

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERALL PERFORMANCE

The Group's audited consolidated loss after tax and minority interests for the year ended 31 December 2004 amounted to HK\$27,183,000 (2003: profit of HK\$7,215,000). The Group recorded a satisfactory increase in turnover during the year by approximately 30% to HK\$2,013.8 million (2003: HK\$1,553.8 million). For the two years under review, gross profit percentage dropped from 17.8% in 2003 to 13.7% in 2004 as a result of the increase in sales of the distribution business of information products which had a much lower gross profit percentage if compared to the software development and systems integration business. The increase in sales in the current year led to the increase in the selling and distribution costs and administrative expenses by approximately 19% and 8% respectively.

Basic loss per share for the year was HK2.4 cents (2003: profit of HK0.6 cents).

### OPERATING REVIEW AND PROSPECTS

In 2004, the Group had implemented a series of actions to restructure its operations. Loss making or low profit margin businesses have been scaled down or terminated. Resources were re-allocated in order to enhance the Group's competitiveness and productivity. More effort and resources were devoted to new product development and new market exploration. The management foresees that the Group's restructuring exercise will continue in the coming year.

#### (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 increased moderately by 10% to HK\$630.6 million (2003: HK\$571.9 million) while its segment results recorded an encouraging profit of HK\$25.0 million (2003: HK\$23.9 million).

In the past few years, tremendous effort and resources were put into the restructuring of the media business. In 2003, the media business already resumed to profit-making. In the current year under review, the performance of this business segment was further improved. Besides the traditional graphic arts and e-publishing software solutions for the needs of newspaper and publishing houses, the network publishing total solutions, Founder Apabi e-Book Solutions, are well applied to e-library and e-books. More resources have been devoted to the development of the e-book business. In addition, the new product, Founder EasiPrint Digital Printing System, was well received by the market since its launch in December 2003. The management expects that this new printing system will be another milestone in printing technology for digital printing and will contribute to the growth of the media business of the Group in the near future.

The sales of publishing solutions to western countries also recorded a satisfactory growth in 2004. More staff and agents were employed to explore the market in the United States and Europe. A number of projects are being negotiated with potential customers. The management foresees the sales to western countries will increase significantly in the coming years.

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### (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 increased by 4% to HK\$183.3 million (2003: HK\$175.8 million) while its segment results recorded a significant loss of HK\$39.5 million (2003: profit of HK\$2.5 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 and profit margins were further narrowed down. Although the management has further streamlined the operational team and tightened the control over operating expenses of this business sector, this business still recorded a significant loss in 2004. In light of the continuing loss-making position of the firewall business, the Group had already disposed of such business in December 2004. The management will closely monitor the performance of the remaining non-media business units in the coming year and will take all necessary actions to minimise the loss of this business segment.

### (C) Distribution of information products

The turnover of the distribution business of information products for the year increased by 57% to HK\$1,187.2 million (2003: HK\$756.8 million) while its segmental results for the year recorded a profit of HK\$7.4 million (2003: HK\$6.9 million). The improvement in the performance of the distribution business was mainly attributable to:

1. increase in product range and suppliers;
2. expansion of distribution network; and
3. tight control on operating costs, trade receivables and inventories.

Although the Group recorded an encouraging growth in the sales of information products in the past two years, the Group is also facing to the potential risk caused by the increase in inventories and trade receivables. In addition, more and more working capital fund is required for the further development of the distribution business.

Besides the headquarters in Beijing, the Group has established 14 branch offices/representative offices in Shanghai, Guangzhou, Chengdu, Shenyang, Shenzhen, Jinan, Nanjing, Wuhan, Hangzhou, Xian, Guiyang, Xizang Zizhiqu, Fuzhou and Harbin. In June 2004, PRC Century was ranked the 6th place (2003: 7th) among the top 100 information product distributors 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 had granted 90 million share options to the eligible directors and employees of the Group during the year.

There was no significant change in the workforce of the Group in the current year. The number of employees of the Group as at 31 December 2004 was approximately 2,020 (31 December 2003: 2,080).

## FINANCIAL REVIEW

### Liquidity, financial resources and capital commitments

At 31 December 2004, the Group recorded total assets of HK\$1,086.5 million (31 December 2003: HK\$960.7 million) which were financed by liabilities of HK\$677.1 million (31 December 2003: HK\$532.0 million), minority interests of HK\$93.8 million (31 December 2003: HK\$86.7 million) and equity of HK\$315.6 million (31 December 2003: HK\$342.0 million). The Group's net asset value per share as at 31 December 2004 amounted to HK\$0.28 (31 December 2003: HK\$0.30).

The Group had a total cash and bank balance of HK\$323.5 million as at 31 December 2004. After deducting total borrowings of HK\$15.9 million, the Group recorded a net cash balance of HK\$307.6 million as at 31 December 2004 as compared to HK\$318.2 million as at 31 December 2003. The Group's borrowings, which are subject to little seasonality, consist of mainly revolving trust receipt loans. As at 31 December 2004, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.05 (31 December 2003: 0.02) while the Group's working capital ratio was 1.41 (31 December 2003: 1.53).

At 31 December 2004, 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.

### 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.

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### Contracts

At 31 December 2004, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$229.4 million (31 December 2003: HK\$162.1 million), which are all expected to be completed within one year time.

### Material acquisitions and disposals of subsidiaries and associates

On 31 March 2004, Beijing Founder Electronics Co., Ltd., a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement for the disposal of its 30% interest in Beijing PeCan Information System Inc.. The disposal was completed in June 2004 and a profit of approximately HK\$4.3 million was recorded.

As part of the restructuring exercise of the Group, Founder International Inc. partially disposed of its equity interest in Power Print Inc., thus reducing its interest from 75.1% to 33.4% in May 2004. A loss of approximately HK\$0.8 million was resulted from the partial disposal. In addition, the Group completed the disposal of its entire equity interest in EC-Founder Co., Ltd., thus resulted into a gain on disposal of subsidiary of approximately HK\$3.3 million.

The Group did not have any material acquisitions in the year under review.

### Charges on assets

At 31 December 2004, all the Group's land and buildings and investment properties in Hong Kong of approximately HK\$31.6 million and fixed deposits of approximately HK\$61.8 million were pledged to banks to secure banking facilities granted.

### Contingent liabilities

At 31 December 2004, 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\$23.4 million respectively.

At 31 December 2004, the Group did not have any significant contingent liabilities.