

# Report of the Directors

The directors submit their annual report together with the audited accounts for the year ended 31st December 2003.

## **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 13 to the accounts.

An analysis of the Group's performance for the year by business and geographical segment is set out in note 2 to the accounts.

## **RESULTS AND APPROPRIATIONS**

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

The directors had declared an interim dividend of US0.31 cent per ordinary share, totalling approximately US\$4,184,000, which was paid on 15th October 2003.

The directors recommend the payment of a final dividend of US1.12 cents per ordinary share, totalling approximately US\$15,425,000 in respect of the year ended 31st December 2003.

The proposed final dividend is payable in cash to shareholders in US dollars save that those shareholders whose names appearing on the register of members of the Company in Hong Kong will receive the equivalent amount in HK dollars and those shareholders whose names appearing on the record of members of the Company in Singapore will receive the equivalent amount in Singapore dollars, both calculated at the relevant exchange rates quoted by Standard Chartered Bank in Hong Kong at or about 11:00 a.m. on 14th May 2004.

The dividend cheques will be distributed to shareholders on or about Friday, 28th May 2004.

## **RESERVES**

Movements in the reserves of the Company and of the Group during the year are set out in note 24 to the accounts.

## **FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

## **DONATIONS**

Charitable and other donations made by the Group during the year amounted to US\$37,771.

## **SHARE CAPITAL**

Details of the movements in share capital of the Company are set out in note 23 to the accounts.

# Report of the Directors

## SHARE OPTION

### Previous Scheme

At the annual general meeting of the Company held on 15th May 2003, the shareholders approved the adoption of a new share option scheme (the "New Scheme") and the termination of the operation of the Company's share option scheme adopted on 21st September 1999 (the "Previous Scheme") (such that no further options shall thereafter be offered under the Previous Scheme but the provisions of the Previous Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior to the date of its termination).

Details of the movements of options under the Previous Scheme are as follows:

Date of grant	Note	Exercise price per share HK\$	No. of options granted	No. of options lapsed	No. of options exercised	Outstanding options as at 31st December 2003
26th February 2001	1	0.670	64,140,000	2,470,000	30,534,000	31,136,000
2nd May 2002	2	3.300	37,610,000	1,636,000	-	35,974,000
1st August 2002	3	2.325	31,818,000	446,000	-	31,372,000

Notes:

1. These options are exercisable at HK\$0.67 (US\$0.09) per share in three tranches: the maximum percentage of options exercisable after the first, second and third anniversary from 26th February 2001 are 20 percent, 50 percent and 100 percent respectively.
2. These options are exercisable at HK\$3.30 (US\$0.42) per share in two tranches: the maximum percentage of options exercisable within the periods commencing from 8th June 2004 to 1st May 2007 and from 8th June 2005 to 1st May 2007 are 50 percent and 100 percent respectively.
3. These options are exercisable at HK\$2.325 (US\$0.30) per share in two tranches: the maximum percentage of options exercisable within the periods commencing from 8th June 2004 to 31st July 2007 and from 8th June 2005 to 31st July 2007 are 50 percent and 100 percent respectively.
4. No options were granted to directors of the Company under the Previous Scheme.

### New Scheme

The purpose of the New Scheme is to provide the Company with a flexible and effective means of incentivising, rewarding, remunerating, compensating and/or providing benefits to directors and employees of the Group.

The principal terms of the New Scheme are summarized below:

#### (1) Participants of the New Scheme

Any employee or director (including executive and non-executive director) of the Company, any of its holding companies and any of their respective subsidiaries and any entity in which the Company or any of its subsidiaries holds any equity interest.

#### (2) Maximum number of shares

The maximum number of shares which may be issued upon exercise of all options to be granted under the New Scheme is 134,977,726 shares, being 10 percent of the shares in issue on the adoption date of the New Scheme.

The total number of shares available for issue pursuant to the grant of further options under the New Scheme is 6,726, representing approximately 0.0005 percent of the issued share capital of the Company at the date of this report.

# Report of the Directors

## SHARE OPTION (Continued)

### New Scheme (Continued)

#### 3) Maximum entitlement to each participant

The board shall not grant any options (the "Relevant Options") to any participant which, if exercised, would result in such participant becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him (including those options exercised, cancelled or outstanding) in the 12-month period up to and including the offer date of the Relevant Options, exceed 1 percent of the shares in issue at such date.

