

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the Group during the year were sales of information technology products and provision of customised information system consultancy and integration services, and information technology valued-added services. An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed on 28 February 2005, the English name of the Company was changed from Hi Sun Group Limited to Hi Sun Technology (China) Limited and the Chinese name of the Company was changed from 高陽集團有限公司 to 高陽科技(中國)有限公司, with effect from 28 February 2005.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 27.

The Directors do not recommend the payment of a dividend (2003: Nil).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options are set out in note 20 to the accounts.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company did not have any reserves available for distribution as calculated under the Companies Act 1981 of Bermuda (as amended) (2003: Nil). However, the Company's share premium account, in the amount of HK\$100,556,000 (2003: HK\$100,556,000) may be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 60.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

CHEUNG Yuk Fung

KUI Man Chun

LO Siu Yu

XU Wensheng

LI Wenjin

CHAN Yiu Kwong

XU Chang Jun

ZHOU Jian *(appointed on 31 May 2004)*

WANG Xiao Qing *(resigned on 24 February 2004)*

SU Terry Lumin *(resigned on 2 February 2005)*

Independent non-executive Directors:

TAM Chun Fai *(appointed on 31 May 2004)*

LEUNG Wai Man, Roger *(appointed on 23 September 2004)*

XU Sitao

LAU Wai Kit *(resigned on 27 April 2004)*

In accordance with the Company's bye-laws 86(2), Zhou Jian, Tam Chun Fai, Leung Wai Man, Roger will hold office until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws 87(1) and 87(2), all of the Directors, except for Chairman of the Board of Directors, Cheung Yuk Fung who shall continue in office, are subject to retirement by rotation and re-election at the annual general meeting of the Company.

Lo Siu Yu, Xu Wensheng and Li Wenjin will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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DIRECTORS' SERVICE CONTRACTS

As at the date of this report, each of Mr. Kui Man Chun, Mr. Lo Siu Yu, Mr. Xu Wensheng, Mr. Li Wenjin, Mr. Chan Yiu Kwong and Mr. Xu Chang Jun has entered into a service contract with the Company for a term of one year from 1 January 2004 and shall continue thereafter unless and until terminated by either the Company or the Directors giving to the other not less than a notice of three months. Save as disclosed herein, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group (excluding contracts expiring or determinable within one year without payment of compensation, other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 10 to 12.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests and short positions of each Director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:—

(a) Ordinary shares of HK\$0.01 each in the Company

Name of Director	Personal Interest	Number of shares held	
		Corporate Interest (Note)	Total (Note)
Kui Man Chun	—	189,270,909	189,270,909

Note: These shares are held by Kui Man Chun through Hi Sun Limited, a company which Kui Man Chun holds a 99.16% interest, and Rich Global Limited, a wholly-owned subsidiary of Hi Sun Limited.

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(b) Ordinary shares in associated corporations

Name of Director	Name of associated corporation	Number of shares held	Category of interest
Kui Man Chun	Rich Global Limited	2 ordinary shares	Corporate
Kui Man Chun	Hi Sun Limited	30,245,000 ordinary shares	Personal
Li Wenjin	Hi Sun Limited	255,000 ordinary shares	Personal

Save as disclosed above, none of the Directors or chief executive had any interests or short positions in the shares, or underlying shares in, or debentures, of the Company or any of its associated corporations.

Save as disclosed under the heading "Share Option Scheme" below, at no time during the year was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or other body corporate.

SHARE OPTION SCHEME

(a) The Company

The Company operates a share option scheme (the "Scheme") for the purpose of attracting, retaining and motivating talented employees in order to strive for future developments and expansion of the Group. Eligible participants of the Scheme include the Group's full-time employees, and executive and non-executive Directors. The Scheme became effective on 29 November 2001 and unless otherwise cancelled or amended, will remain valid and effective for a period of 10 years from that date.

The total number of shares in respect of which options may be granted shall not (together with all the other Schemes, if any) exceed 10% of the total issued capital of the Company as at date of approval of the Scheme unless the Company obtains a fresh approval from shareholders to renew the 10% limit.

The maximum number of shares in respect of which options may be granted under the Scheme, together with any unexercised share options granted under the Scheme and any other share option schemes of the Company in issue, may not exceed 30% of the relevant class of securities of the Company in issue at any time. As at 31 December 2004, 33,000,000 share options had been granted.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company or to any of their associates, in excess of 1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, and commences either immediately or after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Hong Kong Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Hong Kong Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Movements in the Share Options

On 18 March 2004, the Company had granted 33,000,000 share options to certain Directors and employees at HK\$0.374 (the average closing price of the shares as quoted in the daily quotations sheets issued by the Hong Kong Stock Exchange for the five business days immediately preceding 18 March 2004) with an expiry date of 17 March 2014.

