217	255,159

Included in the Group's trade and bills receivables are amounts due from fellow subsidiaries and related companies of approximately HK\$15,136,000 (2005: HK\$6,389,000) and HK\$124,000 (2005: HK\$243,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

9. TRADE AND BILLS PAYABLES

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

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within 6 months	441,038	405,802
Over 6 months	7,419	1,105
	448,457	406,907

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

The Group achieved satisfactory results for the six months ended 30 June 2006. Turnover has increased by 41.6% to approximately HK\$1,157.2 million (Six months ended 30 June 2005 ("1H2005"): HK\$817.2 million) and gross profit has increased by 52.1% to HK\$56.2 million (1H2005: HK\$36.9 million). Gross profit ratio has rebounded to 4.9% compared with 4.5% for 1H2005.

Despite having recorded a 41.6% growth in turnover, total administrative expenses and selling and distribution costs have recorded a 35.9% increase compared with 1H2005.

The Group's unaudited consolidated profit attributable to equity holders for the period was HK\$11.0 million (1H2005: HK\$10.0 million).

The Group's consolidated profit attributable to equity holders for the period was mainly the net result of:

- an increase in segment results of the distribution of information products business by 83.7% to HK\$8.8 million (1H2005: HK\$4.8 million);
- an increase in expenses of corporate and others by 12.7% to HK\$2.5 million; and
- a decrease in the share of profit and losses of associates by 23.3% to HK\$5.7 million (1H2005: HK\$7.5 million).

Basic earnings per share attributable to equity holders for the period was HK1.00 cents (1H2005: HK0.90 cents).

Operating Review and Prospects

The Group's principal operating activity during the period is the distribution of information products business ("Distribution Business"). The Distribution Business recorded a turnover of HK\$1,157.2 million for the period which was 41.6% higher than that for the six months ended 30 June 2005 and segment results also increased by 83.7% to HK\$8.8 million for the current period (1H2005: HK\$4.8 million). Gross profit for the Distribution Business has recorded an increase of 52.1% to HK\$56.2 million (1H2005: HK\$36.9 million) while gross profit ratio has turn-around to 4.9% comparing to 4.5% for 1H2005.

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 products manufacturers such as HP, Huawei-3Com, Apple, IBM, Netgear, CommScope, SGI, Sony and Microsoft.

The significant improvement in turnover and segment results was due to:

- increase in the range of products from suppliers such as HP and Huawei-3Com;
- continued effort to enrich the number of suppliers, new suppliers such as SGI and CommScope have been added to the Distribution Business' vendor list during the second half of 2005; and
- deeper and closer working relationship with the vendors for greater understanding of the market situation so as to develop more business opportunities with the vendors and downstream customers of second tier distributors and systems integrators.

The Distribution Business has been awarded by various upstream vendors such as HP, Huawei-3Com and SGI during the year for its excellent partnership in terms of distribution channel, coverage, growth and overall performance in the PRC.

In June 2006, the Distribution Business was ranked the 4th place (31 December 2005: 5th) by Computer Partner World (電腦商報) among the top 200 information products distributors in the PRC's information products distribution business and was also ranked the 5th place (31 December 2005: 7th) by China Information World (中國計算機報) in June 2006 as one of the PRC's top 100 dominant information products distributors. In addition, the Distribution Business was ranked the 6th place in June 2006 by Smart Partner (計算機產品與流通) among the top 10 most excellent information products distributors in the PRC.

During the period under review, 4 major cities, namely Chong Qing, Zheng Zhou, Kunming and Chang Sha have been added to the distribution channel and network of the Distribution Business. At present, the Distribution Business operates its nation-wide distribution channel and network in 19 major cities in the PRC.

Faced with fierce competition in the PRC's information products distribution business and the need to further expand the distribution channel and network, selling and distribution costs for the Distribution Business as a percentage to turnover has increased from 1H2005's 1.9% to the current period's 2.3%. With the opening up of additional branch offices/representative offices, administrative expenses for the Distribution Business for the first half of 2006 also increased by 1.6% and 7.4% compared to the first half and second half of 2005 respectively. In light of the strong growth in business size, the Group is also dedicated for stricter and stronger financial and internal management. The Group's trade and bills receivable and inventory turnover periods have improved from the six months ended 30 June 2005's 52.7 days and 26.5 days to the current interim period's 47.3 days and 22.9 days respectively. The working capital ratio for the Group stood at 1.31 as at 30 June 2006 (31 December 2005: 1.30) while the total liabilities to equity ratio also stabled at 2.61 as at 30 June 2006 (31 December 2005: 2.69).

