

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2005.

### **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 operation value-added services.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 39.

The Directors do not recommend the payment of a dividend (2004: Nil).

### **RESERVES**

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

### **DONATIONS**

Charitable and other donations made by the Group during the year amounted to HK\$1,923,000.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the financial statements.

### **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 financial statements.

### **DISTRIBUTABLE RESERVES**

As at 31 December 2005, the Company did not have any reserves available for distribution as calculated under the Companies Act 1981 of Bermuda (as amended) (2004: Nil). However, the Company's share premium account, in the amount of HK\$100,556,000 (2004: HK\$100,556,000) may be distributed in the form of fully paid bonus shares.

# REPORT OF THE DIRECTORS

## 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 100.

## 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

SU Terry Lumin

*(resigned on 2 February 2005)*

### Non-executive Director:

LIU Yangsheng, Charles

*(appointed on 17 May 2005 and resigned on 17 April 2006)*

### Independent non-executive Directors:

TAM Chun Fai

LEUNG Wai Man, Roger

XU Sitao

In accordance with the Company's bye-laws 87(1) and 87(2), one-third of the Directors of the Company are subject to retirement by rotation and re-election at the annual general meeting of the Company.

Messrs. Cheung Yuk Fung, Kui Man Chun, Chan Yiu Kwong and Xu Chang Jun 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. LI Wenjin, Mr. LO Siu Yu, Mr. XU Wensheng, Mr. XU Chang Jun and Mr. CHAN Yiu Kwong 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 page 10 to 12.

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

As at 31 December 2005, 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	Number of shares held		Total
	Personal interest	Corporate Interest	
Kui Man Chun ( <i>Note</i> )	–	189,270,909	189,270,909
Liu Yangsheng, Charles	512,000	–	512,000

*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. On 18 March 2004, 33,000,000 share options were granted 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 Stock Exchange of Hong Kong Limited for the five business days immediately preceding 18 March 2004) with an expiry date of 17 March 2014.

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Pursuant to an ordinary resolution passed on 17 August 2005, a refreshment of the limit on grant of options under the Scheme was approved by the shareholders. Upon refreshing the 10 per cent limit on grant of options under the Scheme, 33,305,403 shares may be issued pursuant to the grant of further options under the Scheme.

On 26 September 2005, 33,300,000 share options were granted to certain directors and employees at HK\$0.768 (the average closing price of the shares as quoted in the daily quotations sheets issued by the Stock Exchange of Hong Kong Limited for the five business days immediately preceding 26 September 2005) with an expiry date of 25 September 2015.

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.

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As at 31 December 2005, the particulars of the options granted to each of the Directors and employees of the Company under the Scheme are as follows:–

Movements in the Share Options:

Name	Date of grant	Exercise price (HK\$)	Number of options held at 1 January 2005	Granted during the year	Lapsed during the year	Exercised during the year	Number of options held at 31 December 2005
<b>Directors</b>							
Mr. Kui Man Chun	18 March 2004*	0.374	3,000,000	–	–	–	3,000,000
	26 September 2005**	0.768	–	3,300,000	–	–	3,300,000
Mr. Lo Siu Yu	18 March 2004*	0.374	3,300,000	–	–	–	3,300,000
	26 September 2005**	0.768	–	3,300,000	–	–	3,300,000
Mr. Xu Wensheng	18 March 2004*	0.374	3,300,000	–	–	–	3,300,000
	26 September 2005**	0.768	–	3,300,000	–	–	3,300,000
Mr. Li Wenjin	18 March 2004*	0.374	3,300,000	–	–	–	3,300,000
	26 September 2005**	0.768	–	3,300,000	–	–	3,300,000
Mr. Xu Chang Jun	18 March 2004*	0.374	3,300,000	–	–	–	3,300,000
	26 September 2005**	0.768	–	3,300,000	–	–	3,300,000
Mr. Chan Yiu Kwong	18 March 2004*	0.374	1,500,000	–	–	–	1,500,000
	26 September 2005**	0.768	–	1,000,000	–	–	1,000,000
Mr. Su Terry Lumin (Note 1)	18 March 2004*	0.374	1,500,000	–	–	–	1,500,000
			19,200,000	17,500,000	–	–	36,700,000
<b>Employees</b>							
(In aggregate) (Note 2)	18 March 2004*	0.374	13,800,000	–	–	–	13,800,000
	26 September 2005**	0.768	–	15,800,000	–	–	15,800,000
			33,000,000	33,300,000	–	–	66,300,000

