

# Report of the Directors

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

## Group Reorganisation

The Company was incorporated in the Cayman Islands on 21st November 2003 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation to rationalise the structure of the Company and its subsidiaries (the "Group") in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 23rd December 2003. Details of the group reorganisation are set out in the Company's prospectus dated 25th March 2004 (the "Prospectus"). The shares of the Company have been listing on the Stock Exchange since 8th April 2004 (the "Listing Date").

## 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 16 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

## Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 55.

During the year, the Directors have declared first interim dividend of HK\$0.066 per ordinary share totalling HK\$124,466,000 (US\$16,039,000) attributable to the results of 2003 and second interim dividend of HK\$0.026 per ordinary share, totalling HK\$65,126,000 (US\$8,360,000) attributable to the results of 2004, which were paid on 1st March 2004 and on 7th September 2004 respectively.

The Directors recommend the payment of a final dividend of HK\$0.12 per ordinary share, totalling HK\$300,583,000 (US\$38,655,000).

## Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 26 to the accounts.

### Donations

Charitable and other donations made by the Group during the year amounted to US\$167,000.

### Fixed assets

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

### Share capital

Details of the movements in share capital of the Company are set out in note 25 to the accounts.

On the Listing Date, 339,465,640 ordinary shares of HK\$0.10 each were issued to the public at the offer price of HK\$1.75 (the "IPO Offer Price") (approximately 22 US cents) for cash totalling approximately US\$76,555,000.

On 23rd April 2004, 90,536,000 ordinary shares of HK\$0.10 each were further issued to the public at the IPO Offer Price for cash totalling approximately US\$20,417,000 pursuant to the exercise of over-allotment option under the IPO.

Other than the options granted and outstanding under the Pre-IPO Share Option Scheme (see below), the Group did not have any convertible securities, options, warrants or other similar rights outstanding as at 31st December 2004.

### Distributable reserves

As at 31st December 2004, the Company's share premium reserve of approximately US\$112,008,000 (subject to Section 34 of the Cayman Companies Law and the article of association of the Company) and retained earnings of approximately US\$42,336,000 were available for distribution to the Company's shareholders.

### Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of association, although there was no restriction against such rights under the laws of the Cayman Islands.

### Financial summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 91. The Company was listed on 8th April 2004 and the published results are available from 2001 to 2004 only.

### Purchase, sale or redemption of securities

During the period from the Listing Date to 31st December 2004 (the "Listing Period"), the Company did not redeem any of the Company's shares. During the Listing Period, neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares.

## Share Options

### *The Pre-IPO Share Option Scheme*

The Company adopted the Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") at an extraordinary general meeting held on 25th February 2004 and a meeting of the Board on 19th March 2004. The purpose of the Pre-IPO Scheme is to recognise the contribution of certain directors and members of the Group to the growth of the Group and/or to the listing of the Company's shares on the Stock Exchange. Details of the Pre-IPO Scheme are set out in the Prospectus of the Company dated 25th March 2004 issued in connection with the IPO.

On 19th March 2004, options to subscribe for 6,300,000 new Shares of the Company were granted by the Company to directors and senior management of the Group at a nominal consideration of HK\$1.0 payable by each grantee. After the Listing Date, no options can be issued under the Pre-IPO Scheme.

Details of the share options outstanding as at 31st December 2004 which have been granted under the Pre-IPO Scheme are as follows:

	Number of options				Exercise period		
	Held at 1st January 2004	Granted during the period	Held at 31st December 2004	Exercise price HK\$	Grant Date	Begins	Ends
<b>Executive and Non-executive Directors</b>							
Lam Pak Lee	Nil	800,000	800,000	1.75	19th March 2004	9th April 2005	8th April 2009
Chang Ching Yi, Steven	Nil	800,000	800,000	1.75	19th March 2004	9th April 2005	8th April 2009
Wong Yuet Leung, Frankie	Nil	500,000	500,000	1.75	19th March 2004	9th April 2005	8th April 2009
Leung Kwong Wai	Nil	800,000	800,000	1.75	19th March 2004	9th April 2005	8th April 2009
Huang Hsing Hua	Nil	300,000	300,000	1.75	19th March 2004	9th April 2005	8th April 2009
Lai Woon Ching	Nil	300,000	300,000	1.75	19th March 2004	9th April 2005	8th April 2009
Lo Wai Ming	Nil	300,000	300,000	1.75	19th March 2004	9th April 2005	8th April 2009