Despite the austerity measures taken by the PRC government in regulating the economy, the Distribution Business has been able to maintain its growth and outperformed the general business investment activities and economic situations in the PRC during the period under review through better and deeper understanding of its product structure, imposing stricter risk and cost controls, provisioning of company-wide staff development and training and continuous development and assessment of the distribution channel and network. To fuel for future growth, the Distribution Business is dedicated to widen its products range and has recently become one of the PRC distributors for Sony's storage devices and Microsoft's major products.

With the Group's endeavours to further strengthening its position in the PRC's information products distribution business, the Group will continue to look for alliance with other international information products suppliers and investment opportunities. The Board and the management team are dedicated towards the aims to reward shareholders with strong financial results and promising outlook.

Financial Review

Liquidity, financial resources and capital commitments

At 30 June 2006, the Group recorded total assets of approximately HK\$822.0 million (31 December 2005: HK\$792.1 million) which were financed by liabilities of approximately HK\$594.2 million (31 December 2005: HK\$577.3 million) and equity of approximately HK\$227.8 million (31 December 2005: HK\$214.8 million). The Group's net asset value as at 30 June 2006 was approximately HK\$227.8 million (31 December 2005: HK\$214.8 million).

The Group had total cash and bank balance of approximately HK\$215.0 million as at 30 June 2006 (31 December 2005: HK\$292.7 million). The Group had bank and other borrowings as at 30 June 2006 of HK\$39.4 million (31 December 2005: HK\$38.4 million), of which approximately HK\$39.0 million (31 December 2005: HK\$38.4 million) was repayable within one year and approximately HK\$0.4 million (31 December 2005: Nil) was repayable within two to five years. Hence the Group recorded a net cash balance of approximately HK\$175.6 million as at 30 June 2006 (31 December 2005: HK\$254.3 million). As at 30 June 2006, the Group's current ratio was 1.31 (31 December 2005: 1.30).

At 30 June 2006, the Group did not have any material capital expenditure commitments (31 December 2005: Nil).

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

Charges on assets

As at 30 June 2006, bank deposits of approximately HK\$65.4 million were pledged to banks to secure general banking facilities granted.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2006.

Employee and remuneration policies

As at 30 June 2006, the Group had 484 employees (31 December 2005: 415). These employees almost all work in the Mainland China. The Company has also established share option schemes and share options are granted at the directors' discretion to motivate and reward the employees with outstanding performance. The Company had not granted any share options during the current period.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in Appendix 14 (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the six months ended 30 June 2006, except for deviation in respect of the rotation of directors under code provision A.4.2 of the Code.

Under code provision A.4.2 of the Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, according to the then Bye-laws of the Company, one third of the directors are subject to retirement by rotation at each annual general meeting and the Chairman or Managing Director of the Company is not subject to retirement by rotation, which constitutes a deviation from code provision A.4.2 of the Code. 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 in the special general meeting held on 4 January 2006. Since then the Company has complied with all code provisions of the Code.

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") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of the Company's directors, all the directors confirmed that they have complied with the required standard as set out in the Model Code during the six months ended 30 June 2006.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2006 of the Group now reported have been reviewed by the audit committee.

DISCLOSURE OF INFORMATION ON WEBSITE OF THE STOCK EXCHANGE

The 2006 interim 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 Stock Exchange's website (<http://www.hkex.com.hk>) and the Company's website (<http://www.ecfounder.com.hk>) in due course.

By Order of the Board
EC-FOUNDER (HOLDINGS) COMPANY LIMITED
Zhang Zhao Dong
Chairman

Hong Kong
22 September 2006

As at the date of this announcement, the Board of the Company comprises the executive directors of Mr Zhang Zhao Dong, Mr Xia Yang Jun, Mr Xie Ke Hai, Mr Chen Geng and Mr Zheng Fu Shuang and the independent non-executive directors of Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian.

** For identification purpose only*