

# Chairman's Statement

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I herein present the annual report for the results of the Group for the year ended 31 December 2000.

## REVIEW OF OPERATIONS

### Major transaction

As disclosed in the circular dated 9 September 2000 of the Company, the Company entered into several agreements among which included the disposal of Lighting Products businesses to one of the shareholders and the acquisition of the e-Commerce businesses from Founder Holdings Limited ("Founder"). The transactions have been successfully completed and the Group has now re-positioned itself as the "*e-Commerce Enabler*". Not only the Group has transformed into the e-business flagship of Founder in the e-Commerce industry, it has also gained several renowned shareholders who possess world-class reputation in their special field of industry - such as Yahoo! and SuneVision.

### Financial Review

For the year ended 31 December 2000, the turnover of the Group was approximately HK\$259 million, a decrease of approximately 17.7% from last year. The major reason of decrease in turnover was due to the cessation of low value added services of the "passing through" trading of lighting products which amounted to approximately HK\$91 million in 1999. Nevertheless, there was an increase in turnover of approximately 11.2%, which amounted to approximately HK\$249 million, in the sales of electronics product. Such increase was mainly derived from the increase in sales in semi-conductor products. In addition, the new e-Commerce business contributes a total of approximately HK\$10 million in turnover for the results in 2000.

The gross profit margin of the sales of electronics products has suffered from the higher production cost. However, the contributions generated from the high profit margin e-Commerce sector have brought back the Group's overall gross profit margin to approximately 10.6%, which remained stable as compared to 10.9% in 1999.

The decrease in results from operating activities was also affected by the decrease in other revenue and increase in expenses. The decrease in other revenue was mainly due to the non-recurring exceptional bonus income in 1999 which amounted to approximately HK\$19 million. The increase in expenses was due to the increase in operating expenses of the traditional business and the inclusion of e-Commerce business in 2000.

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## **Provision of software solution and e-Commerce services**

In the era of e-business and internet world, the Company decided to diversify from its traditional business into the e-Commerce business. Despite the unexpected downturn of internet businesses, the Group has recorded a turnover of approximately HK\$10 million during the last quarter of 2000. The gross profit margin of this sector was approximately 38% which is significantly higher than the traditional manufacture and sale of electronic products business of an average of 8% to 15%.

During the period under review, the new business sector mainly includes the following business:

- Provision of software solution
  - distribution of Mapinfo software solution in Greater China
  - develope own brand software products for system security - FireGate
  - develope own brand software products for geographical information systems
  
- Provision of internet advertising agency services
  - Exclusive advertising agency of one of the world's leading internet portal - Yahoo! in the PRC
  
- Provision of e-Commerce solution
  
- Provision of web management

## **Manufacture and sale of electronics products**

For the year ended 31 December 2000, the turnover in this sector decreased by approximately HK\$65 million compared to 1999, to approximately HK\$249 million.

An approximately HK\$91 million turnover generated from the "passing through" trading of lighting products to the United States of America was included in 1999. Since this low value added service contributed a merely gross profit margin of around 1.4%, the Group has delegated its resources to other high margin activities.

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Excluding the above factor, on the other hand, the turnover generated from manufacturing and sale of electronics products has actually increased by approximately 11%, ie approximately HK\$249 million in 2000. The increase was mainly came from improvement of sales in Singapore for semi-conductor products due to the successful negotiation with the supplier to increase and secured the punctual supply of quality raw material of production.

The gross profit margin in this sector was lower than last year mainly due to the cost of fuel oil (for the generation of electricity for production) and the cost of plastic (which formed a substantial part of production for weighing scale) have both increased in 2000.

## FUTURE PROSPECTS

### **Manufacture and sale of electronics products**

In order to increase the sales volume in semi-conductor products, the Company has decided to set up a joint-venture in Singapore with Nissho Iwai, one of the major supplier of dices in the semi-conductor business. When the supply of dices is firmly secured, the production capacity can be increased to 3 times of the existing scale. Hence, the management have full confident that the expansion in operation can increase its contribution in this business sector for the future.

### **Provision of software solution and e-Commerce services**

The focus of the Group's e-Commerce sector in the forthcoming year will be summarised as follows:

1. Security Products and Solutions
2. Enterprise Information Solutions
3. Location Based Business Intelligence
4. e-Finance

### **Security Products and Solutions**

Alongside with the rapid development of Information Technology industry in the PRC, information security industry will become the major and high growth sector in the future. In 2000, it was estimated that approximately 10% of network products related to information security products, which represented a market size of approximately RMB 5 billion.

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EC-Founder was appointed by the Beijing 2008 Olympic Bidding Committee to construct its official website and the Company had applied its innovative technology in the development of the website's network security.

On the other hand, EC-Founder is pleased to announce its success as the first company to obtain the highest level of firewall technology certificate which was granted by the PRC Public Security Bureau.

The Company has also successfully developed and launched its security products - FireGate in March 2001. The provision of software solution and services will be carried out through Founder's nation-wide distribution network. On the other hand, the Company has set up a unique "iTornado" environment to carry out various experiments and testing of the security systems.

These impressive results have proved the possession of sound and solid technical abilities by the research team of EC-Founder. Following the launch of FireGate, EC-Founder will join as one of the leaders in the field of information security system and target to rank as the top three security products supplier in the PRC by the end of this year.

