

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 2003.

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 profit for the year ended 31 December 2003 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 72.

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 75. 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 pages 73 to 74 of the Annual Report.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's share capital or share options during the year.

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 32 to the financial statements.

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DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company's reserves available for distribution amounted to approximately HK\$216,785,000. 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 approximately 55% (2002: 48%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 36% (2002: 21%).

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 suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr Cheung Shuen Lung
Professor Xiao Jian Guo
Professor Wei Xin
Mr Zhang Zhao Dong

Independent non-executive directors:

Dr Hu Hung Lick, Henry
Mr Li Fat Chung

In accordance with the bye-laws of the Company, Professor Wei Xin and Dr 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 8 to 10 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Professor Wei Xin has entered into a service contract with the Company for an initial fixed term of five years commencing on 31 March 2000 and may be terminated by either party giving not less than one year's written notice expiring at the end of or at any time after the initial five year term.

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.

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DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, 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 AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in ordinary shares of associated corporations:

EC-Founder (Holdings) Company Limited ("EC-Founder"), a subsidiary of the Company

Name of director	Number of ordinary shares held, capacity and nature of interest			Percentage of the associated corporation's issued share capital
	Directly beneficially owned	As trustee*	Total	
Mr Cheung Shuen Lung	36,890,100	63,459,100	100,349,200	9.12
Professor Xiao Jian Guo	8,703,300	—	8,703,300	0.79
Professor Wei Xin	3,956,000	63,459,100	67,415,100	6.13
Mr Zhang Zhao Dong	3,956,000	63,459,100	67,415,100	6.13

* These shares were held by F2 Consultant Limited as nominee on behalf of these directors who are acting in their capacity as the trustees of a discretionary trust for the employees of Founder Data Corporation International Limited ("FDC") and its subsidiaries. FDC is incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of EC-Founder.

The interests of the directors in the share options of EC-Founder are separately disclosed in note 31(b) to the financial statements.

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

Save as disclosed above, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 31 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2003, the following interest of 5% 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 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Peking University Founder Group Corporation ("Peking Founder")	Directly beneficially owned	367,179,610	32.67

Save as disclosed above, no person, other than directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Company are set out in notes 36(b) to 36(e) to the financial statements.

During the year, Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), a subsidiary of the Company, paid rental expenses of approximately HK\$4,260,000 to Peking Founder pursuant to the lease agreements signed between Founder Electronics and Peking Founder in December 1995. The independent non-executive directors of the Company have reviewed this connected transaction and have confirmed to the board of directors that, in their opinion, such transaction (i) was conducted in the ordinary and usual course of the Group's business; (ii) was fair and reasonable so far as the interests of the shareholders of the Company as a whole are concerned; and (iii) was carried out in accordance with the lease agreements.

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CONNECTED TRANSACTIONS *(continued)*

During the year, Founder Electronics, Beijing Founder Order Computer System Co., Ltd., Beijing Founder International Co., Limited and Beijing Founder Century Information System Co., Ltd., the subsidiaries of the Company, entered into lease agreements with Peking Founder and paid rental and management fee expenses of approximately HK\$14,008,000. The independent non-executive directors of the Company have reviewed these connected transactions and have confirmed to the board of directors that, in their opinion, such transactions (i) were conducted in the ordinary course of the Group's business; (ii) were fair and reasonable so far as the interests of the shareholders of the Company as a whole are concerned; (iii) were carried out in accordance with the lease agreements except that Peking Founder had waived the payment of rental deposit of HK\$1,194,000 to be made by Founder Electronics; and (iv) were within the prescribed limit of approximately HK\$23,260,000 as set out in the waiver letter issued by the Stock Exchange.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events 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 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.

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
2 April 2004