

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERALL PERFORMANCE

The Group reported a profit attributable to equity holders of the parent for the year ended 31 December 2006 of approximately HK\$25.9 million (2005: HK\$47.9 million). The Group's turnover for the current financial year decreased by 18.4% to approximately HK\$2,115.9 million (2005: HK\$2,593.9 million) as a result of the partial disposal of EC-Founder (Holdings) Company Limited ("EC-Founder") which became the Group's associates on 31 July 2006. On the contrary, gross profit ratio increased from last financial year's 11.95% to 14.13% for the current financial year because EC-Founder's distribution business of information products had a much lower gross profit percentage as compared to the business of software development and systems integration. The Group recorded a gain on partial disposal of EC-Founder of approximately HK\$17.8 million which is included as other income and gains in the current financial year.

Basic earnings per share for the year was HK2.3 cents (2005: HK4.3 cents).

## OPERATING REVIEW AND PROSPECTS

### (A) Software development and systems integration for media sector ("Media Business")

The turnover of the Media Business for the current financial year increased slightly by 0.3% to approximately HK\$511.6 million (year ended 31 December 2005: HK\$510.1 million) while the segment results recorded a profit of approximately HK\$1.3 million (year ended 31 December 2005: HK\$15.1 million). However, the gross profit ratio for the Media Business has increased by 1% to 39.2% from last financial year's 38.2%. The Media Business recorded a significant decrease in segment result because last year's segment results included the gain on deemed partial disposal of subsidiaries of approximately HK\$10.7 million (year ended 31 December 2006: nil). However, due to the completion and revenue recognition of a number of systems integration contracts during the second half of the current financial year, the Media Business recorded a segment profit of approximately HK\$32.9 million compared with HK\$25.5 million for the six months ended 31 December 2005.

During the year the Group has allocated more resources for new products development and market exploration and Beijing Founder Apabi Technology Co., Ltd. (北京方正阿帕比技術有限公司) was incorporated in April 2006 to further develop and market the Group's prize-award technology, Founder Apabi Digital Right Management System (DRM), CEB electronic file format and a series of paperless products such as e-Library, e-Book, e-Document and e-Stamp. Our e-Library and e-Book Systems have been adopted by more than 2,900 schools, universities, public libraries, education web sites, governmental bureaus and private enterprises 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 the current financial year, we have produced over 250,000 e-books which are being offered to the retail market through our own on-line bookshop "www.apabi.com" (阿帕比閱讀網) and a number of popular portals. As the Group estimated that the further development of the e-Book business will require large investment amounts, therefore it is envisaged that the e-Book business is still a minor contributor to the Media Business segment results in the years to come.

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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 (“EasiPrint”) (印捷數碼印刷系統), was also well received by the market. More and more partners have joined our franchising digital printing shops. At present, we have approximately one hundred franchising digital printing shops over different provinces in the PRC. During the current financial year, the Group has also started to open up its own digital printing shops and plan to further expand its own-shop network in the future. By enriching its franchise and own-shop network, enhancing the co-operation with the suppliers and exploring the possible business application opportunities for EasiPrint, the Group is confident that the EasiPrint business will continue to gain market share in the PRC’s digital printing business.

In June 2006, the Group’s flagship software development arm, Beijing Founder Electronics Co., Ltd. (“Founder Electronics”), was awarded one of the ten most valuable software enterprise (十大最具價值軟件企業) in the PRC and our EasiPrint Digital Printing System (印捷數碼印刷系統) was awarded one of the most value-adding potential software product (最具增值潛力軟件產品) in the PRC in the 10th China International Software Exhibition (二零零六年第十屆中國國際軟件博覽會) and in September 2006, the Group’s well-renowned publishing software, FIT (飛騰集成排版軟件) was awarded one of the ten most innovative software product (中國十大創新軟件產品) in the PRC in The 2nd China (Nanjing) International Software Product Expo (第二屆中國(南京)國際軟件產品博覽會). In August 2006, Founder Electronics, was awarded one of the most innovative and advance IT entity (資訊產業科技創新先進集體) in the State National IT Industry Innovation Conference (全國資訊產業科技創新會議) organized by the China Information Industry Net (中國資訊產業網). On 10 November 2006, Founder Electronics, was awarded as one of the top 100 IT corporation (2006年中國商業科技100強白皮書·中國商業科技100強) in the PRC by Information Week (《信息周刊》).

### **(B) Software development and systems integration for non-media sector (“Non-media Business”)**

The turnover of the Non-media Business for the current financial year increased by 64.4% to approximately HK\$306.9 million (2005: HK\$186.6 million) while its segment results has turned back from 2005’s loss of approximately HK\$1.6 million to the current financial year’s profit of approximately HK\$4.0 million.