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There are no changes in any term of the Scheme during the year. As at 31 December 2004, the particulars of the options granted to each of the Directors and employees of the Company under the Scheme are as follows: –

Name	Date of grant	Exercise price (HK\$)	Number of options held at 1 January 2004	Granted during the year	Lapsed during the year	Exercised during the year	Number of options held at 31 December 2004
Directors							
Mr. Kui Man Chun	18 March 2004	0.374	–	3,000,000	–	–	3,000,000
Mr. Lo Siu Yu	18 March 2004	0.374	–	3,300,000	–	–	3,300,000
Mr. Xu Wensheng	18 March 2004	0.374	–	3,300,000	–	–	3,300,000
Mr. Li Wenjin	18 March 2004	0.374	–	3,300,000	–	–	3,300,000
Mr. Xu Chang Jun	18 March 2004	0.374	–	3,300,000	–	–	3,300,000
Mr. Chan Yiu Kwong	18 March 2004	0.374	–	1,500,000	–	–	1,500,000
Mr. Su Terry Lumin (<i>Note</i>)	18 March 2004	0.374	–	1,500,000	–	–	1,500,000
			–	19,200,000	–	–	19,200,000
Other employees							
(In aggregate)	18 March 2004	0.374	–	13,800,000	–	–	13,800,000
			–	33,000,000	–	–	33,000,000

The exercisable period of the above share options is from 18 March 2004 to 17 March 2014 (both dates inclusive).

The directors considers the disclosure of the value of options granted during the year ended 31 December 2004 is not appropriate, as the variables which are crucial for the calculation of such option value has not been determined. Such variables include the date of exercise and other relevant conditions. As such, the directors believe that any calculation of the value of the options based on a number of speculative assumptions will not be meaningful and will be misleading to the shareholders in the circumstances.

Note: Mr. Su Terry Lumin has resigned as Director of the Company on 2 February 2005. On the same day, he has been re-designated as the Deputy Chairman and Director of Pax Technology Limited, one of the wholly-owned subsidiaries of the Company. As at the date of this report, the share options granted to Mr. Su for 1,500,000 shares are still valid.

(b) Employee incentive scheme of a subsidiary

On 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed Technology Limited (“Turbo Speed”), to adopt an employee incentive scheme (the “Employee Incentive Scheme”) to motivate the employees of Turbo Speed and its subsidiaries. Details of an Employee Incentive Scheme was disclosed in the circular dated 18 March 2005.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2004, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executive.

Name of shareholder	Number of ordinary shares
Rich Global Limited ("RGL")	189,270,909
Hi Sun Limited ("HSL")	189,270,909 (Note 1)
Pacific Pilot Limited	30,000,000

Note:

(1) HSL is interested in the Company's share capital by virtue of its 100% shareholding in RGL.

CONNECTED TRANSACTIONS

Certain significant related party transactions entered by the Group during the year ended 31 December 2004, which also constitute connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14A of the Listing Rules, are disclosed in note 26 to the accounts.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for 48% of the total sales of the Group. The sales attributable to the largest customer included therein was about 15% of the Group's total sales. During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange, except that the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation pursuant to the Company's bye-laws.

The Code of Best Practice has been replaced by the Code on Corporate Governance Practices and Corporate Governance Report (Appendices 14 and 23 of the Listing Rules) on 1 January 2005. Compliance of the new Code by the Company will be required commencing from the year ending 31 December 2005.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation and will provide comments and advice to the Board of directors. The audit committee has reviewed the audited accounts for the year ended 31 December 2004.

The Committee comprises three independent non-executive Directors, Tam Chun Fai, Leung Wai Man, Roger and Xu Sitao. Two meetings were held during the current financial year.

SUBSEQUENT EVENTS

(a) Change of company name

Pursuant to a special resolution passed on 28 February 2005, the English name of the Company was changed from Hi Sun Group Limited to Hi Sun Technology (China) Limited and the Chinese name of the Company was changed from 高陽集團有限公司 to 高陽科技(中國)有限公司, with effect from 28 February 2005.

(b) Issue of convertible preference shares by a subsidiary

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed Technology Limited ("Turbo Speed"), to issue 6,837,608 convertible preference shares of US\$0.10 each for a total subscription price of US\$4 million (approximately HK\$31.2 million) under the subscription agreement entered into with independent third parties on 9 November 2004 (the "Subscription"). Details of the subscription are summarised in note 16.

(c) Adoption of employee incentive scheme of a subsidiary

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved its wholly-owned subsidiary, Turbo Speed, to adopt an employee incentive scheme (the "Employee Incentive Scheme") to the employees of Turbo Speed and its subsidiaries to subscribe for a maximum of 4,682,275 ordinary shares of Turbo Speed, representing approximately 13% of the existing issued share capital of Turbo Speed and approximately 11% of the issued share capital of Turbo Speed as enlarged by the Subscription, with an exercisable period from 4 April 2005 to 31 December 2008 (both dates inclusive).

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Cheung Yuk Fung

Chairman

Hong Kong, 22 April 2005