FOUNDER HOLDINGS LIMITED

方正控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock code : 0418)

Websites: www.founder.com.hk   www.irasia.com/listco/hk/founder

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

The Board of Directors (the "Board") of Founder Holdings 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

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
REVENUE	2	**2,593,915**	2,013,831
Cost of sales		**(2,284,040)**	(1,737,534)
Gross profit		**309,875**	276,297
Other income and gains		**88,693**	65,689
Selling and distribution costs		**(186,765)**	(192,039)
Administrative expenses		**(107,374)**	(138,947)
Other expenses, net		**(47,241)**	(32,018)
Finance costs	4	**(1,142)**	(875)
Share of profits and losses of:			
Jointly-controlled entity		**—**	(17)
Associates		**10,250**	1,975
PROFIT/(LOSS) BEFORE TAX	3	**66,296**	(19,935)
Tax	5	**(5,052)**	(5,857)
PROFIT/(LOSS) FOR THE YEAR		**61,244**	(25,792)
Attributable to:			
Equity holders of the parent		**47,929**	(27,183)
Minority interests		**13,315**	1,391
		61,244	(25,792)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT — BASIC	6	**4.3 cents**	(2.4 cents)

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**63,329**	66,887
Investment properties		**23,110**	15,710
Goodwill		**7,055**	7,055
Interests in associates		**44,184**	38,633
Deferred tax assets		**—**	2,366
Total non-current assets		**137,678**	130,651
CURRENT ASSETS			
Inventories		**171,076**	162,094
Systems integration contracts		**44,743**	55,826
Trade and bills receivables	7	**360,297**	329,543
Prepayments, deposits and other receivables		**119,312**	83,179
Equity investments at fair value through profit or loss/short term investments		**1,981**	1,742
Pledged deposits		**72,536**	61,849
Cash and cash equivalents		**414,886**	261,612
Total current assets		**1,184,831**	955,845
CURRENT LIABILITIES			
Trade and bills payables	8	**438,263**	358,522
Other payables and accruals		**371,726**	301,951
Interest-bearing bank borrowings		**40,614**	15,932
Tax payable		**1,012**	700
Total current liabilities		**851,615**	677,105
NET CURRENT ASSETS		**333,216**	278,740
Net assets		**470,894**	409,391
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**112,380**	112,380
Reserves		**255,873**	203,215
		368,253	315,595
Minority interests		**102,641**	93,796
Total equity		**470,894**	409,391

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, except for investment properties, certain land and buildings and equity investments, which have been measured at fair value.

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	Cast Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
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
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HK(SIC)-Int 21	Income Taxes — Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 23, 27, 28, 33, 37 and HK-Int 4 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 of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates and jointly-controlled entity was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates and jointly-controlled entity is presented net of the Group's share of tax attributable to associates and jointly-controlled entity.

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 impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 — Leases

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

In the opinion of the directors, the lease payments of the Group cannot be allocated reliably between the land and buildings elements, therefore, the entire lease payments are included in the cost of land and buildings and are amortised over the shorter of the lease terms and useful lives. Save as disclosed above, this change in accounting policy has had no material impact on the financial statements.

(b) HKAS 32 and HKAS 39 — Financial Instruments

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 were designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities.

The effects of the above changes are summarised in note 1.4 below.

(c) HKAS 40 — Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

The adoption of HKAS 40 has had no material impact on the financial statements because the Group's investment properties had a net revaluation deficit position as at 31 December 2003 and 2004 and the change in revaluation of the Group's investment properties during the year ended 31 December 2004 would be recognised in the income statement irrespective of whether the old policy or the new policy is applied.

(d) HKFRS 2 — 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 vested as at 1 January 2005, the adoption of HKFRS 2 has had no material impact on the financial statements.

(e) HK(SIC)-Int 21 — Income Taxes — Recovery of Revalued Non-depreciable Assets

In prior years, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The adoption of HK(SIC)-Int 21 has had no material impact on 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 Effects of Changes in Foreign Exchange 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

(a) Effect on the consolidated balance sheet

At 1 January 2005 Effect of new policies (Increase/(decrease))	HKAS 1# Presentation *HK$'000*	Effect of adopting HKASs 32# and 39@ Change in classification of equity investments *HK$'000*	Total *HK$'000*
Assets			
Property, plant and equipment	(15,710)	—	(15,710)
Investment properties	15,710	—	15,710
Equity investments at fair value through profit or loss	—	1,742	1,742
Short term investments	—	(1,742)	(1,742)
			—

@ Adjustments taken effect prospectively from 1 January 2005
\# Adjustments/presentation taken effect retrospectively

