

# REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## **SEGMENTAL INFORMATION**

An analysis of the Group's turnover and contribution to results by business segments and geographical segments for the year ended 31 December 2001 is set out in note 4 to the financial statements.

## **RESULTS AND DIVIDENDS**

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 78.

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

## **SUMMARY OF FINANCIAL INFORMATION**

A summary of the published results and 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 80 of the annual report. This summary does not form part of the audited financial statements.

## **FIXED ASSETS AND INVESTMENT PROPERTIES**

Details of movements in the fixed assets and investment properties of the Group during the year are set out in note 13 to the financial statements. Further details of the Group's investment properties are set out on page 79 of the annual report.

## **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.

## **PURCHASE, REDEMPTION OR SALE 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.

# REPORT OF THE DIRECTORS

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution amounted to approximately HK\$250,489,000. In addition, the Company's share premium account, in the amount of approximately HK\$27,660,000, may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 37% (2000: 31%) of the total purchases for the year and purchase from the largest supplier included therein amounted to 9% (2000: 13%).

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own 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.

## DIRECTORS

The directors of the Company during the year were:

### Executive directors:

Wang Xuan  
Cheung Shuen Lung  
Wei Xin  
Zhang Zhao Dong  
Xiao Jianguo (appointed on 31 May 2001)  
Lei Hon Sang  
Lo Siu Yu

### Independent non-executive directors:

Hu Hung Lick, Henry  
Li Fat Chung

In accordance with the bye-laws of the Company, Wei Xin, Xiao Jianguo and Hu Hung Lick, Henry will retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 12 of the annual report.

# REPORT OF THE DIRECTORS

## DIRECTORS' SERVICE CONTRACTS

Wei Xin has entered into a service contract with the Company for a term of five years commencing on 31 March 2000. Xiao Jianguo has entered into a service contract with the Company for a term of two years commencing on 31 May 2001. These service contracts are subject to termination by either the director concerned, or the Company giving to the other not less than one year's written notice.

Apart from the foregoing, 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 of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

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.

## DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the interests of the directors in the share capital of EC-Founder (Holdings) Company Limited ("EC-Founder"), the Company's associated corporation, 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:

Name of director	Number of ordinary shares held and nature of interest
	Personal
Cheung Shuen Lung	36,890,100
Wei Xin	3,956,000
Zhang Zhao Dong	3,956,000
Xiao Jianguo	8,703,300
Lei Hon Sang	21,890,100
	<u>75,395,500</u>

In addition to the above, Cheung Shuen Lung has 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.

Save as disclosed above and as disclosed below under the headings "Directors' rights to acquire shares" and "Share option scheme", none of the directors or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

# REPORT OF THE DIRECTORS

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

EC-Founder (Holdings) Company Limited ("EC-Founder"), the Company's associated corporation, has granted options on its ordinary shares pursuant to its share option scheme in favour of certain directors of the Company, the details of which are as follows:

Name of director	Number of share options granted during the year and outstanding at end of year	Date of grant of share options	Exercise period of share options	Exercise price of share options* <i>HK\$</i>	Price of company's shares at grant date of options** <i>HK\$</i>
Cheung Shuen Lung	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45	0.56
Wei Xin	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45	0.56
Lei Hon Sang	2,000,000	18.5.2001	18.5.2001 to 17.5.2011	0.45	0.56
	6,000,000				

\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the company's share capital.

\*\* The price of the company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

Apart from as disclosed above and under the heading "Share option scheme" below, 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 arrangement to enable the directors to acquire such rights in any other body corporate.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME

As at the balance sheet date, the particulars in relation to each share option scheme of the Company or its subsidiary that are required to be disclosed under Rules 17.07 to 17.09 of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

### (a) Share option scheme of the Company

On 7 December 1995, Founder (Hong Kong) Limited ("FHK") adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme include the Company's directors and other employees of the Group. Pursuant to a scheme of arrangement, the share option scheme of FHK was replaced by the share option scheme of the Company (the "Existing Scheme") with the same terms with effect from 31 March 2000. The Existing Scheme will remain in force for a period of 10 years from the date of 7 December 1995.

Under the Existing Scheme, the total number of shares available for issue is limited to 10% of the issued share capital of the Company from time to time, excluding for this purpose such shares of the Company as are allotted and issued upon the exercise of options granted thereunder whereas the maximum number of shares issuable to each eligible participant is limited to 25% of the aggregate number of shares issued and issuable under the Existing Scheme. An offer for share options may be accepted within 40 days from the date of offer, upon payment of a nominal consideration of HK\$1. The exercise period of the share options granted under the Existing Scheme shall be determined by the board of directors when such options are granted, provided that such period shall end in any event not later than 6 December 2005. The subscription price in relation to each option under the Existing Scheme shall be determinable by the board, being the higher of either (i) a price being 80% of the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date on which the option is offered; or (ii) the nominal value of the shares of the Company.

Chapter 17 of the Listing Rules was however amended in August 2001, resulting in certain provisions under the Existing Scheme becoming obsolete. Pursuant to Chapter 17 of the Listing Rules, provisions relating to the maximum number of shares in respect of which options may be granted, the maximum entitlement of each participant and the subscription price were all altered. Accordingly, the Company intends to adopt a new share option scheme to ensure full compliance with the said amended Listing Rules.

