

## REPORT OF THE DIRECTORS

The directors present herewith their annual report and the audited financial statements of Datronix Holdings Limited (“the Company”) and its subsidiaries (together with the Company, “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 Group’s subsidiaries are set out in note 16 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group’s sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group’s total	
	Sales	Purchases
The largest customer	36%	
Five largest customers in aggregate	68%	
The largest supplier		8%
Five largest suppliers in aggregate		32%

Except that the largest customer, Datatronics Romoland, Inc., is a related company in which the Company’s director, Mr. Siu Paul Y., holds approximately 96.5% of its issued share capital directly, none of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company’s share capital) had an interest in the major customers and suppliers noted above.

### SEGMENT INFORMATION

Details of segment information are set out in note 6 to the financial statements.

### FINANCIAL STATEMENTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement on page 24.

The state of affairs of the Group and the Company as at 31 December 2005 are set out in the consolidated balance sheet on page 25 and the balance sheet on page 26 respectively.

The directors recommend the payment of a final dividend of HK\$0.03 (2004: HK\$0.022) per share, totalling HK\$9,600,000 (2004: HK\$7,040,000) for the year ended 31 December 2005.

## FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2005 and of the assets and liabilities as at 31 December 2001, 2002, 2003, 2004 and 2005 is set out on page 68.

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 13 to the financial statements.

## SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2005 are set out in note 16 to the financial statements.

## SHARE CAPITAL AND SHARE OPTION SCHEME

Movements in share capital of the Company during the year are set out in note 22 to the financial statements. There was no change in share capital during the year. During the year, the Company did not grant any share options. Details of the share option scheme of the Company are set out in 2001 annual report.

## RESERVES

Movements in reserves of the Group and the Company during the year are set out in the statements of changes in equity on pages 27 to 28.

## DIRECTORS

The directors who held office during the year and up to the date of this report were:

### **Executive directors**

Mr. Siu Paul Y. alias Siu Paul Yin Tong, *Chairman*

Ms. Shui Wai Mei, *Vice Chairman*

Mr. Sheung Shing Fai

Ms. Siu Nina Margaret (*Note*)

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

Mr. Chung Pui Lam

Mr. Lam Tak Shing

Mr. Chan Fai Yue, Leo

## REPORT OF THE DIRECTORS

### DIRECTORS (Continued)

In accordance with Bye-laws 87(1) of the Company's Articles of Association, Mr. Sheung Shing Fai and Ms. Siu Nina Margaret will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

*Note:* Ms. Siu Nina Margaret has been re-designated from non-executive director to executive director of the Company with effect from 7 July 2005.

Amongst the executive directors, Mr. Siu Paul Y., Ms. Shui Wai Mei and Mr. Sheung Shing Fai have each entered into a service contract with the Company for an initial fixed term of three years commencing from 22 June 2001 while Ms. Siu Nina Margaret has entered into a service contract with the Company for an initial fixed term of three years commencing from 7 July 2005. Such contracts will continue thereafter until terminated by not less than three month's notice in writing served by either party on the other. Each of these directors is entitled to a basic salary, which is determined on the basis of his/her qualification, experience, involvement in and contribution to the Company and by reference to the market rate (subject to annual increment of not more than 15% of the annual salary of the relevant directors immediately prior to such increase).

In addition, the executive directors are also entitled to a management bonus of a sum at the discretion of the directors, provided that the aggregate amount of management bonuses payable to all the executive directors shall not be more than 5% of the audited consolidated or combined net profit of the Group (after taxation and minority interest and the payment of such bonus but excluding extraordinary and exceptional items) in respect of each financial year of the Company. An executive director may not vote on any resolution of the directors regarding the amount of the management bonus payable to him.

Save as aforesaid, none of the directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 24 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent enterprise was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2005, the directors had the following interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company pursuant to Section 352 of the SFO:

### a) The Company

	Ordinary shares of HK\$0.1 each			Total
	Personal interests	Family interests	Corporate interests	
Mr. Siu Paul Y.	–	–	240,000,000	240,000,000
			(Note 1)	

### b) Associated corporation

	Name of corporation	Non-voting deferred shares of HK\$1 each			Total
		Personal interests	Family interests	Corporate interests	
Mr. Siu Paul Y.	Datatronic Limited	1	–	199,999	200,000
				(Note 2)	

#### Notes:

1. These shares are held by Onboard Technology Limited, a company incorporated in the British Virgin Islands, and in which Mr. Siu Paul Y. and Ms. Shui Wai Mei beneficially own 90% and 10% of its issued share capital respectively, representing 75% of the issued share capital of the Company.
2. These shares are held by Data Express Limited, a company incorporated in the Republic of Liberia, whose entire issued share capital is beneficially owned by Mr. Siu Paul Y..

