

Chairman's Statement



Mr Lei Hon Sang

Professor Wei Xin

Professor Wang Xuan

Mr Cheung Shuen Lung

Mr Zhang Zhao Dong

Mr Lo Siu Yu

Chairman's Statement

I have pleasure in presenting the annual report of the Group for the year ended 31 December 2000.

FINANCIAL RESULTS

The Group's audited consolidated profit after tax and minority interests for the year ended 31 December 2000 amounted to HK\$181 million compared with a loss of HK\$223 million for the previous year. Turnover for the year ended 31 December 2000 amounted to HK\$2,088 million, representing a 32% increase over 1999's turnover of HK\$1,583 million.

DIVIDENDS

The Board of Directors does not recommend the payment of any dividend in respect of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

THE OPERATING REVIEW

Operating results for the year

Following the successful business restructuring and the implementation of tight internal management control, the Group has resumed its profit making position in the year under review. An analysis of turnover and gross profit for each of the principal activities of the Group is as follows:

	2000	1999	
	HK\$' million	HK\$' million	<i>% of change</i>
Turnover			
Software development and systems integration			
— Media sector	646	633	2%
— Non-media sector	846	316	168%
	1,492	949	57%
Sales of information products	596	634	(6%)
	2,088	1,583	32%

Chairman's Statement

	2000 <i>HK\$' million</i>	1999 <i>HK\$' million</i>	<i>% of change</i>
Gross profit			
Software development and systems integration			
— Media sector	155	136	14%
— Non-media sector	251	50	402%
	406	186	118%
Sales of information products	28	14	100%
	434	200	117%

(A) Software development and systems integration

Media sector

Our core businesses of media sector are still focused on the industries of newspapers, publishing, commercial printing, television and broadcasting. To maintain our market leader position in the Chinese electronic publishing systems ("EPS"), we have introduced a number of new products such as Founder Yuanbo Infobase System (方正淵博報業信息倉儲系統) (a news data search system), Founder Internet Content Publish Server version 2.0 (方正翔宇網站建設及內容發佈系統) (a universal application tool for the setting up of website and the distribution of information through internet) and Wired Agency Modules (電稿通) during the year under review. In order to cater for the customers' needs as a result of the increasing popularity of the use of internet, our various electronic publishing systems such as Founder Wentao Editorial System (方正文韜新聞採編系統), FIT Founder Integrated Typesetting System (方正飛騰集成組版系統) and Founder Jingluo Advertising System (方正經略廣告管理系統) have been upgraded and now can base upon the internet infrastructure using browser interface.

During the year ended 31 December 2000, we have successfully gained several major customers for our EPS business such as Zhuhai Te Qu Bao (珠海特區報), Shanghai Zheng Quan Bao (上海證券報), Hua Shang Bao (華商報) and Wulumuqi Wan Bao (烏魯木齊晚報) in the PRC and Hong Kong Jockey Club in Hong Kong. More than 30 media websites such as Shanghai Online (上海在線), China Youth Online (中青在線) and Beijing Television Station Website (北京電視台網站) have installed Founder Internet Content Publish Server version 2.0. Contracts for Computer-to-Print System (直接制版系統) were signed with Hubei Daily (湖北日報) and Wenhui-Xinming News Group (文匯新民報業集團). In

Chairman's Statement

addition, an integrated supply contract of approximately RMB20 million was signed with People's Daily (人民日報), the largest news group in the PRC, in relation to newspaper publication.

With the accelerating trend in the digitalisation of the broadcasting and television business in the PRC, we have spent more marketing effort to promote our digital media systems such as Founder Wuyou (Care Free) Digital Broadcasting System (方正無憂數字播控系統), Founder Wuxian (Infinite) Non-linear Editing System (方正無限非線性編輯系統), Founder Author Tool (方正奧思多媒體創作系統), Founder News Editorial System (方正新聞採編系統), Founder Interactive Video Website System (方正交互式視頻網站系統) and Founder Virtual Scene System (方正虛擬佈景系統). In the year under review, we obtained contracts for the installation of our digital media systems from CCTV (中國中央電視台), CCTV Overseas Centre (中國中央電視台海外中心), Hunan Economics Television Station (湖南經濟電視台), Henan Television Station (河南電視台), Jinan Television Station (濟南電視台), Shenyang Television Station (瀋陽電視台) and Shanghai Oriental Radio Station (上海東方廣播電台).

Non-media sector

The substantial increase in turnover for non-media sector during the year under review was mainly attributable to the acquisition of Beijing Founder Order Computer System Company Limited ("Founder Order") in the second half of 1999.

Through extensive relationship network and excellent service and technical support, the Group has established a strong clientele in the financial and banking sector, the insurance sector, the aviation sector, the government sector, the telecommunications sector as well as the electric power sector in the PRC. Our major customers include Industrial and Commercial Bank of China ("ICBC") and China Construction Bank. At present, Founder Order is regarded as the largest computer system provider for ICBC and is serving most of its branches in the PRC.

During the year ended 31 December 2000, the Group has secured a number of contracts in respect of electronic payment, digital image management, electronic verification, self service and network engineering in the PRC such as the nation-wide call centre system for People's Insurance Company of China and the network construction for the tax bureaus of the provinces of Hunan, Hubei, Sichuan, Guizhou and Xizang under the Phase 2 of the Golden Taxation Project. Furthermore, the Group has been granted a number of contracts in relation to e-marketing solutions in Japan.

(B) Sales of information products

The turnover of the sales of information products decreased by 6% to approximately HK\$596 million with its gross profit margin slightly improved to 4.8% as compared to 2.2% in 1999.

Chairman's Statement

The Group currently represents and distributes over 10 product lines for its own brands and certain world renowned brands such as Sun Microsystems, IBM, Apple Computers, Compaq and 3Com. The product lines include servers, workstations, notebook computers, laser printers, ink-jet plotters, scanners and networking products.