The board may grant options to any participant in excess of the individual limit of 1 percent in any 12-month period with the approval of the shareholders in general meeting (with such participant and his associates abstaining from voting). In such situation, the Company will send a circular to the shareholders and the circular must disclose the identity of the participant, the number and terms of the options to be granted (and previously granted to such participant).

#### (4) Payment on acceptance of options

A participant shall pay the Company HK\$1.00 for the grant of an option on acceptance of an option within 28 days after the offer date.

#### (5) Time of exercise of options

Subject to the provisions of the New Scheme, an option may be exercised at any time during such period notified by the board as not exceeding 10 years from the offer date. The exercise of options may also be subject to any conditions imposed by the board at the time of offer.

#### (6) Basis of determining the subscription price

The subscription price will be determined by the board and it shall not be less than the higher of (i) the closing price of the shares of the Company as stated in The Stock Exchange of Hong Kong Limited's ("SEHK") daily quotations sheet on the date of offer of the options; and (ii) the average closing price of the shares of the Company as stated in SEHK's daily quotations sheets for the 5 business days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

#### (7) Remaining life of the New Scheme

The New Scheme is valid until 14th May 2013.

Details of the movements of options under the New Scheme are as follows:

Date of grant	Note	Exercise price per share	No. of options granted	No. of options lapsed	No. of options exercised	Outstanding options as at 31st December 2003
		HK\$				
3rd November 2003	1	4.140	35,620,000	-	-	35,620,000

Notes:

1. These options are exercisable at HK\$4.14 (US\$0.53) per share in three tranches: the maximum percentage of share options exercisable within the periods commencing from 8th June 2004 to 2nd November 2008, from 8th June 2005 to 2nd November 2008 and from 8th June 2006 to 2nd November 2008 are 20 percent, 50 percent and 100 percent respectively.
2. A total of 5,600,000 options were granted to two executive directors of the Company under the New Scheme.

# Report of the Directors

## SHARE OPTION (Continued)

### New Scheme (Continued)

The directors consider it inappropriate to value the options of the Company as a number of factors that are crucial to the valuation cannot be determined accurately. Accordingly, such information is not disclosed in this report.

An ordinary resolution is proposed for the refreshment of the 10 percent limit on the grant of options under the New Scheme at the forthcoming annual general meeting. The directors consider that it is in the interest of the Company to "refresh" such 10 percent general limit to permit the grant of further options under the New Scheme. A circular containing information regarding the refreshment of the 10 percent limit will be sent to shareholders together with the 2003 annual report of the Company.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2003, including contributed surplus and the proposed final dividend, amounted to approximately US\$52,104,000 (2002: US\$50,849,000).

## 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 65.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company repurchased a total of 142,000 of its ordinary shares of US\$0.01 each through SEHK at prices ranging from HK\$1.89 (US\$0.242) to HK\$1.90 (US\$0.244) per share, for a total consideration of HK\$269,380 (US\$34,536).

Apart from the above, the Company had not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

## PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the laws of Bermuda in relation to the issue of new shares by the Company.

## DIRECTORS

The directors during the year were:

### Executive Directors

Dr Hsuan, Jason  
Mr Houng Yu-Te  
Mr Pen Tseng-Kwan  
Mr Yang Hsing-Nang  
Mr Djuhar, Johnny

### Non-executive Directors

Mr Djuhar, Sutanto  
Mr Chen Yanshun  
Mr Wang Dongsheng  
Mr Wang Yanjun  
Mr Pen, Stanley (also known as Pan Fang-Jen)

(appointed on 31st October 2003)  
(appointed on 9th December 2003)  
(appointed on 9th December 2003)  
(resigned on 20th November 2003)

# Report of the Directors

## DIRECTORS (Continued)

### Independent Non-executive Directors

Mr Chan Boon-Teong  
Dr Ku Chia-Tai  
Mr Cheung Doi Shu

- (i) In accordance with Bye-law 99 of the Company's Bye-laws, Mr Djuhar, Sutanto, Mr Chan Boon-Teong and Dr Ku Chia-Tai will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.
- (ii) In accordance with Bye-law 102(B) of the Company's Bye-laws, Mr Chen Yanshun, Mr Wang Dongsheng and Mr Wang Yanjun will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.
- (iii) None of the non-executive directors was appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

## DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors

#### Dr Hsuan, Jason

Aged 60, the Chairman and Chief Executive Officer of the Group, joined the Group in November 1990. Dr Hsuan is responsible for the Group's overall corporate policies and business development. Before joining the Group, he had over 19 years of managerial experience in well-known multi-national enterprises which include General Electric and PepsiCo. Dr Hsuan graduated from Department of Electrical Engineering of National Cheng Kung University, Taiwan in 1968, and holds a doctorate degree of philosophy in systems engineering from the Polytechnic Institute of Brooklyn and a master's degree in systems engineering from Boston University.

