

# Report Of The Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services. The principal activities of the subsidiaries are set out in note 13 to the financial statements. There were no changes in the nature of the Group's principle activities during the year, except for the commencement of e-Commerce services.

## SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by principal activity and geographical area of operations for the year ended 31 December 2000 is as follows:

	Turnover		Contribution to profit/(loss) from operating activities	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By activity:				
Provision of software solution and e-Commerce services	10,072	—	(20,446)	—
Manufacture and sale of electronics products	248,592	314,296	(25,077)	9,979
	<u>258,664</u>	<u>314,296</u>	<u>(45,523)</u>	<u>9,979</u>

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## SEGMENTAL INFORMATION (Continued)

	Turnover		Contribution to profit /(loss) from operating activities	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical area:				
The People's Republic of China (the "PRC"):				
Hong Kong	<b>48,272</b>	60,687	<b>(9,463)</b>	17,607
Elsewhere	<b>51,667</b>	29,423	<b>(25,444)</b>	(1,111)
Asia	<b>44,107</b>	26,531	<b>(4,193)</b>	(1,757)
United Kingdom	<b>26,437</b>	29,780	<b>(1,909)</b>	(994)
United States of America ("USA")	<b>87,291</b>	159,910	<b>(5,260)</b>	(3,252)
Others	<b>890</b>	7,965	<b>746</b>	(514)
	<b><u>258,664</u></b>	<b><u>314,296</u></b>	<b><u>(45,523)</u></b>	<b><u>9,979</u></b>

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 74.

The directors do not recommend the payment of any dividend in respect of the year.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 75 of the annual report. This summary is not part of the audited financial statements.

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## **FIXED ASSETS**

Details of movements in the fixed assets of the Company and the Group are set out in note 11 to the financial statements.

## **SUBSIDIARIES**

Particulars of the Company's principal subsidiaries are set out in note 13 to the financial statements.

## **JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES**

Particulars of the Company's and the Group's interests in its principal jointly-controlled entities and associates are set out in notes 14 and 15 to the financial statements, respectively.

## **BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS**

Details of the bank loans, overdrafts and other borrowings of the Group are set out in notes 24 to 27 to the financial statements.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 29 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements.

## **DISTRIBUTABLE RESERVES**

At 31 December 2000, the Company's reserves available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda (as amended) amounted to approximately HK\$614,849,000. In addition, the Company's share premium account, in the amount of approximately HK\$118,299,000 may be distributed in the form of fully paid bonus shares.

## **CHARITABLE CONTRIBUTIONS**

During the year, the Group did not make any charitable contributions.

## **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for approximately 60% (1999: 63%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 20% (1999: 18%).

Purchases from the Group's five largest suppliers accounted for approximately 53% (1999: 74%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 38% (1999: 36%).

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

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## DIRECTORS

The directors of the Company during the year were:

### Executive directors:

Mr Cheung Shuen Lung	(appointed on 28 September 2000)
Mr Lei Hon Sang	(appointed on 28 September 2000)
Professor Wei Xin	(appointed on 28 September 2000)
Professor Zou Wei	(appointed on 28 September 2000)
Mr Yung Richard, Jr.	
Mr Lee King Shing	(resigned on 28 September 2000)

### Non-executive directors:

Professor Wang Xuan	(appointed on 28 September 2000)
Mr Yung Chih Shin, Richard	
Dr Wong Sai Wing, James	(resigned on 28 September 2000)
Mr Wong Sing Wai, James	(resigned on 28 September 2000)
Mr Sheng Shu Heng, Sing*	(deceased on 4 March 2000)
Mr Yang Lin, Richard*	
Mr Lee Ying Biu, Andrew*	(appointed on 8 May 2000)

\* *Independent non-executive directors*

In accordance with the Company's bye-laws, Mr Lei Hon Sang, Professor Wei Xin, Professor Zou Wei, Professor Wang Xuan and Mr Yung Chih Shin, Richard will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 17 of the annual report.

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## **EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS**

Details of the directors emoluments and of the five highest paid individuals in the Group are set out in notes 6 and 7 to the financial statements, respectively.

## **DIRECTORS' SERVICE CONTRACTS**

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in note 34 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## **MANAGEMENT CONTRACTS**

Save as disclosed in note 34 to the financial statements, no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## **CONTRACTS OF SIGNIFICANCE**

Save as disclosed in note 34 to the financial statements, no contracts of significance were entered into or existed during the year.

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## DIRECTORS' INTERESTS IN SHARES

At 31 December 2000, the interests of the directors and their respective associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

### Ordinary shares of the Company

Name of director	Number of shares held and nature of interest	
	Corporate	Personal
Mr Yung Chih Shin, Richard	87,680,000	—
Mr Cheung Shuen Lung	—	36,890,100
Mr Lei Hon Sang	—	21,890,100
Professor Wei Xin	—	3,956,000
	<u>87,680,000</u>	<u>62,736,200</u>

### Subsidiary

Name of director	Subsidiary in which shares are held	Number of shares held	Nature of interest
Mr Yung Chih Shin, Richard	Management Investment & Technology Company Limited	20,000,000 non-voting deferred shares	Corporate

Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco Investment Limited ("Ricwinco"), a company which is beneficially owned by Mr Richard Chih Shin Yung.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

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## DIRECTORS' INTERESTS IN SHARES *(Continued)*

