

CHAIRMAN'S STATEMENT

I herein present the annual report for the results of the Group for the year ended 31 December 2002.

OVERALL PERFORMANCE

The turnover for the year ended 31 December 2002 decreased by 5.9% to approximately HK\$311.9 million compared to last year turnover of approximately HK\$331.5 million and the gross profit for the year ended 31 December 2002 decreased by approximately 5.6% to approximately HK\$53.5 million compared to last year gross profit of approximately HK\$56.6 million. The decrease was mainly due to decrease in turnover and gross profit of Electronic component business, which was disposed of in June 2002 and increase in turnover and gross profit of Electronic products business.

The net loss attributable to shareholders for this year increase to approximately HK\$85.4 million compared to last year's net loss of approximately HK\$69.0 million. The major reason was due to the accounting treatment of goodwill which required the Group to recognise the impairment of goodwill, an amount of HK\$36.5 million, in current years' profit and loss account which has been previously written off in the Group's reserve. If the effect of impairment of goodwill was excluded, the net loss for current year was approximately HK\$48.9 million which was approximately 29.1% less than the net loss in 2001.

OPERATING REVIEW AND PROSPECTS

(A) Software solutions and services business

The turnover of software solutions and services business ("Software business") for the year decreased slightly by approximately 3.9% to approximately HK\$70.8 million (2001: HK\$73.7 million) and segmental loss increased slightly by approximately 1.9% to approximately HK\$35.7 million (2001: loss of HK\$35.0 million).

The Software business was still facing fierce competition in the PRC market and due to internal senior management restructure, the turnover in 2002 decreased slightly by approximately 3.9% than last year. The Group has cautiously reduced the operating expenses by: streamlined the departmental structure and reduced the headcount by approximately 5%, less marketing expenses were incurred after previous year's first launch of information security products and other tight controls on operation expenses were implemented. Although the operating loss was reduced, some expenses related to the internal restructure to close down those non-core and loss making companies were incurred. As a result, the segment loss in 2002 was slightly higher by approximately 1.9% compared to 2001.

The major business sectors of Software business are:

- Information Security (信息安全)
- Geographic Information System (地理信息系統)
- E-Finance (電子金融)
- Enterprise/Government Information (企業/政府信息化)

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OPERATING REVIEW AND PROSPECTS *(Continued)*

Information Security

Since March 2001 the Group launched its self developed product – *Founder FireGate* (方正方御防火牆) and through the sales agent network, have reached nationally in the PRC and in particular, the product was well accepted by the Chinese Government and The People's Bank of China (中國人民銀行). There were frequent visits from the government officials to the Group to discuss the latest development on information security systems. Government bureaus have granted the Group several high standard official certificates to credit the competence and expertise in the field of information security. The Group will continue to launch new versions of information security products and to position itself as one of the leading experts in such field.

Geographic Information System

The Group distributes Geographic Information System (GIS) products through various channels and provides solutions and services which mainly focused in providing information to the management in the area of location based intelligence that combines managerial and financial data with spatial information.

Supported by a strong technical team of engineers, the Group has completed various projects for a large clientele. Such major industries includes:

- oil & petroleum & resources
- telecommunication service provider
- radio broadcast station
- logistic intelligence and management chain enterprise
- government forest management bureau (林業管理局)
- historical relic bureau (文物局)

As the GIS products are widely accepted by various industries and enterprises, the Group will carry on to achieve steady growth in this sector.

E-Finance

The Group completed the project of "Key Client Service System" (重要客戶服務系統) for the China Construction Bank (中國建設銀行) as scheduled and it was well accepted by the client. Such system was commented as the leading electronic banking system in one of the most important exhibition show among the financial institution industry – "China International Finance Product Exhibition" (中國國際金融商品展覽會) which was held in May 2002.

In light of e-banking will be the future path of most financial institutions, the Group has set itself ready to serve its customers with best expertise.

Enterprise/Government Information

The Group completed various projects for enterprises and government in last year and as more government bureaus will computerize both their internal and external systems (電子政務化) in the future, the Group will likely to benefit from its background and competent technical skills.

Hence, the Group will focus and utilize its resources to further develop the Software business.