At 31 December 2005 Effect of new policies (Increase/(decrease))	HKAS 1 Presentation *HK$'000*	Effect of adopting HKASs 32 and 39 Change in classification of equity investments *HK$'000*	Total *HK$'000*
Assets			
Property, plant and equipment	(23,110)	—	(23,110)
Investment properties	23,110	—	23,110
Equity investments at fair value through profit or loss	—	1,981	1,981
Short term investments	—	(1,981)	(1,981)
			—

(b) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policies	Effect of adopting HKAS 1 Share of post-tax profits and losses of associates **2005** ***HK$'000***	 2004 *HK$'000*
Decrease in share of profits and losses of associates	**(2,853)**	(1,375)
Decrease in tax	**2,853**	1,375
Total change in profit	**—**	—

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.

	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Corporate		Others		Eliminations		Consolidated	
	2005	2004	**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*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (Restated)
Segment revenue:														
Sales to external customers	**510,054**	630,621	**186,626**	183,335	**1,876,749**	1,187,216	**—**	—	**20,486**	12,659	**—**	—	**2,593,915**	2,013,831
Intersegment sales	**3,227**	5,226	**—**	—	**23,903**	13,537	**—**	—	**—**	—	**(27,130)**	(18,763)	**—**	—
Total	**513,281**	635,847	**186,626**	183,335	**1,900,652**	1,200,753	**—**	—	**20,486**	12,659	**(27,130)**	(18,763)	**2,593,915**	2,013,831
Segment results	**15,143**	25,030	**(1,577)**	(39,451)	**20,773**	7,432	**(3,217)**	(19,792)	**1,119**	552			**32,241**	(26,229)
Interest income and unallocated gains													**24,947**	5,211
Finance costs													**(1,142)**	(875)
Share of profits and losses of:														
Jointly-controlled entity													**—**	(17)
Associates													**10,250**	1,975
Profit/(loss) before tax													**66,296**	(19,935)
Tax													**(5,052)**	(5,857)
Profit/(loss) for the year													**61,244**	(25,792)

	Software development and systems integration for media business		Software development and systems integration for non-media business		Distribution of information products		Others		Eliminations		Consolidated	
	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*	***HK$'000***	*HK$'000*
Assets and liabilities												
Segment assets	**330,541**	322,496	**135,486**	159,604	**750,430**	510,074	**8,946**	9,058	**(5,691)**	(2,378)	**1,219,712**	998,854
Interests in associates	**13,259**	15,657	**—**	—	**—**	—	**—**	—	**—**	—	**44,184**	38,633
Corporate and other unallocated assets	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**58,613**	49,009
Total assets											**1,322,509**	1,086,496
Segment liabilities	**155,706**	170,384	**119,280**	123,527	**538,823**	361,591	**2,780**	2,676	**(5,361)**	(236)	**811,228**	657,942
Corporate and other unallocated liabilities	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**40,387**	19,163
Total liabilities											**851,615**	677,105
Other segment information:												
Depreciation	**7,925**	7,699	**1,852**	10,853	**1,528**	1,048	**1,387**	1,092			**12,692**	20,692
Capital expenditure	**7,793**	15,227	**1,066**	2,646	**1,266**	4,983	**1,355**	4,668			**11,480**	27,524

(b) Geographical segments

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

	Hong Kong		Mainland China		Overseas		Eliminations		Consolidated	
	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	**210,335**	210,378	**2,311,594**	1,686,214	**71,986**	117,239	**—**	—	**2,593,915**	2,013,831
Intersegment sales	**314,912**	231,142	**140**	6,072	**—**	—	**(315,052)**	(237,214)	**—**	—
Total	**525,247**	441,520	**2,311,734**	1,692,286	**71,986**	117,239	**(315,052)**	(237,214)	**2,593,915**	2,013,831

	Hong Kong		Mainland China		Overseas		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*
Other segment information:								
Segment assets	**207,056**	276,116	**1,088,953**	735,908	**26,500**	74,472	**1,322,509**	1,086,496
Capital expenditure	**62**	233	**9,062**	17,289	**2,356**	10,002	**11,480**	27,524

3. PROFIT/(LOSS) BEFORE TAX

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

	2005 ***HK$'000***	2004 *HK$'000*
Cost of inventories sold	**2,184,362**	1,587,738
Depreciation	**12,692**	20,692
Write-off of items of property, plant and equipment	**—**	2,383
Loss on disposal of items of property, plant and equipment	**216**	777
Loss on partial disposal of a subsidiary	**—**	765
Gain on disposal of subsidiaries	**(21,939)**	(3,255)
Gain on deemed partial disposal of subsidiaries	**(10,652)**	(6,503)
Gain on disposal of a jointly-controlled entity	**—**	(4,329)

4. FINANCE COSTS

	2005 ***HK$'000***	2004 *HK$'000*
Interest on bank loans and overdrafts	**1,142**	875

5. TAX

	2005 ***HK$'000***	2004 *HK$'000* *(Restated)*
Group:		
Current — Hong Kong	**16**	5
Current — Elsewhere	**2,645**	299
Deferred	**2,391**	5,553
Total tax charge for the year	**5,052**	5,857

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.