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

\*\* The option period commences on 26 September 2005 and expires 10 years thereafter. Options granted are vested as follows:

On 26 September 2005  
On 26 September 2006

Up to 50%  
Up to 100%

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*Note:*

1. 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 a Director and Deputy Chairman of Pax Technology Limited, one of the wholly-owned subsidiaries of the Company. As at 31 December 2005, the share options granted to Mr. Su for 1,500,000 shares are still valid.

On 26 January 2006, Mr. Su exercised 1,500,000 share options at the exercise price of HK\$0.374, result in the issue of 1,500,000 additional ordinary shares of the Company. On 27 January 2006, Mr. Su has resigned as the Deputy Chairman and Director of Pax Technology Limited.

2. Subsequent to the year end up to the date of this report, the total aggregate number of 7,300,000 share options have been exercised at the exercise price of HK\$0.374 by the employees of the Company, which result in the issue of 7,300,000 additional ordinary shares of the Company.

As at the date of this report, the Company has 59,000,000 share options outstanding.

### **(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 subsidiary (the “Turbo Speed Group”). Eligible participants of the Employee Incentive Scheme include the full-time employees of Turbo Speed or any of its subsidiaries, including any directors of Turbo Speed or any of its subsidiary (but excluding any person who is a Director of the Company) provided always that such term shall exclude any person who has tendered his resignation or who at the relevant time is working out his period of notice pursuant to his employment contract or otherwise. The Scheme became effective from 4 April 2005 and is valid till 31 December 2008, unless terminated by resolution of a remuneration committee formed by the Board to administer the Employee Incentive Scheme (the “Committee”).

The total number of shares in respect of which options may be granted shall not exceed 4,682,275 ordinary shares of Turbo Speed (“Turbo Speed Shares”), representing approximately 11% of the issued share capital of Turbo Speed as enlarged by the subscription of convertible preference shares, currently held by a wholly-owned subsidiary of the Company. Options may be offered to any Employee determined by the Committee in its absolute discretion from time to time by reference to: (i) the performance of that Employee; and (ii) the financial performance of the Turbo Speed Group and the extent to which the Turbo Speed Group has achieved its intended business plans. The maximum number of the Turbo Speed Shares which may be offered to an employee who is also a director of companies within the Turbo Speed Group in any 12-month period may not exceed 1% of the entire issued share capital of Turbo Speed.

On 8 July 2005, 1,425,000 share options had been granted to certain directors and employees of Turbo Speed Group to subscribe ordinary shares of Turbo Speed at an exercise price of HK\$1.922 per share. The exercisable period of the above share options is from 8 July 2005 to 31 December 2008 (both dates inclusive). Up to the date of this report, 780,000 share options had been lapsed, following the cessation of employment of certain employees and no share options had been exercised. As at the date of this report, Turbo Speed has 645,000 share options outstanding.

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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 2005, 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 ( <i>Note</i> )
Pacific Pilot Limited	30,000,000

*Note:* HSL is interested in the Company's share capital by virtue of its 100% shareholding in RGL.

### CONNECTED TRANSACTIONS

Other significant related party transactions entered by the Group during the year ended 31 December 2005, which also constitute connected transactions under the Listing Rules, are disclosed in note 30 to the financial statements.

### 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

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

#### Purchases

– the largest supplier	13%
– five largest suppliers combined	25%

#### Sales

– the largest customer	31%
– five largest customers combined	65%

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.



