

## 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 2005.

### 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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 89.

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 restated/reclassified as appropriate, is set out on page 92 of the Annual Report. This summary does not form part of the audited financial statements.

### PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively. Further details of the Group's investment properties are set out on pages 90 to 91 of the Annual Report.

### SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's share options during the year are set out in note 28(a) 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.

### 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.

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## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distribution amounted to approximately HK\$188,263,000. 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 69% (2004: 58%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 39% (2004: 34%).

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

Mr Xia Yang Jun

(appointed on 17 January 2005)

### **Independent non-executive directors:**

Dr Hu Hung Lick, Henry

Mr Li Fat Chung

Ms Wong Lam Kit Yee

In accordance with the Bye-laws of the Company, Mr Cheung Shuen Lung, Professor Wei Xin and Mr Zhang Zhao Dong will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Dr Hu Hung Lick, Henry, Mr Li Fat Chung and Ms Wong Lam Kit Yee, and still considers them to be independent.

# REPORT OF THE DIRECTORS

## 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 12 to 13 of the Annual Report.

## 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 of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

## 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 2005, the interests and short positions of the directors in the share capital and underlying shares 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 Issuers (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	
Mr Cheung Shuen Lung	36,890,100	3.35
Professor Xiao Jian Guo	8,703,300	0.79
Professor Wei Xin	3,956,000	0.36
Mr Zhang Zhao Dong	3,956,000	0.36

The interests of the directors in the share options of the Company and EC-Founder are separately disclosed in note 28 to the financial statements.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(continued)

In addition to the above, Mr 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, as at 31 December 2005, 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.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section "Directors' interests and short positions in shares and underlying shares" above and in the share option schemes disclosures in note 28 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 2005, the following interests of 5% or more of the issued share capital of the Company were 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
北京北大資產經營有限公司 (Peking University Asset Management Company Limited*) (Note)	Through a controlled corporation	367,179,610	32.67
北大方正集團有限公司 (Peking University Founder Group Company Limited*) (formerly known as Peking University Founder Group Corporation) ("Peking Founder")	Directly beneficially owned	<u>367,179,610</u>	<u>32.67</u>

\* For identification purpose only

Note: Peking University Asset Management Company Limited was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Peking Founder.

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### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES *(continued)*

Save as disclosed above, as at 31 December 2005, no person, other than the 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 AND CONTINUING CONNECTED TRANSACTIONS

#### Connected transactions

Details of the connected transactions are set out in notes 33(l)(b) to 33(l)(g) to the financial statements.

#### Continuing connected transactions

During the year, the Group paid rental and management fee expenses in aggregate of approximately HK\$21,206,000 to Peking Founder. The independent non-executive directors of the Company have reviewed the continuing connected transactions and have confirmed that these continuing connected transactions were (i) entered into in the ordinary and usual course of business of the Group; (ii) entered into on terms that were fair and reasonable so far as the interests of the shareholders of the Company as a whole are concerned; (iii) carried out in accordance with the terms of the lease agreements except that Peking Founder had waived the payment of rental deposits of approximately HK\$989,000 and HK\$326,000 to be made by Beijing Founder Electronics Co., Ltd. ("Founder Electronics") and Beijing Founder Order Computer System Co., Ltd. respectively; and (iv) within the prescribed limit of approximately HK\$23,260,000 as set out in the waiver letter issued by the Stock Exchange.

During the year, sale of products and provision of product related services in an aggregate amount of approximately HK\$3,862,000 to Founder International Inc., a subsidiary of True Luck Group Limited ("True Luck") which was a subsidiary of Peking Founder, were made by the Group after the disposal of the shares of True Luck by the Group to Peking Founder. The independent non-executive directors of the Company have reviewed the continuing connected transactions and have confirmed that these continuing connected transactions were (i) entered into in the ordinary and usual course of business of the Group; (ii) entered into on terms no less favourable to the Group than those available from independent third parties; (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iv) within the prescribed limit as set out in the circular of the Company dated 28 February 2005.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirmed that the Company has maintained the amount of public float as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

### 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

21 April 2006