

# CHAIRMAN'S STATEMENT

## FINANCIAL RESULTS

The Group's audited consolidated loss after tax and minority interests for the year ended 31 December 2001 amounted to HK\$384 million while turnover for the year ended 31 December 2001 amounted to HK\$1,670 million.

## DIVIDENDS

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATING REVIEW AND PROSPECTS

#### Operating results for the year

#### (A) Software development and systems integration

##### *Media sector*

The Group recorded a decrease of 18% in turnover of the software development and systems integration business in the media sector in 2001 as compared to previous year. The Group also recorded a loss contribution of HK\$54 million in this sector in 2001 as compared to previous year's loss contribution of HK\$36 million before taking account of previous year's gains on disposal of subsidiaries of HK\$82 million and gain on deemed disposal of a subsidiary of HK\$63 million. The holding-up or decreasing capital expenditure for new systems and/or up-grading demands by our customers as a result of the slowdown of the overall global economy in 2001 led to the drop in turnover and the setback of the performance of this sector.

With the support of our strong research and development team, the Group has continued to introduce a number of new products to its customers in 2001. Our new products include Founder Fei-hong Yellow-page Typesetting System (方正飛鴻號簿排版系統), Founder Victory Editorial System for Magazine (方正文采四溢期刊生產系統), Founder Tian-jiao Internet Audio & Video Integrated Solution (方正天驕互聯網視音頻整體解決方案), Founder Tian-yi News Management System for Radio and Television Stations (方正天翼新聞業務管理系統) and various management systems for publishing companies. In April 2001 the Group has also launched its network publishing solutions, Founder Apabi eBook Solutions, which has been well received by many renowned PRC publishers such as Peking University Press (北京大學出版社), Tsinghua University Press (清華大學出版社) and Fudan University Press (復旦大學出版社).

In February 2001 our self-developed Founder GB18030 Char-set Font and Founder Super-set Font (with 56,000 Chinese characters) received a state-level recognition granted by the State News and Publishing Bureau, the State Language Committee and the China National Printing Font Committee. This is the first time for a font product in the PRC to have a state-level recognition after the promulgation of the latest Nation-wide Chinese Character Standard for Computer Usage, GB18030-2000.

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In January 2002 we have streamlined our operating team and have tightened our cost control measures in order to enhance our competitiveness and productivity. Coupled with the on-going introduction of new products to the market, we are confident that we can improve our performance in this sector and maintain our market leader position in Chinese electronic publishing systems.

### ***Non-media sector***

The Group recorded a substantial loss from our software development and systems integration business in the non-media sector for the year ended 31 December 2001. The substantial loss of this sector was principally attributable to the following reasons:

1. Unexpected slow down in sales orders especially from the banking sector, thus resulting in the drop in turnover by 58% if compared to the previous year;
2. Drop in gross margin as a result of severe market competition;
3. Delay in the completion of certain sales contracts, thus leading to the profit of a number of sales contracts not be realised in 2001 as scheduled ;
4. Over-expansion of our operational team, thus resulting in the surge in operating expenses; and
5. Restructuring costs such as severance payments and compensation pay.

In the last quarter of 2001, we started to restructure the management and operation of our non-media business. We have tightened the control over contract management and implemented a number of cost control measures. We have streamlined our operational team and reduced headcount by nearly 50% in order to reduce our operating expenses. In view of the sizable contracts in progress and the implementation of our restructuring program in the last few months, we believe that we can improve our performance in the coming year.

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## **(B) Distribution of information products**

The economy uncertainties have slowed down the corporate demand for information products in 2001. To boom our sales to digest our inventories and to face keen market competition, we suffered from price cut and drop in profitability. The turnover of our distribution business of information products recorded a moderate growth of 5% in 2001 as compared to previous year. However, the drop in gross profit led to the increase in loss contribution from HK\$16 million in previous year to HK\$77 million in 2001.

In mid of 2001, we have implemented an ERP system to monitor our inventories and trade debtors more effectively, thus improving the efficiency of our distribution business. We have achieved great progress on the sales of our own-brand scanner since its introduction to the market in the summer of 2000. At present, our scanner is named as one of the top three best sellers of scanners in the PRC in terms of market share. In late 2001 we adopted various measures such as staff reduction to enhance our competitiveness. The management is of the view that continuous working capital support and further market penetration in terms of business volume and market share are required to strengthen our distribution business. Accordingly, a heads of agreement for the establishment of a joint venture company for our distribution business was signed in December 2001.

## **(C) Provision of e-commerce services**

The provision of e-commerce services is carried out through our associated company, EC-Founder (Holdings) Company Limited ("EC-Founder"). EC-Founder positions itself as a software solutions and service provider on the following areas: (a) network security products and solutions, (b) geographic information system, (c) e-finance and (d) enterprise/government information solutions.

EC-Founder has successfully developed and patented its network security product, FireGate Firewall(方御防火牆) in March 2001 which was the first firewall product in China to pass the stringent tests of the PRC Public Security Ministry (國家公安部), the PLA (軍隊) and the National Security Bureau (國家保密局). In the same month EC-Founder has also launched its self-developed geographic information system, Founder Mirage (方正智繪) which is being used by the China Industrial and Commercial Bank in the PRC. In April 2001 EC-Founder was granted contracts from the China Construction Bank for the development of a business-to-business clearing platform which was substantially completed in late 2001.

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## Employees

The total number of employees of the Group as at 31 December 2001 was 2,520 (2000: 2,673), out of which 2,278 (2000: 2,492) employees were stationed in the PRC. The following are the numbers of employees as at 31 December 2001 catergorised according to their functions:

Sales and marketing	605
After-sales services	264
Research and development	935
Accounting and finance	218
Administration and management	424
Others	74
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	2,520
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Salaries and annual bonuses are determined according to positions and performance of 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.

## Contracts on hand

As at 31 December 2001, the major contracts on hand for the software development and systems integration business amounted to approximately HK\$444 million, out of which approximately HK\$388 million was not yet completed.

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## FINANCIAL REVIEW

### Liquidity and financial resources

As at 31 December 2001, the Group recorded total assets of approximately HK\$1,096 million which were financed by liabilities of approximately HK\$688 million and equity of approximately HK\$408 million. The Group's net asset value per share as at 31 December 2001 was HK\$0.36 per share as compared to HK\$0.68 per share as at 31 December 2000.

The Group had a total cash and bank balance of approximately HK\$306 million as at 31 December 2001. After deducting bank loans and overdrafts of approximately of HK\$181 million, the Group recorded a net cash balance of approximately HK\$125 million as compared to HK\$196 million as at 31 December 2000. As at 31 December 2001, the Group had a working capital ratio of 1.37 (2000: 1.84) and a current liabilities to equity ratio of 1.61 (2000: 0.89) with equity being defined as the total of capital and reserves.

### Charges on assets

At 31 December 2001 all the land and buildings in Hong Kong and certain investment properties of the Group and fixed deposits of approximately HK\$42.8 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 2001 the Company had contingent liabilities in relation to guarantees given to banks in connection with facilities granted to certain subsidiaries amounting to approximately HK\$59 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*

23 April 2002