

CHAIRMAN'S STATEMENT

I herein present the annual report for the results of the Group for the year ended 31 December 1999.

RESULTS

For the year ended 31 December 1999, the Group recorded turnover of HK\$1,583 million and a net loss of HK\$223 million.

REVIEW OF OPERATIONS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 1999 was HK\$223 million (for the year ended 31 December 1998, HK\$166 million) which can be analysed into: the decrease in the turnover and the increase in the net operating expense. The turnover, gross profit recorded for each of the Group's business units are as follows:

Business unit	1999 Turnover (HK\$'m)	1998 Turnover (HK\$'m)	% Changes
Electronic Publishing and Multi-Media Systems	633	598	6%
Systems Integration	283	215	32%
Hardware Distribution	634	1,262	(50)%
Others	33	89	(63)%
	<u>1,583</u>	<u>2,164</u>	<u>(27)%</u>

Business unit	1999 Gross Profit (HK\$'m)	1998 Gross Profit (HK\$'m)	% Changes
Electronic Publishing and Multi-Media Systems	136	154	(12)%
Systems Integration	49	48	2%
Hardware Distribution	14	21	(33)%
Others	1	3	(67)%
	<u>200</u>	<u>226</u>	<u>(12)%</u>

ELECTRONIC PUBLISHING AND MULTI-MEDIA SYSTEMS

During the period under review, the Electronic Publishing and Multi-Media Systems business remained the principal contributor to the Group's revenue, accounting for 68 % of total gross profit. Turnover was approximately HK\$633 million, an increase of 6% from the previous year. The gross profit for the year was HK\$136 million representing a decrease of 12% over 1998. The Group re-aligned its sales strategy so as to focus on premium customers, providing services and products to meet their specific needs. In addition, the Group streamlined its organisational structure, closed and down-graded certain departments and branches that were not operating satisfactorily and posed strict control on costs to maintain its competitiveness. During the year, the Group re-evaluated most of its products, which were being improved. The Electronic Publishing and Multi-Media Systems business is now expected to grow substantially.

SYSTEMS INTEGRATION

For systems integration, the turnover and gross profit for 1999 were HK\$283 million and HK\$49 million respectively, representing an increase of about 32% and 3% as compared to 1998. The substantial growth was mainly due to the acquisition from Mexican Gold Limited by the Group of its systems integration solutions for the PRC finance and banking industry. The acquired business offers services and/or products including systems for electronic cash, voucher management, automatic cash management, customer self-servicing system and computer telephone integration.

HARDWARE DISTRIBUTION

During 1999, the Group's turnover was HK\$634 million which is 50% lower than the previous year's turnover. The main reason of decrease in turnover was the Group's distribution strategy was reviewed and resulted in a reduction in the number of products handled; the Group also took a more cautious approach in selecting products for distribution. In addition, the Group implemented a sales strategy to minimise stock levels and inventory turnover. During the first half of the year, part of the slow-moving and obsolete stocks were sold at a discount to purchase costs. In the second half of year, the situation was improved and the gross profit margin has improved. However, the overall gross profit margin for the year can only be maintained at last year's overall rate of 2%.

CONCLUSION ON TURNOVER AND GROSS PROFIT

Though the Group's overall turnover for the year fell by 27%, the gross profit margin increased from 10% in 1998 to 13% in 1999. The major reasons for increase were the increase in gross profit margin mix for the systems integration business, which emerges in place of hardware business as a major contributor to overall gross profit.

TOTAL NET EXPENSES

During the period under review, the total net expenses amounted to HK\$428 million (1998: HK\$389 million), representing an increase of 10% as compared with 1998. The Group reduced its workforce by approximately 500 employees to 2,400 employees, which represented approximately a 17% reduction; operational expenses. During the year, the Group reviewed the status of fixed assets and reduced the useful lives from an average of five years to three years, which results in an increase of depreciation charge accordingly. The Group also strengthened the management and appraisal of accounts receivable; provisions were made for accounts receivable and doubtful debts. On the other hand, the property market in Hong Kong suffers further devaluation in 1999 and the Group has made the corresponding adjustment in the accounts and finally. Together with the re-structuring costs and other professional fees incurred during the year as a result of various corporate activities taken place during the year, these items accounted for an adverse effect of approximately HK\$80 million to the current year's results.

FINANCIAL POSITION

Though there was a record of loss during the financial year, the Group can maintain very healthy cash balances. As at the end of 1999, there recorded a balance of over approximately HK\$346 million cash and bank balances and time deposits, after deducting short term bank loans and overdrafts of HK\$173 million there recorded a total of HK\$173 million net positive balance.

Reforms on the operation and management of the Group

During 1999, the Group implemented a series of innovative plans in order to address operational difficulties. These included:

- (1) A major restructuring and reduction in the size of the Board of Directors in order to facilitate decision making and enhance operational efficiency;
- (2) Hiring management professionals to improve the Group's operational and management standards. In April 1999, Mr Lei Hon Sang joined the Group as Senior Vice-President, and also as President of Beijing Founder Electronics Co., Ltd., the flagship company of the Group. Mr Lei is mainly responsible for the overall business operations of the Beijing Founder Electronics Co., Ltd. He implemented a large-scale restructuring and streamlining, and closed unsatisfactory departments and branches. These moves produced positive results within months, significantly enhancing the Company's competitive edge and profit-making capabilities.

