

OVERALL PERFORMANCE

The Group reported an audited consolidated profit after tax and minority interests for the year ended 31 December 2005 of approximately HK\$47.9 million (2004: loss of HK\$27.2 million). The Group's turnover for the current year increased by 29% to approximately HK\$2,593.9 million (2004: HK\$2,013.8 million). For the two years under review, gross profit percentage dropped from 13.7% in 2004 to 11.9% in 2005 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 business of software development and systems integration. Despite the significant increase in sales in the current year, the selling and distribution costs and the administrative expenses recorded a moderate decrease if compared to last year, as a result of our control over operating expenses. The increase in the net other expenses was mainly due to an exceptional write-back of other receivables last year.

Basic earnings per share for the year was HK4.3 cents (2004: basic loss per share HK2.4 cents).

OPERATING REVIEW AND PROSPECTS

(A) Software development and systems integration for media sector

The turnover of the software development and systems integration business in the media sector for the current year decreased by 19% to approximately HK\$510.1 million (2004: HK\$630.6 million) while its segmental results recorded a profit of approximately HK\$15.1 million (2004: HK\$25.0 million).

This business segment recorded a drop in profit for the year because the Group has allocated more resources for new product development and market exploration. Based on our prize-award technology, Founder Apabi Digital Right Management System, a series of new products, such as e-Library, e-Book, e-Document and e-Chop, has been developed. Our e-Library System has been applied to more than 1,300 libraries and 450 universities in the PRC and overseas. Over 400 publishing houses have cooperated with us for the production of e-books using our network publishing total solutions, Founder Apabi e-Book Solutions. At the end of March 2006, we have produced over 210,000 e-books which are being offered to the retail market through our own on-line bookshop "esoushu.com" (搜書網) and more than 20 portals. In addition, we have worked with a number of manufacturing partners for the development of e-book readers. Besides our traditional graphic arts and e-publishing software solutions for the needs of newspaper and publishing houses, our new product, Founder EasiPrint Digital Printing System, was also well received by the market. More and more partners have joined our franchising digital printing shops. At present, we have over hundred franchising digital printing shops over different provinces in the PRC. Recently, we have established a subsidiary in Belgium to capture the European market for our graphic arts and e-publishing software solutions. Although we are still in the investing stage of the above new businesses and products, we are confident that the costs incurred now will bring us a fruitful return in the coming future.

(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 current year increased by 2% to approximately HK\$186.6 million (2004: HK\$183.3 million) while its segmental loss recorded a significant improvement to approximately HK\$1.6 million (2004: HK\$39.5 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. Profit margins were further narrowed down. As resulted from further restructuring of our operational team and business units and control of operating expenses, the loss of this business sector narrowed down by 96% if compared to last year. The management will closely monitor the performance of this business sector and will take all necessary actions to minimise its loss and to improve its performance.

(C) Distribution of information products

The turnover of the distribution business of information products for the current year increased by 58% to approximately HK\$1,876.7 million (2004: HK\$1,187.2 million) while its segmental profit increased by 180% to approximately HK\$20.8 million (2004: HK\$7.4 million).

Despite recorded a satisfactory performance in 2005, our distribution business is still faced with severe competition and declining gross profit margin. Operating in a strong competition environment, the drive to maintain a high rate of growth through opening more branch offices/representative offices in the PRC would require more working capital to support the distribution channel. The Group envisaged that working capital management and cost control will be vital to the future growth of our distribution business. At present, the Group has developed an efficient and effective distribution channel and network with branch offices/representative offices spanning 14 major cities in the PRC.

With the continued effort to enrich and explore the depth of products for distribution, the Group is also dedicated to develop a closer relationship with the upstream vendors and the downstream customers such as the second tier distributors and systems integrators for greater understanding of the market situation. Our subsidiary, Beijing Founder Century Information System Co., Ltd. ("Founder Century") has been awarded by various upstream vendors such as HP and Huawei-3Com for its excellent distribution services in terms of distribution channel, coverage, growth and overall performance in the PRC. Founder Century was also ranked the 5th place in 2005 by Computer Partner World (電腦商報) of the PRC among the top 200 information products distribution enterprises in the PRC's information products distribution business and the 6th and 7th places by China Information World (中國計算機報) in 2005 as one of PRC's top 100 largest and top 100 dominant information products distributors respectively.

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 Group had not granted any share options to its eligible directors and employees during the current year.

In the current year, the moderate increase in the headcount for the Group's media and distribution businesses in the PRC was totally offset by the decrease in the headcount for the Group's non-media business and the disposal of the Group's media business in Japan in June 2005. At 31 December 2005, the number of employees of the Group was approximately 1,880 (31 December 2004: 2,020).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

At 31 December 2005, the Group recorded total assets of HK\$1,322.5 million which were financed by liabilities of HK\$851.6 million, minority interests of HK\$102.6 million and equity of HK\$368.3 million. The Group's net asset value per share as at 31 December 2005 amounted to HK\$0.33 (31 December 2004: HK\$0.28).

The Group had a total cash and bank balance of HK\$487.4 million as at 31 December 2005. After deducting total bank borrowings of HK\$40.6 million, the Group recorded a net cash balance of HK\$446.8 million as at 31 December 2005 as compared to HK\$307.5 million as at 31 December 2004. The Group's borrowings, which are subject to little seasonality, consist of mainly short term revolving trust receipt loans and bank loan. As at 31 December 2005, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.11 (31 December 2004: 0.05) while the Group's working capital ratio was 1.39 (31 December 2004: 1.41).

At 31 December 2005, 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, Renminbi 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 2005, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$148.1 million (31 December 2004: HK\$229.4 million), which are all expected to be completed within one year time.

Material acquisitions and disposals of subsidiaries and associates

On 7 February 2005, Founder (Hong Kong) Limited ("Founder HK"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Founder Information (Hong Kong) Limited ("Founder Information"), a subsidiary of the Company's controlling shareholder, Peking University Founder Group Company Limited ("Peking Founder"), and Peking Founder to dispose of its entire equity interest in True Luck Group Limited ("True Luck") and to assign the loan of JPY70 million due to Founder HK by True Luck to Founder Information at a total cash consideration of JPY693,520,600. The disposal was completed in June 2005 and a gain of approximately HK\$21.9 million was recorded.

MANAGEMENT DISCUSSION AND ANALYSIS

On 22 July 2004, Founder International Inc. ("Founder Inc."), a then non-wholly owned subsidiary of the Group, entered into a subscription agreement (the "Subscription Agreement") with Media Champion Holdings Limited ("Media Champion"), a company wholly owned by Mr Guan Xiang Hong, the president and an executive director of Founder Inc. Pursuant to the Subscription Agreement, Founder Inc. issued 333 new shares and 537 new shares at JPY300,000 per share to Media Champion in September 2004 and June 2005 respectively. On 12 April 2005, Founder Inc. acquired the entire 100% equity interest in Sysin Inc. for a consideration of 200 its new shares. In addition, in February 2005, an investor invested into a wholly-owned subsidiary of Founder Inc., diluting its interest in such subsidiary from 100% to 50%. Gains of approximately HK\$10.7 million in aggregate (2004: HK\$6.5 million) were resulted from such deemed partial disposals in the current year.

Charges on assets

At 31 December 2005, all the Group's land and buildings and investment properties in Hong Kong of approximately HK\$48.2 million and fixed deposits of approximately HK\$72.5 million were pledged to banks to secure banking facilities granted.

Contingent liabilities

At 31 December 2005, the Group did not have any significant contingent liabilities.