Save as disclosed above and as disclosed below under the heading "Directors' right to acquire shares"; none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance and recorded in the register required to be maintained pursuant to Section 29 thereof.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the summary details of which are as follows:

<b>Name of director</b>	<b>Number of outstanding share options at the beginning of year</b>	<b>Exercised during the year</b>	<b>Number of outstanding share options at the end of year</b>	<b>Exercise period of share options</b>	<b>Exercise price of share options HK\$</b>
Mr Yung Chih Shin, Richard	3,000,000	—	3,000,000	1.8.1997 to 31.7.2002	0.507
Mr Yung Richard, Jr.	2,400,000	—	2,400,000	1.8.1997 to 31.7.2002	0.507
Mr Lee King Shing	2,400,000	—	2,400,000	1.8.1997 to 31.7.2002	0.507
	<u>7,800,000</u>	<u>—</u>	<u>7,800,000</u>		

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

Further details of the Company's share option scheme are set out in note 29 to the financial statements.



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## SUBSTANTIAL SHAREHOLDERS

At 31 December 2000, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

<b>Name of shareholder</b>	<i>Notes</i>	<b>Number of ordinary shares held</b>	<b>%</b>
Peking University	1	323,690,000	39.45
Peking University Founder Group Corporation ("Peking Founder")	2	323,690,000	39.45
Founder Holdings Limited ("FHL")		323,690,000	39.45
Yahoo! Inc.		93,240,000	11.36
Ricwinco	3	87,680,000	10.68

*Notes:*

1. Peking Founder is wholly owned by Peking University. The interests disclosed under Peking University represent its deemed interests in the shares of the Company by virtue of its interest in Peking Founder.
2. Peking Founder, holds more than one-third of the equity capital of FHL and is deemed as interested in the 323,690,000 shares of the Company under the SDI Ordinance.
3. Ricwinco is beneficially owned by Mr Yung Chih Shin, Richard.

There is a duplication of the corporate interests of Mr Yung Chih Shin, Richard as noted in the section "Directors' interests in shares".

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

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## CONNECTED TRANSACTIONS

On 17 May 2000, the Company entered into a Sales and Purchase Agreement (“S&P”) with shareholders of Founder Data Corporation International Limited (“FDC”), a subsidiary of FHL. Pursuant to the S&P, the Company acquired the entire issued share capital of FDC at a consideration of HK\$439,560,000 by issue of 439,560,000 new ordinary shares of the Company at a price of HK\$1.00 per share. The S&P constituted a major and connected transaction under Rule 14.23(1)(b) of the Listing Rules of The Stock Exchange of Hong Kong Limited (“Listing Rules”).

On 17 May 2000, the Company entered into an Equity Transfer Agreement (“ETA”) with Yahoo! Inc. to acquire 100% interest in Datacom Development Limited (“Datacom”) for a consideration of HK\$93,240,000. The consideration was satisfied by the issue of 93,240,000 new ordinary shares of the Company at a price of HK\$1.00 per share. The ETA constituted a major and connected transaction under Rule 14.23(1)(b) of the Listing Rules.

On 17 May 2000, the Company entered into a Disposal Agreement (“Disposal”) with Ricwinco, a substantial shareholder of the Company beneficially owned by Mr Yung Chih Shin, Richard. Pursuant to the Disposal, the entire issued share capital of Management Investment & Technology International Inc. (“MITI”) and its subsidiaries (the “MITI Group”) and the interest in the indebtedness due to the Company by MITI Group was acquired by Ricwinco. The Disposal constituted a major and connected transaction for the purpose of the Listing Rules.

On 17 May 2000, the Company entered into a Management Agreement (“MA”) with Ricwinco under which Ricwinco was appointed as manager for a period of 3 years with responsibility for the management and conduct of the semi-conductor business and weighing scale business. The MA constituted a major and connected transactions for the purpose of the Listing Rules.

On 17 May 2000, the Company entered into Subscription Agreements (“SA”) with FHL and Mr Cheung Shuen Lung. Under the SA, FHL and Mr Cheung Shuen Lung subscribed, for cash, 16,000,000 and 15,000,000 shares of the Company. The subscription price is HK\$1.00 per share. The SA constituted connected transactions for the Company for the purpose of the Listing Rules.

Further details of the connected transactions are included in note 34 to the financial statements.

The independent non-executive directors of the Company have reviewed the related party transactions as disclosed in note 34 to the financial statements, and have confirmed to the board of directors their opinion that such transactions were conducted in the ordinary course of the Group’s business and were fair and reasonable so far as the shareholders of the Company are concerned.

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## PENSION SCHEME AND COSTS

The Group's employees in Hong Kong have joined the mandatory provident fund scheme from 1 December 2000. Employees in the PRC are enrolled in the mandatory central pension scheme operated by the PRC Government. Details of the employer's pension costs charged to the profit and loss accounts for the year are set out in note 4 to the financial statements.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws. The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice throughout the accounting period covered by the annual report.

## AUDITORS

Ernst & Young were appointed as the Company's auditors from the Company's incorporation and resigned on 4 October 1999. On 1 November 1999, PricewaterhouseCoopers were appointed as auditors to fill the casual vacancy. On 30 November 2000, PricewaterhouseCoopers resigned as auditors of the Company and Ernst & Young were appointed on 1 December 2000 by the directors as auditors to fill the casual vacancy so arising. A resolution for reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Lei Hon Sang**

*President & Executive Director*

Hong Kong, 24 April 2001