Coupled with the continued effort for tight cost control and the increase in marketing activities, the Non-media Business has turned back to profit in the current financial year after incurring losses for two consecutive years. During the current financial year, the Non-media Business was mainly focused on the systems integration business for the finance and securities industries and government bureaus in the PRC.

In June 2006, the Group’s non-media operating arm, Beijing Founder Order Computer System Co., Ltd. (“Founder Order”) was ranked one of the top 30 systems integrators in the PRC by the Computer Partner World (電腦商報). In addition, Founder Order was ranked the top three systems integrators for the PRC’s finance and securities industries by Smart Partner (計算機產品與流通) in June 2006. In addition to being a CISCO gold certified partner, Founder Order is also a state-certified high-tech enterprise and first-class systems integrator with certifications in ISO9000 and CMML2. The Group is confident that the Non-media Business will become one of the leading systems integrator in the PRC with its sound and solid technology and knowledge base, long history of R&D and quality assurance system.



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## (C) Distribution of information products (“Distribution Business”)

The turnover of the Distribution Business for the current financial year decreased by 31.3% to approximately HK\$1,289.3 million (2005: HK\$1,876.7 million) while its segmental profit reported approximately HK\$20.4 million (2005: HK\$20.8 million).

The Distribution Business was partially disposed of in July 2006 as a result of the Company’s partial disposal of 21.85% equity interest in EC-Founder which became the Company’s associated company and the segment results for the current financial year represented the January to July’s operating results of the Distribution Business. At present, the Distribution Business has developed an efficient and effective distribution channel and network with branch offices/representative offices spanning 21 major cities in the PRC.

The Distribution Business 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. In June 2006, the Distribution Business was ranked the 4th place (2005: 5th) by Computer Partner World (電腦商報) among the top 200 information products distributors in the PRC’s information products distribution business and was also ranked the 5th place (2005: 7th) by China Information World (中國計算機報) in June 2006 as one of the PRC’s top 100 dominant information products distributors. In addition, the Distribution Business was ranked the 5th place in June 2006 by Smart Partner (計算機產品與流通) among the top 10 most excellent information products distributors in the PRC.

## 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 financial year.

In the current financial year, the moderate decrease in the headcount for the Group is mainly due to the partial disposal of EC-Founder in July 2006. At 31 December 2006, the number of employees of the Group was approximately 1,603 (31 December 2005: 1,882).

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## FINANCIAL REVIEW

### Liquidity, financial resources and capital commitments

At 31 December 2006, the Group recorded total assets of HK\$792.0 million which were financed by liabilities of HK\$383.1 million, minority interests of HK\$5.6 million and equity of HK\$403.3 million. The Group's net asset value per share as at 31 December 2006 amounted to HK\$0.36 (31 December 2005: HK\$0.33).

The Group had a total cash and bank balance of HK\$265.6 million as at 31 December 2006 (31 December 2005: HK\$487.4 million). The Group had no borrowings as at 31 December 2006 (31 December 2005: HK\$40.6 million) and recorded a net cash balance of HK\$265.6 million as at 31 December 2006 as compared to HK\$446.8 million as at 31 December 2005. The Group's borrowings, which are subject to little seasonality, consist of mainly short term revolving trust receipt loans. As at 31 December 2006, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total equity attributable to equity holders of the parent, was zero (31 December 2005: 0.11) while the Group's working capital ratio was 1.58 (31 December 2005: 1.39).

At 31 December 2006, 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. The sales and purchases made by the subsidiaries of the Group in the PRC are conducted in Renminbi and hence, the transactional currency exposure is minimal. As the exchange rates of United States dollars against Hong Kong dollars was 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 2006, the major contracts in hand for the software development and systems integration business amounted to approximately HK\$187.5 million (31 December 2005: HK\$148.1 million), which are all expected to be completed within one year time.

### Material acquisitions and disposals of subsidiaries and associates

On 26 May 2006, the Company entered into a sales and purchase agreement to partially dispose of its 21.85% equity interest in EC-Founder for a cash consideration of approximately HK\$68.5 million. After the partial disposal, EC-Founder is a 33% owned associated company of the Company. The disposal was completed in July 2006 and a gain of approximately HK\$17.8 million was recorded.



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### **Charges on assets**

At 31 December 2006, the Group's land and buildings and investment properties in Hong Kong of approximately HK\$54.6 million and bank deposits of approximately HK\$35.6 million were pledged to banks to secure banking facilities granted.

### **Contingent liabilities**

At 31 December 2006, the Group did not have any significant contingent liabilities.