#### Mr Houng Yu-Te

Aged 57, Vice President, is responsible for the Group's general administration and financial operations. Mr Houng holds a bachelor's degree in accounting from Soochow University, Taiwan. Before joining the Group in December 1996, he gained audit and finance experience from an international accounting firm in Taiwan and had worked for a number of companies for over 28 years in charge of the accounting and financial operations.

#### Mr Pen Tseng-Kwan

Aged 35, joined the Group as a Corporate Restructuring Specialist and assistant to Dr Hsuan, Jason in February 1994. Mr Pen holds a master's degree in business administration from Owen Graduate School of Management, Vanderbilt University, and a bachelor of science degree in computer engineering and industrial management from Carnegie-Mellon University. Mr Pen had worked for several multi-national corporations.

#### Mr Yang Hsing-Nang

Aged 59, Vice President, joined the Group in April 1995 and is responsible for the Group's product design and development. Mr Yang holds a bachelor's degree in electrical engineering from National Cheng Kung University, Taiwan. Before joining the Group, he had worked for the Sampo Group in Taiwan for over 26 years and was in charge of the design and development of television sets and computer monitors.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

### Executive Directors (Continued)

#### Mr Djuhar, Johnny

Aged 45, is a representative for Brilliant Way Investment Limited which is a substantial shareholder of the Company. Mr Djuhar received his bachelor of science degree from Pacific Union College in the US. He is a director of P.T. Indoaluminium, an aluminium foil plant company in Indonesia. He is also a director of the China Pacific Group and Pacific Flour & Food (Fujian) Corporation Limited. He is a son of Mr Djuhar, Sutanto.

### Non-executive Directors

#### Mr Djuhar, Sutanto

Aged 76, is a co-founder of the Group. Mr Djuhar, born in Indonesia, was the founder of P.T. Indocement, a cement manufacturing company listed in Indonesia, and P.T. Bogasari Flour Mills. He is also the Chairman of the China Pacific Group and a director of First Pacific Company Limited, a listed company in Hong Kong.

#### Mr Wang Dongsheng

Aged 46, is the founder of BOE Technology Group Co., Limited whose A and B shares are listed on the Shenzhen Stock Exchange. He is currently the chairman of the board of directors, president of executive board and CEO of BOE Technology Group Co., Limited. He holds a master's degree in engineering and is a senior accountant in the People's Republic of China. Mr Wang has extensive experience in financing and system engineering. He is also the Vice Chairman of China Electronic Chamber of Commerce.

#### Mr Chen Yanshun

Aged 39, is an executive director and a senior vice president of BOE Technology Group Co., Limited whose A and B shares are listed on the Shenzhen Stock Exchange. Mr Chen holds a master's degree in economics and is a senior accountant in the People's Republic of China. He specializes in corporate strategic planning and administration and has extensive experience in corporate restructuring and financing, securities-related matters and mergers and acquisitions.

#### Mr Wang Yanjun

Aged 34, is the Chief Financial Supervisor of BOE Technology Group Co., Limited whose A and B shares are listed on the Shenzhen Stock Exchange. He holds a bachelor's degree in finance engineering and is an accountant by profession. Mr Wang has over 12 years of experience in accounting and corporate finance.

### Independent Non-executive Directors

#### Mr Chan Boon-Teong

Aged 61, graduated from Imperial College of the University of London with a bachelor's degree in electrical engineering. Mr Chan also holds both a master's degree in electrical engineering and operational research from the Polytechnic University of New York City. He has over 33 years of experience in the financial, commercial, industrial and real estate business in the Southeast Asia region. He was a director of the former Kowloon Stock Exchange in 1973. He is currently the Chairman of Coastal Greenland Limited, a listed company in Hong Kong, and also a director of Cathay United Bank Co. Ltd., a listed company in Taiwan. Mr Chan is a member of the National Chinese People's Political Consultative Conference. He is also a member of the Standing Committee of the All-China Federation of Returned Overseas Chinese. Mr Chan was appointed as an independent non-executive director of the Company in May 1998.

