

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERALL PERFORMANCE

The Group's audited consolidated loss after tax and minority interests for the year was narrowed by 28.5% to HK\$274.5 million (2001: HK\$384.0 million). If the impairment of goodwill of HK\$189.1 million (2001: HK\$30.3 million) was excluded, the Group's loss was in fact reduced from HK\$353.7 million to HK\$85.4 million. The Group recorded a drop in turnover during the year by 14% to HK\$1,442.0 million (2001: HK\$1,669.9 million). For the two years under review, gross profit percentage improved to 17.9% (2001: 5.2%). The implementation of various cost control measures and restructuring exercises since the last quarter of 2001 resulted in significant reduction of selling and distribution costs and administrative expenses by 11% and 29% respectively if compared to 2001.

## OPERATING REVIEW AND PROSPECTS

### (A) Software development and systems integration

#### *Media sector*

The turnover of the software development and systems integration business in the media sector for the year increased by 18% to HK\$573.9 million (2001: HK\$487.2 million) while its contribution to loss from operating activities for the year recorded a profit of HK\$6.1 million (2001: loss of HK\$41.0 million).

The situation of 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 had extended to the first half of 2002. The situation however was slightly improved in the second half of 2002, thus led to the increase in turnover of this sector. During the year, we have strengthened the promotion campaign of our network publishing total solutions, Founder Apabi e-Book Solutions (which include Apabi Maker, Apabi Writer, Apabi Rights Server, Apabi Retail Server and Apabi Reader), through nationwide seminars and exhibitions to promote its application in e-Library. Up to date, over two hundred publishers have used our Apabi Solutions to produce e-books and over two hundred libraries have used our Apabi Solutions to manage their e-libraries. The Group has continued to devote to our research and development activities for our traditional digital publishing and commercial printing business and has introduced to the market a number of new/up-graded products using the frontier technologies. Through our efforts in the past few years, we have also established our leading position in the Chinese broadcasting control system, news production management system and digital storage and search system for television stations in the PRC.

#### *Non-media sector*

The turnover of the software development and systems integration business in the non-media sector for the year increased by 24% to HK\$302.1 million (2001: HK\$243.8 million) while its loss from operating activities for the year was narrowed substantially by 95% to HK\$8.4 million (2001: HK\$172.1 million).

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The increase in turnover in 2002 was mainly attributable to the completion of contracts brought forward from previous years. In 2002, market competition in the systems integration business for the banking and securities industries in the PRC was still severe, thus resulted in drop in profitability for new contracts. Since the last quarter of 2001, we have 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 programs. In 2002 we have further streamlined our operational team and reduced its headcount by nearly 30%. All our efforts have resulted in the substantial reduction in operating expenses by 44% and the improvement in the performance of our non-media business in the year under review.

Our restructuring exercise helps us to establish a stable management team and has improved our operational efficiency to face the keen market competition. We are confident that our performance will further improve in the near future.

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

The turnover of the distribution business of information products for the year decreased by 43% to HK\$514.6 million (2001: HK\$895.8 million) as the corporate demand for information products was still low. Its loss from operating activities for the year was substantially narrowed by 73% to HK\$20.7 million (2001: HK\$77.3 million).

During the first half of 2002, substantial restructuring and re-engineering was carried out which temporarily adversely affected the performance of our distribution business of information products. Great efforts were made by the management to clear up excessive inventories accumulated from last year and to chase up settlement from overdue debtors. Comprehensive inventory and credit control systems have been implemented during the year of 2002, thus resulted in the substantial improvement in inventories and trade receivables in term of reduction in amount and improvement in aging. Logistic process was also strengthened to reduce costs and to enhance efficiency.

## **(C) Provision of software solutions and services**

Our major associate, EC-Founder (Holdings) Company Limited ("EC-Founder"), positions itself as a software solutions and service provider on the following business sectors: (a) information security, (b) geographic information system, (c) e-finance and (d) enterprise/government information.

EC-Founder was still facing fierce competition in the PRC market for its software business in 2002. The turnover of its software business in 2002 decreased slightly if compared to last year. The company's brand name has been well recognised by the market since the initial launch of its information security products in 2001. Through sales agent network of EC-Founder, the clients of its information security products have reached nationally in the PRC. In 2002 it has also completed the project of "Key Client Service System" for China Construction Bank and a number of geographic information system projects for major oil and petroleum companies, telecommunication service providers, and the government forest management bureau in the PRC.

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## 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 Company adopted a new share option scheme in compliance with Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at the last annual general meeting held on 24 May 2002.

Following the streamlining of the workforce of the Group in the first quarter of the year, the number of employees of the Group fell by 22% from 2,520 as at 31 December 2001 to 1,968 as at 31 December 2002.

## FINANCIAL REVIEW

### Liquidity, financial resources and capital commitments

As at 31 December 2002, the Group recorded total assets of HK\$812.1 million which were financed by liabilities of HK\$471.9 million, minority interests of HK\$15.7 million and shareholders' equity of HK\$324.5 million. The Group's net asset value per share as at 31 December 2002 amounted to HK\$0.29 per share as compared to HK\$0.36 per share as at 31 December 2001.

The Group had a total cash and bank balance of HK\$242.1 million as at 31 December 2002. After deducting total borrowings of HK\$33.2 million, the Group recorded an improved net cash balance of HK\$208.9 million as compared to HK\$125.5 million as at 31 December 2001. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and revolving trust receipt loans. As at 31 December 2002, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.10 (31 December 2001: 0.44) while the Group's working capital ratio was 1.40 (31 December 2001: 1.37).

As at 31 December 2002, 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 and Renminbi. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars.

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## **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 Hong Kong dollars and Renminbi. 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**

As at 31 December 2002, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$241 million (31 December 2001: approximately HK\$321 million), which are all expected to be completed within one year time.

## **Material acquisitions and disposals of subsidiaries and associates**

During the current year under review, the Group had not acquired any subsidiaries and associates. On 8 April 2002, the shares of the Group's 49% associate, PUC Founder (MSC) Berhad, were listed on the Malaysian Exchange of Securities of Dealing and Automated Quotation Market of the Kuala Lumpur Stock Exchange. Two million new ordinary shares were offered to the public and were oversubscribed by 5.5 times. The Group's interest in the share capital of PUC Founder (MSC) Berhad after the initial public offer was diluted to 35.9% and the Group recorded a gain on the deemed partial disposal amounting to approximately HK\$3.7 million.

As announced on 10 December 2001, the Group had entered into a heads of agreement in relation to the establishment of a joint venture company in the PRC to engage in the business of systems integration and the development and distribution of computer-related hardware and software. Since none of the pre-conditions of the agreement was satisfied on or before the prescribed time, the agreement was therefore terminated on 3 July 2002.

## **Charges on assets**

At 31 December 2002, all the Group's land and buildings and investment properties in Hong Kong and fixed deposits in total of HK\$25.7 million were pledged to certain banks in Hong Kong to secure banking facilities granted.

## **Contingent liabilities**

At 31 December 2002, the Company had contingent liabilities in relation to guarantees given to banks and suppliers in connection with facilities granted to certain subsidiaries amounting to approximately HK\$85 million and HK\$112 million, respectively.

At 31 December 2002, the Group had contingent liabilities in relation to bills discounted with recourse amounting to approximately HK\$2 million.