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OPERATING REVIEW AND PROSPECTS *(Continued)*

(B) Electronic products business

The turnover of Electronic products business for the year increased by approximately 13.6% to approximately HK\$192.8 million (2001: HK\$169.8 million) and segmental profit decreased by approximately 17.6% to approximately HK\$3.9 million (2001: profit of HK\$4.7 million).

The growth in the turnover was mainly related to the increase in sales volume in the America market. However, the segment results were worsened by approximately 17.6% than last year due to increase in operating costs.

(C) Electronic components business

The turnover of Electronic components business for the year decreased by approximately 45.1% to approximately HK\$48.3 million (2001: HK\$88.0 million) and segmental loss decreased by approximately 16.8% to approximately HK\$19.4 million (2001: loss of HK\$23.4 million).

The decrease in turnover was due to the disposal of the business in June 2002 and the Group has completed the disposal on 28 June 2002.

MAJOR ACQUISITION

On 19 March 2003, the Company entered into a conditional sale and purchase agreement (the "Agreement") with Founder (Hong Kong) Limited ("FHK"), a wholly-owned subsidiary of Founder Holdings Limited ("FHL"), the controlling shareholder of the Company holding approximately 39.45% interest. Pursuant to the Agreement, the Company will acquire the entire interests in Founder Century (Hong Kong) Limited ("HK Century") and Beijing Founder Century Information System Co., Ltd ("PRC Century") from FHK. Such transaction will be subject, among other things, to the approval by independent shareholders of the Company. Further details of the transaction were set out in the joint announcement of the Company and FHL on 19 March 2003.

The principal activities of HK Century and PRC Century are distribution of information products in Hong Kong and the PRC and the products distributed include, among other things, servers, workstations and networking products of various international brand names.

Capitalised on the expertise of the Software business, the Group will be able to further expand the business of HK Century and PRC Century by offering software applications developed by the Software business to the clients in order to provide a total solution. On the other hand, the vast distribution network and channels of HK Century and PRC Century will magnify the opportunities of Software business to market its software products and solicit potential customers.

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LIQUIDITY AND FINANCIAL RESOURCES

Net Assets

At 31 December 2002, the Group recorded total assets of approximately HK\$221.9 million which were financed by liabilities of approximately HK\$85.3 million and equity of approximately HK\$136.6 million. The Group's net asset value as at 31 December 2002 decreased by approximately 25.9% to approximately HK\$136.6 million as compared to approximately HK\$184.4 million as at 31 December 2001.

Liquidity

The Group had total cash and bank balances of approximately HK\$62.9 million as at 31 December 2002 (2001: approximately HK\$118.0 million). After deducting bank loans and overdrafts of approximately HK\$12.2 million (2001: approximately HK\$65.9 million), the Group recorded a net cash balance of approximately HK\$50.7 million as at 31 December 2002 as compared to approximately HK\$52.1 million as at 31 December 2001. As at 31 December 2002, the Group's working capital ratio was 1.79 (2001: 1.49) and a long term debt to equity ratio of 0.4% (2001: 1.1%) with equity being defined as the total of capital and reserves.

Charges on Assets

At 31 December 2002, the land and building situated overseas of the Group and fixed deposits of approximately HK\$2.5 million and approximately HK\$7.8 million respectively, 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. 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.

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 turnover of the Group are mainly denominated in Hong Kong dollars, Renminbi and United States dollars. As the exchange rates of United States dollars and Renminbi against Hong Kong dollars 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.

Contingent liabilities

At 31 December 2002, the Company had contingent liabilities in relation to guarantees given to banks in connection with facilities granted to certain subsidiaries amounting to approximately HK\$35 million.

At 31 December 2002, the Company and the Group had contingent liabilities in relation to guarantees given to trade creditor in connection with credit facilities granted to related companies amounting to approximately HK\$28 million.

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EMPLOYEE AND REMUNERATION POLICIES

As of 31 December 2002, the Group had approximately 230 and 1,480 employees for the Software business and Electronic products business, respectively. These employees of which approximately 97% work in the Mainland China and 3% work in Hong Kong and elsewhere, respectively. The Company has also established a share option scheme and the share options are granted at Directors' discretion to motivate and reward the employees with outstanding performance.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, 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 the requirements of the Code throughout the accounting year 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 will be subsequently published on The Stock Exchange of Hong Kong Limited web site in the due course.

Zhang Zhao Dong
Chairman

Hong Kong, 24 April 2003