#### Dr Ku Chia-Tai

Aged 61, holds a bachelor's degree in electrical engineering from National Cheng Kung University, Taiwan, a master's degree in electrical engineering from Rutgers University of New Jersey and a doctorate degree in electrical engineering from the University of Pittsburgh, Pennsylvania. Dr Ku has over 26 years of managerial experience in the computer and telecommunications industries. He is currently the Senior Advisor to the Chairman of Far Eastone Telecommunications Company Limited, Taiwan. Dr Ku was appointed as an independent non-executive director of the Company in May 1998.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

### Independent Non-executive Directors (Continued)

#### Mr Cheung Doi Shu

Aged 42, is a solicitor qualified to practise in Hong Kong, England and Wales, Singapore and the Australian Capital Territory. He is the senior partner of D.S. Cheung & Co. whose practice includes securities, corporate finance, PRC investments and international banking and finance. Mr Cheung holds directorships in several listed companies in Hong Kong. Mr Cheung was appointed as an independent non-executive director of the Company in September 2001.

### Senior Management

#### Mr Hsieh Chi Tsung

Aged 52, Vice President, is in charge of the ODM sales and procurement of raw materials. Mr Hsieh holds a bachelor's degree in mechanical engineering from Fong-Ja University, Taiwan and an executive master's degree in business administration from National Taipei University. Prior to joining the Group in 1994, he worked for a number of well-known monitor manufacturers in Taiwan as purchasing supervisor for over 23 years.

#### Mr Lu Being-Chang

Aged 57, Vice President, is in charge of new product planning, research and development, and sales of consumer electronic products. Mr Lu graduated from National Cheng Kung University, Taiwan with a bachelor's degree in science and a master's degree in electrical engineering. Prior to joining the Group in November 1999, he worked for the Sampo Group in Taiwan for over 25 years and was in charge of manufacturing, international sales and research and development.

#### Mr Liu Houn-Ya

Aged 59, Deputy General Manager, is in charge of the sales and marketing in Japan. Mr Liu holds a bachelor's degree in electrical engineering from National Cheng Kung University, Taiwan. Prior to joining the Group in May 1999, he worked for an international electrical appliances company in Taiwan for over 30 years.

## DIRECTORS' INTERESTS IN CONTRACTS

During the year, legal and professional fees paid and payable to D.S. Cheung & Co. for professional services rendered to the Group amounted to US\$111,656 (HK\$870,917). Mr Cheung Doi Shu is the senior partner of D.S. Cheung & Co..

Save as disclosed above, there was no other contracts of significance in relation to the Group's business to which the Company, its subsidiaries, 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 any time during the year. As at 31st December 2003, the Company had no ultimate holding company.

## DIRECTORS' INTERESTS

As at 31st December 2003, the interests and short position of the directors of the Company in the shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as well as interests in share options of the Company as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

# Report of the Directors

## DIRECTORS' INTERESTS (Continued)

### Interests in ordinary shares of US\$0.01 each and share options of the Company

Name of director	Name of company	Type of interest	Number of shares held (long position)	Number of share options held
Mr Djuhar, Sutanto	The Company	Corporate (Note 1)	99,909,000	Nil
	Brilliant Way Investment Limited ("BW")	Corporate (Note 1)	99,909,000	
	Pacific Industries and Development Limited ("PIDL")	Corporate (Note 1)	99,909,000	
Mr Djuhar, Johny	The Company	Corporate (Note 1)	99,909,000	Nil
	BW	Corporate (Note 1)	99,909,000	
	PIDL	Corporate (Note 1)	99,909,000	
Dr Hsuan, Jason	The Company	Personal and Family (Note 2)	31,255,823	Nil
Mr Houg Yu-Te	The Company	Personal	3,141,537	2,800,000 (Note 3)
Mr Yang Hsing-Nang	The Company	Personal	6,121,286	2,800,000 (Note 3)

#### Notes:

1. The shares are held by BW, a wholly-owned subsidiary of PIDL. PIDL is a company owned as to 50 percent by KMP Atlantic Limited, as to 25 percent by Mr Djuhar, Sutanto, as to 12.5 percent by Mr Djuhar, Johny and as to the remaining 12.5 percent by Mr Djuhar, Tedy.
2. Out of the 31,255,823 shares, 2,001,020 shares are held by the spouse of Dr Hsuan, Jason.
3. On 3rd November 2003, the Company granted to each of Mr Houg Yu-Te and Mr Yang Hsing-Nang 2,800,000 share options pursuant to the share option scheme adopted on 15th May 2003. These share options are exercisable at HK\$4.14 (US\$0.53) per share in three tranches: the maximum percentage of share options exercisable within the periods commencing from 8th June 2004 to 2nd November 2008, from 8th June 2005 to 2nd November 2008 and from 8th June 2006 to 2nd November 2008 are 20 percent, 50 percent and 100 percent respectively.