### CONVERTIBLE PREFERENCE SHARES ISSUED BY A SUBSIDIARY

On 9 November 2004, Turbo Speed Technology Limited (“Turbo Speed”), a wholly-owned subsidiary of the Company, entered into a subscription agreement with independent third parties in relation to the subscription of 6,837,608 convertible preference shares of US\$0.10 each of Turbo Speed for a total subscription price of US\$4 million (approximately HK\$31.2 million) (“the Subscription”). The subscription price had been received by Turbo Speed shortly after signing of the said subscription agreement and was held in jointly controlled bank account and would be released on completion of the Subscription.

Pursuant to an ordinary resolution passed on 4 April 2005, the Company approved the Subscription and the Subscription was completed on 29 April 2005, details of which are set out in note 23. During the year, no convertible preference shares had been converted into new ordinary shares of Turbo Speed and the Company.

### SUBSEQUENT EVENTS

#### (i) Issue of new ordinary shares

On 21 March 2006, the Company entered into a subscription agreement with Huge Rising Limited (the “Subscriber”), a company incorporated in the British Virgin Islands, in relation to the subscription by the Subscriber at a price of HK\$1.46 per share (the “Subscription Price”) of an aggregate of 66,000,000 new ordinary shares of HK\$0.01 each to be issued by the Company (the “Subscription Shares”). The Subscription Price is to be paid in cash on completion of the subscription agreement.

The Subscriber is an investment holding company and the ultimate beneficial owner of which is Mr. Che Fung, which are both third parties independent of the Company and connected persons of the Company.

The Subscription Shares represented approximately 19.73% of the issued share capital of the Company as at 21 March 2006 and approximately 16.48% of the share capital as enlarged by the issue of the Subscription Shares after completion.

The Subscription Price was determined after arm’s length negotiation between the Company and the Subscriber and with reference to the prevailing market prices of the shares of the Company. The Subscription Price represents (i) a discount of approximately 19.78% to the closing price of HK\$1.82 per share as quoted on the Stock Exchange of Hong Kong Limited on 20 March 2006; (ii) a discount of approximately 19.25% to the average closing price of HK\$1.808 per share for the last 5 trading days ended 20 March 2006 and (iii) a discount of approximately 8.98% to the average closing price of HK\$1.604 per share for the last 20 trading days ended 20 March 2006.

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The net proceeds from the subscription of approximately HK\$96 million will be utilised for future investments or developments in outsourcing services, research and development of electronic payment products and general working capital of the Group. The net price per Subscription Share (based on the amount of net proceeds from the subscription) is approximately HK\$1.45 price per Subscription Share.

The subscription was completed on 31 March 2006 which result in the issue of additional 66,000,000 new ordinary shares of the Company.

### **(ii) Exercise of share options**

Subsequent to the year end and up to the date of this report, the total aggregate number of 7,300,000 share options have been exercised, which result in the issue of 7,300,000 additional ordinary shares of the Company. Particulars of the Share Options are set out in note 20 to the financial statements. As at the date of this report, the Company has 59,000,000 share options outstanding.

### **PENSION SCHEME**

The subsidiaries operating in Hong Kong are required to participate in a defined contribution retirement scheme of the Group or Company set up in accordance with the Hong Kong Mandatory Provident Fund Ordinance. Under the scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

In addition, pursuant to the government regulations in the People's Republic of China (the "PRC"), the Group is required to contribute an amount to certain retirement benefit schemes based on approximately 7% to 20% of the wages for the year of those workers in the PRC. The local municipal government undertakes to assume the retirement benefits obligations of those workers of the Group.

### **DIRECTORS' INTEREST IN COMPETING BUSINESS**

None of the Directors have an interest in any business constituting a competing business to the Group.

### **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of its directors, the Directors confirmed that the Company has maintained during the year the amount of public float as required under the Listing Rules.

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### AUDITORS

The financial statements 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, 21 April 2006