Taxes on overseas profits have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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. ("Founder Century"), a 54.85% 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 Founder Century is 15%.

The share of tax attributable to associates amounting to approximately HK$2,853,000 (2004: HK$1,375,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

6. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$47,929,000 (2004: loss of HK$27,183,000), and the weighted average number of approximately 1,123,800,000 (2004: 1,123,800,000) ordinary shares in issue during the year.

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

7. 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	2004
	HK$'000	*HK$'000*
Within 6 months	**326,949**	298,256
7-12 months	**18,775**	21,906
13-24 months	**13,201**	8,914
Over 24 months	**1,372**	467
	360,297	329,543

8. TRADE AND BILLS PAYABLES

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

	2005	2004
	HK$'000	*HK$'000*
Within 6 months	**433,201**	349,429
7-12 months	**1,326**	6,716
13-24 months	**1,935**	1,469
Over 24 months	**1,801**	908
	438,263	358,522

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 reported an audited consolidated profit after tax and minority interests for the year ended 31 December 2005 of approximately HK$47.9 million (2004: loss of HK$27.2 million). The Group's turnover for the current year increased by 29% to approximately HK$2,593.9 million (2004: HK$2,013.8 million). For the two years under review, gross profit percentage dropped from 13.7% in 2004 to 11.9% in 2005 as a result of the increase in sales of the distribution business of information products which had a much lower gross profit percentage if compared to the business of software development and systems integration. Despite the significant increase in sales in the current year, the selling and distribution costs and the administrative expenses recorded a moderate decrease if compared to last year, as a result of our control over operating expenses. The increase in the net other expenses was mainly due to an exceptional write-back of other receivables last year.

Basic earnings per share for the year was HK4.3 cents (2004: basic loss per share HK2.4 cents).

Operating Review and Prospects

(A) Software development and systems integration for media sector

The turnover of the software development and systems integration business in the media sector for the current year decreased by 19% to approximately HK$510.1 million (2004: HK$630.6 million) while its segmental results recorded a profit of approximately HK$15.1 million (2004: HK$25.0 million).

This business segment recorded a drop in profit for the year because the Group has allocated more resources for new product development and market exploration. Based on our prize-award technology, Founder Apabi Digital Right Management System, a series of new products, such as e-Library, e-Book, e-Document and e-Chop, has been developed. Our e-Library System has been applied to more than 1,300 libraries and 450 universities in the PRC and overseas. Over 400 publishing houses have cooperated with us for the production of e-books using our network publishing total solutions, Founder Apabi e-Book Solutions. At the end of March 2006, we have produced over 210,000 e-books which are being offered to the retail market through our own on-line bookshop "esoushu.com" (搜書網) and more than 20 portals. In addition, we have worked with a number of manufacturing partners for the development of e-book readers. Besides our traditional graphic arts and e-publishing software solutions for the needs of newspaper and publishing houses, our new product, Founder EasiPrint Digital Printing System, was also well received by the market. More and more partners have joined our franchising digital printing shops. At present, we have over hundred franchising digital printing shops over different provinces in the PRC. Recently, we have established a subsidiary in Belgium to capture the European market for our graphic arts and e-publishing software solutions. Although we are still in the investing stage of the above new businesses and products, we are confident that the costs incurred now will bring us a fruitful return in the coming future.

(B) Software development and systems integration for non-media sector

The turnover of the software development and systems integration business in the non-media sector for the current year increased by 2% to approximately HK$186.6 million (2004: HK$183.3 million) while its segmental loss recorded a significant improvement to approximately HK$1.6 million (2004: HK$39.5 million).

Market competition in the systems integration business for the banking and security industries in the PRC was still severe during the year under review. Profit margins were further narrowed down. As resulted from further restructuring of our operational team and business units and control of operating expenses, the loss of this business sector narrowed down by 96% if compared to last year. The management will closely monitor the performance of this business sector and will take all necessary actions to minimise its loss and to improve its performance.

(C) Distribution of information products

The turnover of the distribution business of information products for the current year increased by 58% to approximately HK$1,876.7 million (2004: HK$1,187.2 million) while its segmental profit increased by 180% to approximately HK$20.8 million (2004: HK$7.4 million).

