

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

The Group's audited consolidated profit after tax and minority interests for the year ended 31 December 2003 amounted to HK\$7,215,000 (2002: loss of HK\$275,844,000). The Group recorded a moderate increase in turnover during the year by approximately 8% to HK\$1,553.8 million (2002: HK\$1,442.0 million). For the two years under review, gross profit percentage maintained at approximately 17.8%. Our cost control measures implemented in early 2003 further reduced our selling and distribution costs and administrative expenses by approximately 7% and 3% respectively if compared to 2002.

Impairment of goodwill was substantially reduced from HK\$189.1 million in 2002 to HK\$2.5 million in 2003. As a result of business restructuring, the electronic products business was disposed of in September 2003, thus resulting in a non-recurring loss on disposal of HK\$13.3 million and an impairment of fixed assets of HK\$3.8 million. If those exceptional losses were excluded, the Group would record a profit from operating activities of HK\$12.9 million rather than a loss of HK\$6.6 million.

Basic earnings per share for the year was HK0.6 cents (2002: loss of HK24.5 cents).

OPERATING REVIEW AND PROSPECTS

In 2003, we have implemented a series of actions to improve our operations. More effort and resources were devoted to new product development and new market exploration. Loss making or low margin businesses have been scaled down or terminated. Resources were re-allocated in order to enhance our competitiveness and productivity. Despite the harsh business environment caused by the outbreak of SARS in the first half of 2003, we still achieved a satisfactory improvement in our performance and all our three major business segments recorded segmental profit for the current year under review.

(A) Software development and systems integration for media sector

The turnover of the software development and systems integration business for the media sector for the current year maintained at HK\$571.9 million (2002: HK\$573.9 million) while its segment results significantly improved to a profit of HK\$23.9 million (2002: HK\$6.7 million).

Our flagship subsidiary, Beijing Founder Electronics Co., Ltd. was ranked as one of five most competitive PRC software enterprises in 2003. In November 2003, our Founder Apabi Digital Rights Management System has won the Award of Significant Technology and Invention (重大技術發明獎) from the Ministry of Information Industry. We have continued to strengthen the promotion campaign of our network publishing total solutions, Founder Apabi e-Book Solutions, in the PRC and to devote to our research and development activities for our traditional digital publishing and commercial printing business.

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For overseas market, we had completed the development and installation of the publishing systems for Nikkan Sports Printing Co., Ltd. in Japan and Singapore Press Holdings Limited in Singapore in 2003. Sales for our publishing solutions to western countries have also grown satisfactory in the recent years and annual sales exceeded US\$1 million in 2003.

In the past few years, to respond to the rapid development of internet and e-business, we have devoted our research and development resources to our E-Media strategy. Other than our traditional digital publishing and commercial printing technologies, we now also have our self-developed technologies in the area of digital rights protection, digital asset management and digital printing on-demand. As a leading professional software developer, we continue to promote the production and dissemination of digital information in the field of multi-media and trans-media.

(B) Software development and systems integration for non-media sector

The turnover of the software development and systems integration business in the non-media sector for the year decreased by 42% to HK\$175.8 million (2002: HK\$302.1 million) while its segment results resumed a profit of HK\$2.5 million (2002: loss of HK\$8.4 million).

Market competition in the systems integration business for the banking and security industries in the PRC was still severe during the year under review, turnover for the year was lower than expected. Other than our traditional sales in the banking and security sectors, we have also achieved satisfactory growth in sales in the government sector in the area of taxation, postal and security. We have further streamlined our operational team and tightened the control over operating expenses, thus improving our operational efficiency to face the keen market competition. Equipped with the Class One Computer Information Systems Integrator (一級計算機信息系統集成資質) status from the Ministry of Information Industry and the Gold Certified Partner (金牌認證伙伴) status with Cisco Systems, we are confident to gain more contracts from networking information system projects in the coming years.

(C) Distribution of information products

Our substantial restructuring and reengineering exercise in 2002 laid a solid foundation for the future development of our distribution business of information products. The turnover of the distribution business of information products for the year increased by 47% to HK\$756.8 million (2002: HK\$514.6 million) while its segmental results for the year recorded a profit of HK\$6.9 million (2002: loss of HK\$20.7 million).

The distribution business has gained its ranking from the 11th place in 2002 to the 7th place in 2003 among the top 100 distributors of information products in the PRC. Besides the headquarters in Beijing, the Group has established branch offices in Shanghai, Guangzhou and Chengdu and various representative offices in a number of cities in the PRC.

The internal demand for IT products in the PRC will remain strong as the PRC's gross domestic products is expected to continue to increase at an annual growth rate of approximately 7% to 8% for the next ten years. In addition, after PRC's accession into the World Trade Organisation and the running up of the Olympic Games of 2008 in Beijing, it is expected that the PRC IT industry will achieve a double digit compound annual growth rate over the next five years. In 2004, we have planned to expand our distribution network by establishing more offices throughout the PRC in order to capture the considerable development potential in the IT industry in the future.

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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 has not granted any share options during the year.

Although the workforce of the Group was further streamlined in the first quarter of the year, the number of employees of the Group increased by 6% to approximately 2,080 as at 31 December 2003 as a result of the additional headcount contributed by the subsidiaries acquired during the year.

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

At 31 December 2003, the Group recorded total assets of HK\$960.7 million which were financed by liabilities of HK\$532.0 million, minority interests of HK\$86.7 million and equity of HK\$342.0 million. The Group's net asset value per share as at 31 December 2003 amounted to HK\$0.3 (2002: HK\$0.3) per share.

The Group had a total cash and bank balance of HK\$323.7 million as at 31 December 2003. After deducting total borrowings of HK\$5.5 million, the Group recorded a net cash balance of HK\$318.2 million as at 31 December 2003 as compared to HK\$208.9 million as at 31 December 2002. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and revolving trust receipt loans. At 31 December 2003, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.02 (31 December 2002: 0.10) while the Group's working capital ratio was 1.53 (31 December 2002: 1.40).

At 31 December 2003, 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, Renminbi and United States dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars, Renminbi and United States 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 and United States dollars while the sales of the Group are mainly denominated in Renminbi and United States dollars. 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

At 31 December 2003, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$162.1 million, which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 19 March 2003, Founder (Hong Kong) Limited ("Founder HK"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with EC-Founder (Holdings) Company Limited ("EC-Founder"), the then 39.45% owned associated company of the Company, for the disposal of Founder HK's entire equity interests in Founder Century (Hong Kong) Limited and Beijing Founder Century Information System Co., Ltd., both of which are engaged in the distribution business of information products. The disposal was completed on 1 July 2003. EC-Founder became an approximately 54.85% owned subsidiary of the Company upon the completion of the disposal.

On 1 August 2003, EC-Founder entered into a conditional disposal agreement for the disposal of the entire issued share capital of MIT Holdings Limited at a total cash consideration of HK\$45.5 million. MIT Holdings Limited and its subsidiaries are engaged in the electronic products business. The disposal was completed on 26 September 2003, resulted into an exceptional loss on disposal of subsidiaries amounting to HK\$13.3 million.

Charges on assets

At 31 December 2003, all the Group's land and buildings and investment properties in Hong Kong of approximately HK\$28.5 million and fixed deposits of approximately HK\$41.1 million were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 31 December 2003, 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\$45 million and HK\$15.6 million respectively.

At 31 December 2003, the Group had contingent liabilities in relation to bills discounted with recourse amounting to approximately HK\$3.7 million.