Disposal of subsidiaries

A sale and purchase agreement was entered into on 17 May 2000 for the disposal of the Group's 70% interest in Founder Data Corporation International Limited, a subsidiary engaged in non-media e-commerce business, to Management Investment & Technology (Holdings) Limited ("MITH"), a company listed on the Hong Kong Stock Exchange, for a consideration of HK\$307,690,000 which was satisfied by the issuance of 307,690,000 shares of MITH at HK\$1.00 each. In addition, the Company subscribed additional 16,000,000 shares of MITH at HK\$1.00 each. These transactions were subsequently completed on 28 September 2000 and MITH has become an associated company of the Group since then. A gain on disposal of subsidiaries of approximately HK\$79 million was recorded by the Group from such disposal. On 16 November 2000 MITH changed its name to EC-Founder (Holdings) Company Limited, which acts as the flagship of the Group for non-media e-commerce business.

In September 2000 Softbank Finance Corporation, a renowned international venture capital investor, invested 1 billion Japanese yen through its two technology investment funds for approximately 17% interest in Founder International Inc. In October 2000 Mitsubishi Corporation, a renowned international trading tycoon, also invested 146 million Japanese yen for approximately 2.5% interest in Founder International Inc. We expect that we can further explore the Japanese market much more successful with the help of these two partners. As our interest in Founder International Inc was diluted from 100% to approximately 80%, a gain on deemed disposal of subsidiary of approximately HK\$63 million was made by the Group.

Group reorganisation

To allow greater flexibility in formulating the Group's future expansion plan and to enhance the international standing of the Group, the Group was restructured under a scheme of arrangement under which Founder (Hong Kong) Limited became a wholly owned subsidiary of the Company. Since 31 March 2000 the listing of the shares of Founder (Hong Kong) Limited was replaced by the listing of the shares of the Company.

Chairman's Statement

Employees

The total number of employees of the Group as at 31 December 2000 was 2,673 (1999: 2,630), out of which 2,492 (1999: 2,464) employees were stationed in the PRC. The following are the numbers of employees as at 31 December 2000 categorised according to their functions:

Sales and marketing	581
After-sales services	502
Research and development	651
Accounting and finance	134
Administration and management	527
Others	278
	<hr/>
	2,673
	<hr/> <hr/>

Salaries and annual bonuses are determined according to positions and performance of the employees. The Group provides on-the-job training to its employees in addition to retirement benefits schemes and medical insurance. To enable its employees to participate in the growth of the Group, the Company has adopted a share option scheme under which the directors of the Company may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares of the Company.

The Group has encountered no problems with the recruitment or training of its employees. None of the companies in the Group has experienced any labour disputes in the past and the directors of the Company consider that the Group has excellent employment relations.

Prospects and plans for the future

As at 31 December 2000, the major contracts on hand for the software development and systems integration business amounted to approximately HK\$1,162 million, out of which approximately HK\$246 million was not yet completed. The Group has secured additional contracts amounting to approximately HK\$222 million in the first quarter of 2001.

For the media sector, we have committed ourselves to maintain our market leader position in the Chinese electronic publishing systems in the foreseeable future. We will introduce our Eagle RIP System to our western customers and will employ more marketing resources to explore the western market.

Chairman's Statement

Our "e-book" integration system, one of our newly developed products for the media sector, was trial tested by the students of Peking University in December 2000 and the response from the students was encouraging. It is expected that the "e-book" integration system will be introduced to the market in early 2002.

The Group is also developing a number of various industrial and consumer products based on the fingerprint technology developed by Peking University Founder Group Corporation. We expect the fingerprint products will be available for marketing in the second half of 2001.

To cater for the overseas software development and systems integration business, the Group has established additional research and development teams in Zhuhai, Wuhan, Shenzhen and Toronto in late 2000 in addition to that in Beijing.

Through the introduction of new investors, we are planning to restructure the business of the sales of information products. We will expand the operations of our self developed information products but reduce the scale of the sales of non-self developed information products. We will also seek for more opportunities for making profit from the transfer of our self-developed technology such as the profit generated from the transfer of our non-media e-commerce business and technology to MITH in 2000. We expect that such move will improve our profitability in the coming future.

THE FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2000, the Group recorded total assets of approximately HK\$1,484 million which were financed by liabilities of approximately HK\$716 million and equity of approximately HK\$768 million. The Group's net asset value per share as at 31 December 2000 was HK\$0.68 per share as compared to HK\$0.50 per share as at 31 December 1999.

The Group had a total cash and bank balance of approximately HK\$358 million as at 31 December 2000. After deducting bank loans and overdrafts of approximately of HK\$162 million, the Group recorded a net cash balance of approximately HK\$196 million as compared to HK\$169 million as at 31 December 1999. As at 31 December 2000, the Group had a working capital ratio of 1.84 (1999: 1.71) and a long term debt to equity ratio of 0.005 (1999: 0.008) with equity being defined as the total of capital and reserves.

Chairman's Statement

Charges on assets

At 31 December 2000 all the land and buildings in Hong Kong and certain investment properties of the Group and fixed deposits of approximately HK\$42 million were pledged to banks to secure banking facilities granted.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. Cash is generally placed in short term deposits denominated in Hong Kong dollars.

Contingent liabilities

At 31 December 2000 the Company had contingent liabilities in relation to guarantees given to banks in connection with facilities granted to certain subsidiaries amounting to HK\$42 million.

Appreciation

On behalf of the Board of Directors, I would like to take this opportunity to thank our suppliers, customers and bankers for their continuing support and to thank our business partners and all staff for their hard work and dedication in the past year.

Wang Xuan

Chairman

24 April 2001