Despite recorded a satisfactory performance in 2005, our distribution business is still faced with severe competition and declining gross profit margin. Operating in a strong competition environment, the drive to maintain a high rate of growth through opening more branch offices/representative offices in the PRC would require more working capital to support the distribution channel. The Group envisaged that working capital management and cost control will be vital to the future growth of our distribution business. At present, the Group has developed an efficient and effective distribution channel and network with branch offices/representative offices spanning 14 major cities in the PRC.

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 upstream vendors and the downstream customers such as the second tier distributors and systems integrators for greater understanding of the market situation. Our subsidiary, Founder Century has been awarded by various upstream vendors such as HP and Huawei-3Com for its excellent distribution services in terms of distribution channel, coverage, growth and overall performance in the PRC. Founder Century was also 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 and 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.

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.

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 current year.

In the current year, the moderate increase in the headcount for the Group's media and distribution businesses in the PRC was totally offset by the decrease in the headcount for the Group's non-media business and the disposal of the Group's media business in Japan in June 2005. At 31 December 2005, the number of employees of the Group was approximately 1,880 (31 December 2004: 2,020).

Financial Review

Liquidity, financial resources and capital commitments

At 31 December 2005, the Group recorded total assets of HK$1,322.5 million which were financed by liabilities of HK$851.6 million, minority interests of HK$102.6 million and equity of HK$368.3 million. The Group's net asset value per share as at 31 December 2005 amounted to HK$0.33 (31 December 2004: HK$0.28).

The Group had a total cash and bank balance of HK$487.4 million as at 31 December 2005. After deducting total bank borrowings of HK$40.6 million, the Group recorded a net cash balance of HK$446.8 million as at 31 December 2005 as compared to HK$307.5 million as at 31 December 2004. The Group's borrowings, which are subject to little seasonality, consist of mainly short term revolving trust receipt loans and bank loan. As at 31 December 2005, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.11 (31 December 2004: 0.05) while the Group's working capital ratio was 1.39 (31 December 2004: 1.41).

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 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 against Hong Kong dollars and Renminbi 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.

Contracts

At 31 December 2005, the major contracts in hand for the software development and systems integration business amounted to approximately HK$148.1 million (31 December 2004: HK$229.4 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 7 February 2005, Founder (Hong Kong) Limited ("Founder HK"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Founder Information (Hong Kong) Limited ("Founder Information"), a subsidiary of the Company's controlling shareholder, Peking University Founder Group Company Limited ("Peking Founder"), and Peking Founder to dispose of its entire equity interest in True Luck Group Limited ("True Luck") and to assign the loan of JPY70 million due to Founder HK by True Luck to Founder Information at a total cash consideration of JPY693,520,600. The disposal was completed in June 2005 and a gain of approximately HK$21.9 million was recorded.

On 22 July 2004, Founder International Inc. ("Founder Inc."), a then non-wholly owned subsidiary of the Group, entered into a subscription agreement (the "Subscription Agreement") with Media Champion Holdings Limited ("Media Champion"), a company wholly owned by Mr Guan Xiang Hong, the president and an executive director of Founder Inc. Pursuant to the Subscription Agreement, Founder Inc. issued 333 new shares and 537 new shares at JPY300,000 per share to Media Champion in September 2004 and June 2005 respectively. On 12 April 2005, Founder Inc. acquired the entire 100% equity interest in Sysin Inc. for a consideration of 200 its new shares. In addition, in February 2005, an investor invested into a wholly-owned subsidiary of Founder Inc., diluting its interest in such subsidiary from 100% to 50%. Gains of approximately HK$10.7 million in aggregate (2004: HK$6.5 million) were resulted from such deemed partial disposals in the current year.

Charges on assets

At 31 December 2005, all the Group's land and buildings and investment properties in Hong Kong of approximately HK$48.2 million and fixed deposits of approximately HK$72.5 million were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 31 December 2005, the Group did not have any significant contingent liabilities.

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; and (ii) establishment of a remuneration committee under code provision B.1.1 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
Founder Holdings Limited
Cheung Shuen Lung
Chairman

Hong Kong, 21 April 2006

As at the date of this announcement, the Board of the Company comprises executive directors of Mr Cheung Shuen Lung, Professor Xiao Jian Guo, Professor Wei Xin, Mr Zhang Zhao Dong and Mr Xia Yang Jun, and the independent non-executive directors of Dr Hu Hung Lick, Henry, Mr Li Fat Chung and Ms Wong Lam Kit Yee.

** For identification purpose only*