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executives of the Company or their respective associates in the shares and underlying shares of the Company or its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code of Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the directors and chief executives (including their spouses and children under the age of 18), had, as at 31 December 2005, any interest in, or had been granted any right to subscribe for the securities and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

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### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

As far as is known to any director or chief executives of the Company, as at 31 December 2005, shareholders (other than the directors or chief executives of the Company) interested in 5% or more in the shares or underlying shares of the Company as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

### LONG POSITIONS IN THE SHARES OF THE COMPANY

Shareholders	Capacity	No. of shares held	% of issued share capital of the Company
Fortune Treasure Worldwide Limited	Beneficial owner	21,784,000	6.80
Lee Pei Jin	Beneficial owner	18,974,000	5.92

Save as disclosed above, as at 31 December 2005, the Company has not been notified by any persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

### 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 listed securities of the Company during the year.

### CONNECTED TRANSACTIONS

The related party transactions disclosed in note 24 to the financial statements constituted connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Datatronic Limited (“DL”), a wholly owned subsidiary of the Company, and Datatronics Romoland, Inc. (“DRI”) entered into a 3rd Master Supply Agreement on 1 August 2005 (“the 3rd Master Supply Agreement”) which superseded the 2nd Master Supply Agreement dated 7 April 2004 in respect of the supply of magnetics to DRI by DL.

The 3rd Master Supply Agreement for a fixed term of three years from 1 January 2005 and on effectively the same terms and conditions of the Master Supply Agreement and the 2nd Master Supply Agreement was entered into on 1 August 2005 superseding the 2nd Master Supply Agreement until terminated by either party giving to the other party not less than three months’ written notice. Pursuant to the 3rd Master Supply Agreement, the selling prices of the magnetics are to be agreed between DL and DRI. DL will determine the price of the magnetics required by DRI according to its pricing policy of obtaining a reasonable profit margin for its sales in accordance with the prevailing market conditions, on normal commercial terms and on an arm’s length basis. DL has been granted a first refusal right by DRI to the effect that, unless DL declines the order, DRI undertakes not to source magnetics from any third-party supplier provided that the terms of purchase offered to the third-party supplier are not more favourable than those to DL. The total purchases made by DRI during the year ended 31 December 2005 was approximately HK\$74,422,000 (2004: HK\$38,985,000).

The directors, including the independent non-executive directors, of the Company have reviewed the connected transactions and have confirmed that the connected transactions were entered into:

- (i) in the ordinary and usual course of business;
- (ii) on terms no less favourable than those available to independent third parties; and
- (iii) on terms that are fair and reasonable and in the interests of the shareholders as a whole.

# REPORT OF THE DIRECTORS

## CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (“the Code”) as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the annual report, except for the following deviations:

### **Code Provision A.2.1**

Under the provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The roles of chairman and chief executive officer of the Company have been performed by Mr. Siu Paul Y.. The Board considered that the non-segregation has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

### **Code Provision A.4.1**

The non-executive directors were not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company.

### **Code Provision A.4.2**

Under the provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the provisions of the Bye-laws of the Company, any director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Furthermore, at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

Amendments of the Bye-laws of the Company will be proposed at the forthcoming annual general meeting in order to comply with the Code.

### UPDATED INFORMATION ON PUBLIC SHAREHOLDING AND PROPOSAL FOR RESUMPTION OF TRADING OF SHARES

Trading in the shares of the Company has been suspended since 15 August 2002 due to the public float issue of the Company. Subsequent to the Company's announcement dated 5 January 2006 on the proposal to place an aggregate of 74,406,000 shares of the Company by private placement, negotiations have been undertaken on behalf of the Vendors with a number of interested purchasers/ placees. The Company hopes that the proposed placement and the intended application for resumption of trading of shares of the Company shall be concluded as soon as possible.

### AUDITORS

The financial statements have been audited by CCIF CPA Limited. A resolution for their re-appointment as the Company's auditors for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

**Siu Paul Y.**  
*Chairman*

Hong Kong, 16 March 2006