

## REPORT OF THE DIRECTORS

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The Directors present their annual report and the audited financial statements for the year ended 31 December 2003.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 12 and 13 to the financial statements respectively.

### RESULTS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 32.

The Directors do not recommend the payment of a dividend for the year.

### FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group is set out on page 76 of this report.

### SHARE CAPITAL AND WARRANTS

At the balance sheet date, the Company had outstanding 576,310,006 units of warrants. No registered holder exercised their rights during the year. Exercise in full of such warrants would result in the issue of 576,310,006 additional ordinary shares of the Company of US\$0.001 each.

Details of the movements of the Company's share capital and warrants are set out in notes 25 and 27 to the financial statements respectively.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements of the property, plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the applicable law of Bermuda.

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## DIRECTORS

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

### Chairman

Dr. Yang Ding-Yuan

### Vice-chairman

Ms. Meng Tung-Mei, Grace

### Executive Director

Dr. Hu Ding-Hua

(resigned on 30 March 2004)

### Independent Non-executive Directors

Professor Edward S. Yang

Mr. Chan Ting Fung, Tim

In accordance with 87(2) of the Company's Bye-laws, Professor Edward S. Yang, shall retire from office at the forthcoming annual general meeting, being eligible, offer himself for re-election.

## DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE NOTES

At 31 December 2003, the interest and short positions of the directors and their associates in the shares, underlying and convertible notes of the Company and its associates corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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 Companies, were as follows:

### Long Positions

(a) *Ordinary shares of US\$0.001 each of the Company*

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Yang Ding-Yuan	Held by controlled corporation (Note)	5,094,288,616	55.77%

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### DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE NOTES (continued)

(b) *Share options*

Name of director	Capacity	Number of issued ordinary shares held	Number of underlying shares
Yang Ding-Yuan	Beneficial owner	50,000,000	50,000,000

(c) *Convertible note of the Company*

Name of director	Capacity	Amount	Number of underlying shares
Yang Ding-Yuan	Held by controlled corporation ( <i>Note</i> )	HK\$9,315,000	232,875,000

*Note:* Dr. Yang Ding-Yuan and his family members own 100% equity interests in S.T.J. Technology Limited ("STJ") which owns 5,094,288,616 shares of the Company as at 31 December 2003. STJ also owns 232,875,000 underlying shares under a non-interest bearing convertible note in the principal amount of HK\$9,315,000 due in August 2004.

Other than as disclosed above, none of the directors nor their associates has any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2003.

### SHARE OPTIONS

Pursuant to the Company's share option schemes adopted on 19 November 2001 and 11 December 1996, the Directors of the Company, at their discretion, may grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group. Details of the Company's share option schemes are set out in note 26 to the financial statements.

During the year, the movements in the number of options outstanding which have been granted to the Directors, executives and employees of the Company under the Company's share option schemes were as follows:

	Date of grant	Exercise period	Exercise price HK\$	Number of share options			At 31 December 2003
				At 1 January 2003	Granted during the year	Cancelled during the year	
<b>Directors</b>							
Yang Ding-Yuan	30 April 2002	30 April 2002 – 29 April 2012	0.050	50,000,000	–	–	50,000,000

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### SHARE OPTIONS (continued)

	Date of grant	Exercise period	Exercise price HK\$	At 1 January 2003	Number of share options		At 31 December 2003
					Granted during the year	Cancelled during the year	
Hu Ding-Hua	30 April 2002	30 April 2002 – 29 April 2012	0.050	50,000,000	–	–	50,000,000
Meng Tung-Mei Grace	30 April 2002	30 April 2002 – 29 April 2012	0.050	50,000,000	–	–	50,000,000
Yang S. Edward	30 April 2002	30 April 2002 – 29 April 2012	0.050	50,000,000	–	–	50,000,000
Chan Ting-Fung, Tim	30 April 2002	30 April 2002 – 29 April 2012	0.050	50,000,000	–	–	50,000,000
<b>Sub-total</b>				<b>250,000,000</b>	<b>–</b>	<b>–</b>	<b>250,000,000</b>
<b>Executives and employees</b>							
	30 April 2002	1 January 2003 – 29 April 2012	0.050	31,200,000	–	–	31,200,000
	30 April 2002	1 January 2004 – 29 April 2012	0.050	23,400,000	–	–	23,400,000
	30 April 2002	1 January 2005 – 29 April 2012	0.050	23,400,000	–	–	23,400,000
	24 January 2003	27 June 2003 – 23 January 2013	0.021	–	60,000,000	–	60,000,000
	28 January 2003	1 February 2004 – 27 January 2013	0.020	–	20,000,000	–	20,000,000
	28 January 2003	1 February 2005 – 27 January 2013	0.020	–	16,000,000	–	16,000,000
<b>Sub-total</b>				<b>78,000,000</b>	<b>96,000,000</b>	<b>–</b>	<b>174,000,000</b>
<b>Grand total</b>				<b>328,000,000</b>	<b>96,000,000</b>	<b>–</b>	<b>424,000,000</b>