## **Enterprise Information Solutions**

In 2000, the Company conducted an in-depth research with over 100 PRC enterprises (mainly in the Pearl River Delta area) which were in the process of computerization. The results indicated that these enterprises have strong demands for better solutions which can improve the progress of computerization. Hence, the Company launched a new concept at the beginning of 2001 known as Enterprise Application Portal ("EAP") and Government Application Portal ("GAP") which provided a better alternative solution for the PRC enterprises who are in the process of computerization. The flexibility to adopt EAP / GAP at any stage of environment provides more freedom to enterprise / Government to choose the progress of computerization compared to the existing ERP system.

The applications of EAP have been adopted by Beijing Founder Electronics Company Limited - one of the top 5 information technology products distributors as well as one of the major subsidiary company of Founder - in the network system : "Netdealer.com". A Hong Kong based company with over 500 distributors which trades mobile phones and communication products had also applied the Company's EAP product in its e-Commerce system.

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In March 2001, the Company held an exhibition in Shenzhen to introduce the Company's EAP / GAP products. With an overwhelming support of attendance of approximately 80 famous enterprises which indicates their interests in the product during the exhibition, it has paved a positive route for the future development of its Enterprise Information Solutions.

## Location Based Business Intelligence

The application of Geographic Information System ("GIS") is one of the major development areas in the tenth 5-years plan by the PRC Government. EC-Founder has developed and launched its own GIS products in March 2001 - *Founder Mirage* v5.0 series (including the standard version, professional version, geographical information version, operation version and map accessories). *Founder Mirage* products series will set a solid foundation to become competitive products in the GIS market.

The Company is licensed as the exclusive distributor of *Mapinfo* products which provides Location Based Business Application that can be applied in a wide range of areas including: logistics systems, management of enterprises' information system, asset management for utilities (such as water, natural gas and electricity). Following to the successful cases of application of *Mapinfo* products such as: the field service dispatch system of "Little Red Hat", the logistic system of Coca-cola and the planning and management of data-line system of Shanghai Telecom; these applications have gained tremendous attentions from enterprises during the recent China International e-Commerce exhibition.

Location Based Services ("LBS") platform technology for mobile internet applications and services is also a focus segment for EC-Founder. The leading technology platform will be launched in the second half of 2001 and the major customers will be mobile operators such as China Mobile and mobile value-added services providers.

## e-Finance

In order to provide system solution for the finance industry, a new e-finance department was set up in the beginning of 2001. With the strong technical background and the fame to provide excellent services, the Company has gained two contracts from the China Construction Bank to provide services in the setting up of a B2B e-Finance platform for its major customer service system. As a first phase project, this internet based platform will enable the bank to provide real-time fund transfers services and to provide transaction clearance services to its stock broking customers such as 銀河證券、山東證券. On the other hand, the platform can assist the bank to extend its banking services to integrate into the enterprises' business. The award of such contracts provides a brilliant start and confident to this new team to increase its contribution to the Group in the future coming years.

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## Conclusion

The Group will continue to develop the well established electronic products business as well as to focus on the four major business directions:

- to become the largest supplier of information security products and solutions in the PRC
- to enhance applications of enterprise information solution to the PRC enterprises
- to develop spatial solution as core intelligence strategic solution
- to develop B2B e-Finance technology and applications

With the full support from Founder and the solid technology foundation of the Group, the Directors have full confidence that the Group will succeed in its aim to position as the "e-Commerce Enabler" and becoming the leading software solution and services provider to government, industries, enterprises and e-Commerce operators in the new internet era.

## LIQUIDITY AND FINANCIAL RESOURCES

### Net Assets

As at 31 December 2000, the Group recorded total assets of approximately HK\$426 million which were financed by liabilities of approximately HK\$173 million and equity of approximately HK\$253 million. The Group's net asset value as at 31 December 2000 increased by approximately 35% to approximately HK\$253 million as compared to approximately HK\$187 million as at 31 December 1999.

### Liquidity

The Group had total cash and bank balances of approximately HK\$98 million as at 31 December 2000 (1999: approximately HK\$28 million). After deducting bank loans and overdrafts of approximately of HK\$42 million (1999: approximately HK\$44 million), the Group recorded a net cash balance of approximately HK\$56 million as compared to net deficit of approximately HK\$16 million as at 31 December 1999. As at 31 December 2000, the Group had both improved the working capital to the ratio of 1.68 (1999: 1.19) and a long term debt to equity ratio of 0.018 (1999: 0.035) with equity being defined as the total of capital and reserves.

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## **Charges on assets**

At 31 December 2000 certain land and buildings in the PRC and overseas of the Group and fixed deposits of approximately HK\$12 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 approximately HK\$47 million.

## **EMPLOYEE AND REMUNERATION POLICIES**

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 Group 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.

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## COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice throughout the accounting period covered by the annual report.

## DETAILED RESULTS ANNOUNCEMENT

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules of the Stock Exchange will be subsequently published on the Stock Exchange's web site in due course.

## APPRECIATION

I would like to express my sincere thanks and appreciation to all my colleagues and all the staff for their loyalty and full support to the Group during the year and looking forwarding to a more prosperous future in the forthcoming year.

**Cheung Shuen Lung**

*Chairman and Executive Director*

Hong Kong, 24 April 2001