

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 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal 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.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 17 to 69 of the Annual Report.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests 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 71 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 70 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.

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.

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DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company's reserves available for distribution amounted to approximately HK\$153,842,000. 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 48% (2001: 37%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 21% (2001: 9%).

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 suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Cheung Shuen Lung

Xiao Jian Guo

Wei Xin

Zhang Zhao Dong

Wang Xuan (resigned on 26 July 2002)

Lei Hon Sang (resigned on 6 September 2002)

Lo Siu Yu (resigned on 13 September 2002)

Independent non-executive directors:

Hu Hung Lick, Henry

Li Fat Chung

In accordance with the bye-laws of the Company, Zhang Zhao Dong and Li Fat Chung 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 8 to 9 of the Annual Report.

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DIRECTORS' SERVICE CONTRACTS

Zhang Zhao Dong has entered into a service contract with the Company for a term of five years commencing on 31 March 2000. This service contract is 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

Save as disclosed in note 36 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.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, 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
Xiao Jian Guo	8,703,300
Wei Xin	3,956,000
Zhang Zhao Dong	3,956,000
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	53,505,400
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The interests of the directors in the share options of the Company are separately disclosed in note 30 to the financial statements.

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 heading "Directors' rights 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.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES

EC-Founder has granted options to acquire 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			Exercise period of share options	Exercise price of share options <i>HK\$</i>
	At 1 January 2002	Lapsed during the year	At 31 December 2002		
Cheung Shuen Lung	2,000,000	—	2,000,000	18.5.2001 to 17.5.2011	0.45
Wei Xin	2,000,000	—	2,000,000	18.5.2001 to 17.5.2011	0.45
Lei Hon Sang (Note)	2,000,000	(2,000,000)	—	18.5.2001 to 17.5.2011	0.45
	<u>6,000,000</u>	<u>(2,000,000)</u>	<u>4,000,000</u>		

Note: Lei Hon Sang resigned as a director of the Company and of EC-Founder during the year.

Apart from as disclosed above and in the share option scheme disclosures in note 30 to the financial statements, 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.

SHARE OPTION SCHEMES

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's and the subsidiary's share option schemes have been moved to note 30 to the financial statements.

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SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interest of 10% or more of the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of shares held	Percentage of the Company's issued share capital
Peking University Founder Group Corporation ("Peking Founder")	367,179,610	32.67%

Save as disclosed above, no person had registered an interest in the issued share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTION

During the year, Peking Founder received rental of approximately HK\$12,868,000 from the Group. The independent non-executive directors of the Company have reviewed the connected transaction and have confirmed to the board of directors that, in their opinion, such transaction was: (i) conducted in the ordinary course of the Group's business; (ii) paid in accordance with the terms of the agreements governing the transaction; and (iii) fair and reasonable so far as the shareholders of the Company are concerned.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 37 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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.

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AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. 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

Cheung Shuen Lung

Chairman

Hong Kong

24 April 2003