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### SHARE OPTIONS (continued)

The closing price of the Company's shares immediately before 24 January 2003 and 28 January 2003, the dates of grant of the share options, were HK\$0.021 and HK\$0.020 respectively.

As at 31 December 2003, no options were exercised by the Directors of the Company. The share options granted are not recognised in the financial statements until they are exercised. The fair values of the options granted during the year measured as at the dates of grant on 24 January 2003 and 28 January 2003 were HK\$0.0197 and HK\$0.0206, respectively. The following significant assumptions were used to derive the fair values using the Black-Scholes option-pricing model:

Date of grant	24 January 2003	28 January 2003
Expected life (in years)	10	10
Expected volatility based on historical volatility of share prices	151%	151%
Expected annual dividend yield	Nil	Nil
Hong Kong Exchange Fund Notes rate	3.93%	4.45%

The Black-Scholes option-pricing model requires input of highly subjective assumptions, including the volatility of share price. Because changes in the subjective input assumptions can materially affect the fair value estimate, the existing model does not necessarily provide a reliable measure of the fair value of the share options.

For the purpose of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the warrant and option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements 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.

### DIRECTORS' SERVICE CONTRACTS

There are no service contracts which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

The term of office for each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

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## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

The Group leased equipments to UniSVR Global Information Technology Corp. ("UniSVR") during the year and rental income amounted to approximately US\$150,000 was received during the year ended 31 December 2003. UniSVR is a company incorporated in Taiwan in which Dr. Yang Ding-Yuan, a director of the Company, has a beneficial interest.

In addition, the Group paid research and development fee amounted to approximately US\$224,000 to UniSVR for the employment of the research and development services during the year ended 31 December 2003.

During the year, the Group provided IC design services to 創傑科技股份有限公司 amounting to approximately US\$257,000. Dr. Yang Ding-Yuan is also one of the directors of 創傑科技股份有限公司.

No other contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2003, the register of the substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following shareholder's interests, being 5% or more of the issued share capital:

Name of shareholder	Notes	Number of shares held in the Company			Percentage of the issued share capital of the Company
		Direct interests	Deemed interest	Total interests	
Global Innovation Investment Limited ("GILL")	(i)	4,564,370,084	–	4,564,370,084	49.97%
STJ	(i)	529,918,532	4,564,370,084	5,094,288,616	55.77%
Dr. Yang Ding-Yuan	(ii)	–	5,094,288,616	5,094,288,616	55.77%

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### Notes:

- (i) GILL, a company incorporated in Cayman Islands with limited liability, is a 70% owned subsidiary of STJ, a company incorporated in British Virgin Islands. STJ is deemed by the SFO to have interests in the Company's shares which are directly held by GILL.
- (ii) STJ is wholly owned by Dr. Yang Ding-Yuan and his family members. Dr. Yang Ding-Yuan is therefore, by virtue of the SFO, deemed to be interested in the Company's shares in which STJ is interested.

Save as disclosed above, as at 31 December 2003, the Company has not been notified by any persons (other than Directors and chief executive of the Company) who has interests or short positions in the share 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.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentages of purchases attributable to the Group's five largest suppliers combined and the sales made to the Group's five largest customers combined were less than 30% of the Group's total value of purchases and sales, respectively.

### CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the convertible note, share options and warrants as set out in notes 23, 26 and 27 to the financial statements respectively, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2003.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company, nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

### POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 35 to the financial statements.

### CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange except that the guidelines set out in paragraph 7 of the Code of Best Practice have not been fully complied with in that the independent non-executive directors are not appointed for a specific term but subject to retirement by rotation at Annual General Meeting of the Company in accordance with the provisions of the Company's Bye-laws.

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### AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**DR. YANG DING-YUAN**  
*CHAIRMAN*

Hong Kong, 23 April 2004

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