In the circumstances, the board of directors proposes to the shareholders at the forthcoming annual general meeting that the Existing Scheme be terminated while a new scheme in compliance with Chapter 17 of the Listing Rules be adopted in its stead.

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## SHARE OPTION SCHEME (continued)

### (a) Share option scheme of the Company (continued)

The following share options were outstanding under the Existing Scheme at 1 January 2001 and at end of year:

Name or category of participant	Number of share options at 1 January 2001 and outstanding at end of year	Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's shares at grant date of options***
				HK\$	HK\$
<b>Directors</b>					
Wang Xuan	10,800,000	6.8.1996	21.12.1998 to 6.12.2005	1.397#	2.70
Cheung Shuen Lung	9,360,000	6.8.1996	21.12.1998 to 6.12.2005	1.397#	2.70
	20,160,000				
<b>Other employees</b>					
In aggregate	900,000	16.4.1999	16.4.1999 to 6.12.2005	0.912	1.14
In aggregate	10,000,000	1.11.1999	1.11.1999 to 6.12.2005	1.944	2.45
	10,900,000				
	31,060,000				

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## SHARE OPTION SCHEME (continued)

### (a) Share option scheme of the Company (continued)

# The exercise price had been adjusted for the bonus issue in 1997 and 1998, details of which are as follows:

Name of participant	Date of grant of share options/ bonus issue	Number of share options granted/ adjusted as a result of bonus issue	Number of share options outstanding at end of the respective year	Exercise price of share options HK\$
Wang Xuan	6.8.1996	7,500,000	7,500,000	2.012
	6.6.1997	1,500,000 <sup>##</sup>	9,000,000	1.676
	6.7.1998	1,800,000 <sup>##</sup>	10,800,000	1.397
Cheung Shuen Lung	6.8.1996	6,500,000	6,500,000	2.012
	6.6.1997	1,300,000 <sup>##</sup>	7,800,000	1.676
	6.7.1998	1,560,000 <sup>##</sup>	9,360,000	1.397

<sup>##</sup> Adjustments on the number of share options granted as a result of bonus issues granted.

### (b) Share option scheme of Founder International Inc.

On 16 December 2000, Founder International Inc. ("Founder Inc."), a subsidiary of the Company, adopted a share option scheme (the "Subsidiary Scheme") whereby options to subscribe for shares in the capital of Founder Inc. may be granted to its employees from time to time as part of its effort to motivate its employees. Under the Subsidiary Scheme, the maximum number of shares issuable under the Subsidiary Scheme may not exceed such number of shares as shall represent 10% of the issued share capital of Founder Inc. from time to time whereas the maximum number of shares issuable to each eligible participant is limited to 25% of the aggregate number of shares issued and issuable under the Subsidiary Scheme. The exercise period in relation to each option shall commence on the date when the offer for the options is accepted and expire on the earlier of the 10th anniversary thereafter or the 10th anniversary of the date on which the Subsidiary Scheme is adopted by Founder Inc. in shareholders' meeting. An offer for share options may be accepted within 40 days from the date of offer upon payment of a nominal consideration of Yen 1,000. The subscription price in relation to each option shall be determined by its shareholders in general meeting and should not be lower than the par value of the shares to be allotted and issued under the Subsidiary Scheme.

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## SHARE OPTION SCHEME (continued)

### (b) Share option scheme of Founder International Inc. (continued)

As with the Existing Scheme of the Company, Chapter 17 of the Listing Rules has made certain provisions of the Subsidiary Scheme obsolete, which requires amendments to ensure full compliance with the Listing Rules. Accordingly, the board of directors also proposes a new option scheme be adopted at the forthcoming annual general meeting in replacement of the existing Subsidiary Scheme.

The following share options were outstanding under the Subsidiary Scheme at 1 January 2001 and at the end of year:

Category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Nominal value of company's shares at grant date of options
	At 1 January 2001	Lapsed during the year	At 31 December 2001				
<b>Other employees</b>							
In aggregate	<u>62</u>	<u>(2)</u>	<u>60</u>	16.12.2000	17.12.2000 to 16.12.2010	4,720,000 JPY	50,000 JPY

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

Summary details of the Company's share option scheme are also set out in note 30 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the outstanding options.



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## SUBSTANTIAL SHAREHOLDERS

According to the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance, there recorded the following interest of 10% or more of the share capital of the Company as at 31 December 2001:

<b>Name of shareholder</b>	<b>Number of shares held</b>	<b>Percentage of the Company's share capital</b>
Peking University Founder Group Corporation ("Peking Founder")	367,005,610	32.66%

Save as disclosed above, no person 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.

## CONNECTED TRANSACTIONS

During the year, Peking Founder received rental income of approximately HK\$14,133,000 from the Group. The independent non-executive directors of the Company have reviewed the above connected transaction and have confirmed to the board of directors their opinion that such transaction was: (i) conducted in the ordinary course of the Group's business; (ii) paid in accordance with the terms of the agreement governing the transaction; and (iii) fair and reasonable so far as the shareholders of the Company are concerned.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 36 to the financial statements.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the accounting year covered by the annual report except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

## AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code. The audit committee comprises the two independent non-executive directors of the Company.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Wang Xuan**

*Chairman*

23 April 2002