

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 1999.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding, systems integration and the trading of computer products. Details of the principal activities of the subsidiaries and jointly-controlled entities are set out in notes 14 and 15 respectively, to the financial statements. There were no material 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 loss from operating activities by principal activity and geographical area of operations for the year ended 31 December 1999 is as follows:

	Turnover <i>HK\$'000</i>	Contribution to loss from operating activities <i>HK\$'000</i>
By principal activity:		
Software development and systems integration	948,760	(99,209)
Hardware distribution	634,313	(119,292)
	<u>1,583,073</u>	<u>(218,501)</u>
By geographical area:		
The People's Republic of China (the "PRC"):		
Hong Kong	248,079	
Elsewhere	1,289,976	
Other countries	45,018	
	<u>1,583,073</u>	

No analysis of the contribution to trading results by geographical area has been prepared as no contribution to loss from any of the above geographical areas is substantially out of line with the normal ratio to turnover.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 1999 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 73.

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

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the 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 pages 75 and 76. This summary is not part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group are set out in note 12 to the financial statements and on page 74 of the annual report.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 14 to the financial statements.

JOINTLY-CONTROLLED ENTITIES

Particulars of the Group's interests in its jointly-controlled entities are set out in note 15 to the financial statements.

BANK LOANS AND OVERDRAFTS

Details of the bank loans and overdrafts of the Company and the Group are set out in note 21 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 23 to the financial statements.

PURCHASE, SALE OR REDEMPTION 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 24 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 1999, the Company had no reserves available for cash distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance. However, the Company's share premium account, in the amount of approximately HK\$866,973,000, 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 total sales for the year. Purchases from the Group's five largest suppliers accounted for 38% (1998: 36%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 24% (1998: 15%).

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	
Zhang Zhao Dong	(resigned on 15 April 1999 and re-appointed on 21 October 1999)
Wei Xin	(appointed on 21 October 1999)
Cheung Yuk Fung	(appointed on 15 April 1999 and resigned on 21 October 1999)
Zhao Wei	(resigned on 15 April 1999)
Xiao Jian Guo	(resigned on 15 April 1999)
Zhou Ning	(resigned on 15 April 1999)
Jiang Bi Jin	(resigned on 15 April 1999)

Non-executive directors:

Wu Shu Qing	(resigned on 16 December 1999)
Ren Yan Shen	(resigned on 16 December 1999)
Hu Hung Lick, Henry*	
Li Fat Chung*	

** Independent non-executive directors*

In accordance with the new Bye-laws of Founder Holdings Limited, Cheung Shuen Lung, Zhang Zhao Dong, Wei Xin, Hu Hung Lick Henry and Li Fat Chung will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 16 to 19 of the annual report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in notes 7 and 8 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for an initial term of five years and continuing thereafter, subject to re-election by the shareholders of the Company. The service contract can be terminated by either the director concerned or the Company giving to the other not less than one year's notice.

The service contracts with Zhao Wei, Xiao Jian Guo, Zhou Ning, Jiang Bi Jin and Cheung Yuk Fung were terminated as a consequence of their resignations as directors of the Company.

Save as disclosed above, 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 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 1999, 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 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 interest in the securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") and recorded in the register required to be maintained pursuant to Section 29 thereof.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

Name of director	Number of outstanding share options at the beginning of year	Exercised during the year	Number of outstanding share options at the end of year	Exercise period of share options	Exercise price of share options HK\$
Wang Xuan	10,800,000	—	10,800,000	21.12.98 to 6.12.05	1.397
Cheung Shuen Lung	9,360,000	—	9,360,000	21.12.98 to 6.12.05	1.397
Zhang Zhao Dong	9,360,000	(9,360,000)*	—	21.12.98 to 6.12.05	1.397
Zhao Wei	9,360,000	(9,360,000)*	—	21.12.98 to 6.12.05	1.397
Xiao Jian Guo	9,360,000	(9,360,000)*	—	21.12.98 to 6.12.05	1.397
Zhou Ning	9,360,000	(9,360,000)*	—	21.12.98 to 6.12.05	1.397
	<u>57,600,000</u>	<u>(37,440,000)</u>	<u>20,160,000</u>		

* The options were exercised by the directors after their resignations.

Save as disclosed above, 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 arrangements to enable the directors to acquire such rights in any other body corporate.

Further details of the Company's share option scheme are set out in note 23 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 December 1999, the following interests of 10% or more of the share capital of the Company were 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	%
Peking University	393,402,210	35.48
Peking University Founder Group Corporation ("Peking Founder")	393,402,210	35.48
Mexican Gold Limited	250,000,000	22.55

Note: Peking Founder is wholly owned by Peking University. The interests disclosed under Peking University represent its deemed interests in the shares of the Company by virtue of its interest in Peking Founder.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" in this report, 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.

RELATED PARTY TRANSACTIONS

The related party transactions undertaken by the Group during the year are set out in note 29 to the financial statements.

The independent non-executive directors of the Company have reviewed the related party transactions as disclosed in note 29 to the financial statements, and have confirmed to the board of directors their opinion that such transactions were conducted in the ordinary course of the Group's business and were 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 28 to the financial statements.

PENSION SCHEME

Details of the pension scheme of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 3 and 5 to the financial statements, respectively.

THE YEAR 2000 ISSUE

Some of the Group's older computer programmes were written using two digits rather than four to define the applicable year. As a result, without modification, those computer programs would have time-sensitive software that recognised a year ending in "00" as the year 1900 rather than the year 2000. This is generally referred to as the Year 2000 Issue. If not corrected, this could have resulted in a system failure or miscalculations, causing disruption in operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in normal business activities.

The Group's definition of being Year 2000 compliant is ensuring that every supporting computer information system continues to function properly and thereby, all the critical business processes continue to operate after 31 December 1999.

The Group completed an assessment of its computer systems in June 1999 and modified or replaced portions of its software so that the computer systems would function properly with respect to dates in the year 2000 and thereafter. The Year 2000 project was completed by November 1999. The total Year 2000 project cost was approximately HK\$3 million, which included HK\$1 million for the purchase of new software and HK\$2 million for internal resources and external consultancy costs. Such costs were expensed as incurred.

No significant problems have arisen within the Group or its major suppliers from the Year 2000 issue. Accordingly, although there were contingency plans in place to deal with any problems, these have not been required.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited (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 but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s articles of association.

To comply with paragraph 14 of the Code of Best Practice, the Company established an audit committee (the “Committee”) with written terms of reference in March 1999 for the purpose of reviewing and providing supervision to the financial reporting process and internal controls of the Group. The Committee comprises two independent non-executive directors.

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

Hong Kong, 25 May 2000