- (3) Acquisition of the system integration business for finance and banking industry improved the Group's competitiveness and its market share.
- (4) The Group strengthened the management of Founder R&D Center, and accelerated the pace of upgrading existing products and launching new ones.

PROSPECTS

The reform measures are expected to improve the Group's overall competitive edge. The Board is confident that the effects of the measures have started to make a significant contribution to the Group's performance from early 2000.

For the electronic publishing and multi-media systems products, the Group has launched the Founder Internet Content Publish Server ("ICS"), designed for press publishers, internet content providers and industries and business enterprises, is an universal application tool for the setting up of website and distribution of information. Its promising prospect is evidenced by the fact that the software can be promoted to internet content providers in addition to press publishers and other news agencies. It can also be used by companies in general for the setting up of intranet and internet websites.

In addition, the Group's RIP series products will be developed into a management system with output process control capabilities. In addition to type-set interpretation and output, the system will feature task-bill generation and control, colour management and external printer load adjustment. The system works on a browser/server structure, which can immensely improve production efficiency of printer enterprises. This latest RIP product from Founder will be available by the end of 2000.

Furthermore, the Group's browser-based news editing system, picture management system and advertisement management system have been developed and used by major clients such as Guangzhou Daily. Being the leading product in the PRC, the system has been certified by the Association of China News Publishing Bureau. This product is expected to play a major role in the system upgrade of the Group's existing clients in 2000, furthering revenue of the Group.

Utilising its close relationship with clients in the PRC media industry, the Group will undertake system-integration business from press publishers, radio stations and TV stations for the setting up of websites. In view of its 80% market share in the news publishing industry of the PRC, the Directors believe that the Group is likely to acquire relatively more business opportunities for the setting up of websites for news media.

In order to take full opportunity of developments in the internet, in July 1999 the Group proposed a new development strategy for E-Media. This strategy aimed at enhancing the quality of internet-application products used in publishing, and the provision of business solutions and technical expertise. The new concept created several business opportunities for the Group. These included:

- (1) A restructuring of Founder Data (see below for details)
- (2) The Group won the contract to establish and operate the official website for application of the 2008 Beijing Olympics.
- (3) A number of products were modified to support the operation of internet browsers.
- (4) The Group won the contract to establish Guangzhou Daily's Da Yang Website; the project was completed by the end of December 1999.

RESTRUCTURING FOUNDER DATA

To further expand its business, the Group restructured its media business in order to provide internet advertising services, business-to-business platforms and electronic business solutions through Founder Data Group. One of the major subsidiary of Founder Data Group, is a joint-venture company with Yahoo!. Ad Targeting will use the Group's extensive connections with the media industry in the PRC and Yahoo!'s technical support to create an "advertising server", that will aim to be the leader in the internet advertising market.

Founder Data Group will also establish a business-to-business platform, specializing in news broadcasting/production, operation and services for network media. Participants can exchange news content through the internet such as information and graphics, and conduct advertising transactions with advertising media.

The Group's operations in Hong Kong and overseas also underwent a major restructuring in 1999, which resulted in several business opportunities. Several international Chinese press publishers will upgrade their systems in 2000 and have shown interest in the Group's other products. It is expected that there will also be a substantial growth in the Japanese and Korean markets. As Founder Inc. (Japan) performed satisfactorily, the Group is exploring the possibility of listing this subsidiary in Hong Kong's securities market.

The Board is confident in the Group's long-term development. The Board believes that, with its determination, the Group's business will show substantial recovery and significant improvement.

AUDIT COMMITTEE

Pursuant to the revised Code of Best practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Board has established an Audit Committee (the "Committee"), comprising two independent non-executive directors, namely, Dr. Hu Hung Lick Henry and Mr. Li Fat Chung in March 1999. The Board has also passed terms of reference for the Committee on the same date. The terms of reference are set up in accordance with A Guide for The Formation of An Audit Committee issued by The Audit Committee Task Force of the Corporate Governance Working Group of The Hong Kong Society of Accountants. Before convening the Board meeting, the Committee's principal duties include the review and supervision of the Group's financial reporting process and internal controls and to make recommendations to the Board. During the period, a meeting has been convened by the committee.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 1999, the Group had total assets of approximately HK\$1,159 million which were financed by liabilities of approximately HK\$601 million and equity of approximately HK\$558 million.

The total liabilities comprised HK\$5 million mortgage loan, HK\$23 million trust receipt loans, HK\$150 million of working capital loans and other liabilities of HK\$423 million.

The cash and bank balances and time deposits amounted to approximately HK\$346 million and the short term bank loans and overdrafts amounted to approximately HK\$173 million.

The mortgage loans are instalment loans. The trust receipt loans are generally for terms of 90 to 120 days. The working capital loans are revolving facilities.

As at 31 December 1999, the Group had a working capital ratio of 1.71, a long term debt to equity ratio of 0.008 and total unutilised banking facilities of HK\$63 million. The Directors believe that the Group had good liquidity and healthy capital structure.

EMPLOYEES

The total number of staff as at 31 December 1999 was approximately 2,400, representing an decrease of 17.2% when compared to 1998. There are approximately 2,200 employees in the PRC.

CHAIRMAN'S STATEMENT (CONTINUED)

In addition to the contributory provident fund and full medical insurance, the Group has adopted a share option scheme for certain employees. Details of options granted are set out in note 23 to the financial statements.

The Group has maintained a good relationship with its staff and has not experienced any labour disputes since its establishment.

Wang Xuan

Chairman

Hong Kong, 25 May 2000