Save as disclosed above, as at 31st December 2003, none of the directors of the Company had or was deemed to have any interest or short position in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company pursuant to the Model Code of the Listing Rules.

Furthermore, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors of the Company or any of their spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other corporations. As at 31st December 2003, the Company had no ultimate holding company.



# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st December 2003, the following shareholders were interested in 5 percent or more of the issued share capital of the Company which fall to be disclosed pursuant to Part XV of the SFO:

Name of shareholder	Number of shares held
BOE Technology Group Co., Limited (京東方科技集團股份有限公司)	356,033,783
Beijing Orient Investment and Development Co., Limited (北京京東方投資發展有限公司)	356,033,783 (Note 1)
J.P. Morgan Chase & Co.	149,956,000
HSBC Asset Management (Hong Kong) Limited	83,178,000
KMP Atlantic Limited	99,909,000 (Note 2)
Mr Salim, Anthoni	99,909,000 (Note 2)
Mr Halim, Andree	99,909,000 (Note 2)

### Notes:

1. The shares are held by BOE Technology Group Co., Limited in which Beijing Orient Investment and Development Co., Limited has a 53.15 percent interest.
2. The shares are held by BW, a wholly-owned subsidiary of PIDL. PIDL is a company owned as to 50 percent by KMP Atlantic Limited ("KMP"), as to 25 percent by Mr Djuhar, Sutanto, as to 12.5 percent by Mr Djuhar, Johnny, and as to the remaining 12.5 percent by Mr Djuhar, Tedy. KMP is owned as to 48.3 percent by Mr Salim, Anthoni, as to 48.3 percent by Mr Halim, Andree and as to the remaining 3.4 percent by other parties.

## 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 SUPPLIERS AND CUSTOMERS

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	20 %
– five largest suppliers combined	57 %

### Sales

– the largest customer	22 %
– five largest customers combined	58 %

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

# Report of the Directors

## CONNECTED TRANSACTIONS

Details of related party transactions which also constitute connected transactions under the Listing Rules required to be disclosed in accordance with Chapter 14 of the Listing Rules are as follows:

- (i) On 16th July 1999, the Group entered into a tenancy agreement with AOC International to lease certain properties located in Taipei, Taiwan for five years from 1st July 1999 to 30th June 2004 at an aggregate rental of NT\$33,597,000 (US\$1,068,267). The properties are used for the Group's administration, sales and marketing, and research and development departments in Taiwan. AOC International is 57.7 percent owned by Mr Pen, Stanley (previously a non-executive director and the controlling shareholder of the Company). This tenancy agreement constitutes a connected transaction under the Listing Rules, to which SEHK has, subject to certain conditions, granted a conditional waiver to the Company from compliance with the disclosure requirements as stipulated in Rule 14.25(1) of the Listing Rules. The transaction has been reviewed by the board of directors, including the independent non-executive directors, who are of the opinion that it was conducted in accordance with the terms of the tenancy agreement and entered into on fair, reasonable and normal commercial terms.
- (ii) The Group entered into further tenancy agreements with AOC International whereby the Group has leased the properties located at Unit B2 on 16/F., Units B6 and B7 on 18/F., a store room and several car parking spaces at No.738 Chung Cheng Road, Chung-Ho City, Taipei, Taiwan at an aggregate rental of NT\$21,292,721 (US\$682,432). The properties are used for the Group's administration, sales and marketing, and research and development departments in Taiwan. AOC International is owned as to 57.7 percent by Mr Pen, Stanley (previously a non-executive director and the controlling shareholder of the Company). These tenancy agreements constitute connected transactions under the Listing Rules. The directors, including the independent non-executive directors, consider that the tenancy agreements were upon normal commercial terms and that the terms of the tenancy agreements were arrived at after arms-length negotiations between the parties and were fair and reasonable insofar as the shareholders of the Company were concerned. Details of the tenancy agreements were disclosed in the newspaper announcement dated 4th December 2001.
- (iii) BOE Technology Group Company Limited ("BOE") has become a substantial shareholder of the Company since the completion of its acquisition of 356,033,783 shares in the Company on 20th November 2003. Accordingly, the ongoing transactions between the Group and the BOE Group (namely the Guarantee, the Purchase Transactions, the Sale Transactions, the Technical Support Service Transactions and the Warranty Cost Recovery Transactions) constitute connected transactions under the Listing Rules, to which SEHK has, subject to certain conditions, granted a conditional waiver to the Company from compliance with the disclosure and independent shareholders' approval requirements as stipulated in Rule 14.26 of the Listing Rules. The transaction amounts in respect of each of these ongoing connected transactions for the year ended 31st December 2003 are as follows:

	Year ended 31st December 2003 US\$'000
1. Guarantee given by a wholly-owned subsidiary of the Group in respect of banking facilities granted to Beijing Orient Top Victory Electronics Company Limited ("OTPV") (the "Guarantee")	13,075
2. Purchase of TFT-LCD panels, monitors, parts and components and TFT-LCD TV/PDP TV by the Group from the BOE Group (the "Purchase Transactions")	122,665
3. Sale of parts and components, machinery and moulds by the Group to the BOE Group (the "Sale Transactions")	12,730
4. Technical Support Service fee received by the Group from OTPV (the "Technical Support Service Transactions")	3,514
5. Warranty cost recovery in respect of after-sale services rendered by the Group to the customers of OTPV (the "Warranty Cost Recovery Transactions")	2,415

Note:

OTPV is a company incorporated in the People's Republic of China as a joint-stock limited company with foreign investment, in which each of the Group and the BOE Group has a 41.74 percent and 45.21 percent interest respectively.

# Report of the Directors

## CONNECTED TRANSACTIONS (Continued)

The ongoing connected transactions have been reviewed by the board of directors, including the independent non-executive directors, who are of the opinion that the transactions were conducted in accordance with the terms of the agreements governing the ongoing connected transactions or on terms no less favourable than those available to or from independent third parties and the aggregate amount of each class of the ongoing connected transactions for the financial year has not exceeded their respective annual caps as set out in the Company's circular dated 6th January 2004.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules during the year, except that the non-executive directors of the Company are not appointed for specific terms as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

## DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the requirements under paragraph 3.10 of Practice Note 19 of the Listing Rules, the Company is required to include in its annual report a pro forma combined balance sheet of its associated companies which should include significant balance sheet classifications and state the attributable interest of the Group in the associated companies.

As at 31st December 2003, the Group had trade receivables totalling approximately US\$19,228,000 due from associated companies and guarantees amounting to approximately US\$13,075,180 provided to a bank for credit facilities given to an associated company. The aggregate amount of approximately US\$32,303,180 represents approximately 10.7 percent of the Group's net assets as at 31st December 2003. A pro forma combined balance sheet and the Group's attributable interest in these associated companies as at 31st December 2003, being the latest practicable date for the purpose of such disclosure, are presented below:

	Pro forma combined balance sheet		Group's attributable interest	
	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000
Fixed assets	25,840	20,880	10,744	8,658
Goodwill	3,353	3,253	805	780
Land occupancy rights	1,930	1,973	805	824
Other long-term assets	1,772	3,145	730	1,241
Current assets	225,010	229,943	82,093	80,504
Current liabilities	(192,471)	(202,698)	(68,512)	(69,048)
Other long-term liabilities	(7,865)	(6,591)	(2,790)	(2,258)
Net assets	57,569	49,905	23,875	20,701
Share capital	34,807	34,807	14,351	14,351
Reserves	22,762	15,098	9,524	6,350
	57,569	49,905	23,875	20,701

# Report of the Directors

## **AUDIT COMMITTEE**

The Audit Committee provides an important link between the board of directors and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive directors, namely Mr Chan Boon-Teong, Dr Ku Chia-Tai and Mr Cheung Doi Shu.

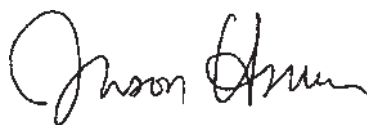
## **SUBSEQUENT EVENTS**

Details of significant events subsequent to the year end are set out in note 32 to the accounts.

## **AUDITORS**

The accounts were audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board



**Dr Hsuan, Jason**  
*Chairman and Chief Executive Officer*

Hong Kong, 6th April 2004