

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 24 to 87.

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 88 of the Annual Report. This summary does not form part of the audited financial statements.

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PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

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 26(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 27 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK\$154,699,000, 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 83% (2004: 92%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 30% (2004: 50%).

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.

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DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr Zhang Zhao Dong
Mr Cheung Shuen Lung
Professor Wei Xin
Mr Xia Yang Jun
Mr Xie Ke Hai

Non-executive directors:

Mr Yung Chih Shin, Richard
Mr Li Fat Chung*
Ms Wong Lam Kit Yee*
Ms Cao Qian* (appointed on 31 March 2005)
Mr Yang Lin, Richard* (resigned on 31 March 2005)

* *Independent non-executive directors*

REPORT OF THE DIRECTORS

DIRECTORS *(Continued)*

In accordance with the Company's Bye-laws, Mr Zhang Zhao Dong, Mr Cheung Shuen Lung and Professor Wei Xin will retire at the forthcoming annual general meeting. Mr Zhang Zhao Dong offers himself for re-election at the forthcoming annual general meeting. However, as Mr Cheung Shuen Lung and Professor Wei Xin have given notice in writing to the Company that they will not offer themselves for re-election at the forthcoming annual general meeting, the Board has proposed to nominate Mr Chen Geng, the President of the Company, to be elected as director of the Company at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian, and still considers them to be independent.

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 13 to 14 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.

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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, its holding company, or any of its subsidiaries and fellow subsidiaries was a party during the year.

REPORT OF THE DIRECTORS

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 the Company:

	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's issued share capital	
	Directly beneficially owned	Through controlled corporation	Total		
18	Mr Cheung Shuen Lung	36,890,100	–	36,890,100	3.35
	Mr Zhang Zhao Dong	3,956,000	–	3,956,000	0.36
	Professor Wei Xin	3,956,000	–	3,956,000	0.36
	Mr Yung Chih Shin, Richard (Note)	–	87,680,000	87,680,000	7.97

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

The interests of the directors in the share options of the Company and its associated corporations are separately disclosed in note 26 to the financial statements.

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

In addition to the above, Mr Cheung Shuen Lung had 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 26 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, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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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	Notes	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*)	1	Through a controlled corporation	603,609,000	54.85
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")	2	Through a controlled corporation	603,609,000	54.85
Founder Holdings Limited ("FHL")		Directly beneficially owned	603,609,000	54.85
Peking University Education Foundation		Directly beneficially owned	93,240,000	8.47
Peking University Education Foundation		Beneficiary of a trust	2,330,000	0.21
Ricwinco	3	Directly beneficially owned	87,680,000	7.97
F2 Consultant Limited	4	Owned as nominee	60,671,600	5.51
HSBC International Trustee Limited	5	Through a controlled corporation	60,500,000	5.50
Sun Hung Kai Properties Limited	5	Through a controlled corporation	60,500,000	5.50
Sunco Resources Limited	5	Through a controlled corporation	60,500,000	5.50
SUNeVision Holdings Ltd.	5	Through a controlled corporation	60,500,000	5.50
Hugh Profit Investments Ltd.	5	Through a controlled corporation	60,500,000	5.50
Well Drive Holdings Limited		Directly beneficially owned	<u>60,500,000</u>	<u>5.50</u>

* For identification purpose only

Notes:

1. Peking University Asset Management Company Limited is deemed to be interested in the 603,609,000 shares of the Company under the SFO by virtue of its interest in Peking Founder.
2. Peking Founder is deemed to be interested in the 603,609,000 shares of the Company under the SFO by virtue of its interest in FHL.

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

Notes: (Continued)

3. Mr Yung Chih Shin, Richard is interested in these shares through Ricwinco.
4. F2 Consultant Limited holds the shares of the Company as nominee on behalf of the directors of Founder Data Corporation International Limited ("FDC") who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries.
5. Each of HSBC International Trustee Limited, Sun Hung Kai Properties Limited, Sunco Resources Limited, SUNeVision Holdings Ltd. and Hugh Profit Investments Ltd. is deemed to be interested in the 60,500,000 shares of the Company under the SFO by virtue of its, direct or indirect, interest in Well Drive Holdings Limited.

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

Details of the connected transactions and continuing connected transactions are set out in notes 31(l)(a), 31(l)(b), 31(l)(d) and 31(l)(g) to the financial statements.

The independent non-executive directors of the Company have reviewed the continuing connected transactions as set out in note 31(l)(a) to the financial statements, and have confirmed that these continuing connected transactions were (i) entered into in the ordinary and usual course of the business of the Group; (ii) entered into on terms that are 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 agreement and (iv) within the prescribed limit as set out in the waiver letter in respect of the connected transactions issued by the Stock Exchange.

The independent non-executive directors of the Company have reviewed the continuing connected transactions as set out in note 31(l)(b) to the financial statements, and have confirmed that these continuing connected transactions were (i) entered into in the ordinary and usual course of the business of the Group; (ii) entered into either on normal commercial terms or on terms that are 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 relevant agreements; and (iv) within the prescribed limit as set out in the waiver letter in respect of the connected transactions issued by the Stock Exchange.

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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 of 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 33 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

Zhang Zhao Dong
Chairman

Hong Kong
21 April 2006