**Share Options** (continued)

**The Pre-IPO Share Option Scheme** (continued)

	Number of options				Exercise period		
	Held at 1st January 2004	Granted during the period	Held at 31st December 2004	Exercise price HK\$	Grant Date	Begins	Ends
<b>Independent Non-executive Directors</b>							
Choy Kwok Hung, Patrick	Nil	500,000	500,000	1.75	19th March 2004	9th April 2005	8th April 2009
Kao Kuen, Charles	Nil	500,000	500,000	1.75	19th March 2004	9th April 2005	8th April 2009
Sun, Patrick	Nil	500,000	500,000	1.75	19th March 2004	9th April 2005	8th April 2009
<b>Senior Management</b>							
Lin Hsin Yih	Nil	500,000	500,000	1.75	19th March 2004	9th April 2005	8th April 2009
Lui Kit Har, Keziah	Nil	500,000	500,000	1.75	19th March 2004	9th April 2005	8th April 2009

Notes:

The options were granted prior to the Company's shares being listed and the IPO Offer Price was used as the exercise price.

No option under the Pre-IPO Scheme lapsed, or was cancelled or exercised during the year.

Since these options were granted on 19th March 2004 which is prior to the listing, the Directors are in the opinion that the fair value of the options granted cannot be estimated reliably as there was no active market price for the Company's shares on the date of grant.

## **Share Options** (continued)

### ***The Share Option Scheme***

The Company also adopted the Share Option Scheme (the "Option Scheme") under which options may be granted to subscribe for Shares. Participants of the Option Scheme shall include directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any members of the Group and any advisers, consultants, distributors, contractors, contract manufactures, suppliers, agents, customers, business partners, joint venture business partners, service providers of any members of the Group who the Board considers have contributed or will contribute to the Group ("the Participants"). The purpose of the Option Scheme is to provide Participants with opportunity to acquire proprietary interests in the Company and its Shares for the benefits of the Group with a flexible mean of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to Participants. The terms of the Option Scheme are in accordance with the provisions of the Chapter 17 of Rules Governing the Listing of Securities in Hong Kong. Details of the Option Scheme are set out in the Prospectus of the Company dated 25th March 2004 issued in connection with the IPO.

No option was granted under the Option Scheme since adoption.

## **Directors**

The Directors during the year were:

### ***Executive Directors***

Mr. Leung Kwong Wai	(appointed on 21st November 2003)
Mr. Huang Hsing Hua	(appointed on 3rd February 2004)
Mr. Lai Woon Ching	(appointed on 25th February 2004)
Mr. Lo Wai Ming	(appointed on 25th February 2004)

### ***Non-executive Directors***

Mr. Lam Pak Lee	(appointed on 25th February 2004)
Mr. Chang Ching Yi, Steven	(appointed on 21st November 2003)
Mr. Wong Yuet Leung, Frankie	(appointed on 3rd February 2004)

### ***Independent Non-executive Directors***

Mr. Choy Kwok Hung, Patrick	(appointed on 25th February 2004)
Mr. Sun, Patrick	(appointed on 25th February 2004)
Mr. Kao Kuen, Charles	(appointed on 15th March 2004)

In accordance with Article 112 of the Company's Articles of Association, Messrs. Chang Ching Yi, Steven, Huang Hsing Hua and Wong Yuet Leung, Frankie retire by rotation and, being eligible, offer themselves for re-election.

Messrs. Choy Kwok Hung, Patrick, Sun, Patrick and Kao Kuen, Charles are independent non-executive Directors and were appointed for a term expiring on 30th June 2006.

### **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.

### **Interest in contracts**

No contracts of significance (as defined in paragraph 15 of appendix 16 of the Listing Rules) of the Group in which a director of the Company was materially interested, whether directly or indirectly, subsisted at the end of the year or at any time during the year. No contract of significance (including contracts for the provision of services to any member of the Group) between any member of the Group and a controlling shareholder (or any of its subsidiaries) of the Company 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 20 and 21.

## Directors' and Chief Executive's interests and short positions in the shares and underlying shares of the Company or any associated corporation

At 31st December 2004, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares of the Company and its associated corporation (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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

		Ordinary shares of HK\$0.10 each in the Company					
		Directly Owned		Beneficially Owned		Total	Percentage
		Shares	Options				
Chang Ching Yi, Steven	Long position	2,800,000	800,000	—	—	3,600,000	0.14%
	Short position	—	—	—	—	—	—
Choy Kwok Hung, Patrick	Long position	500,000	500,000	—	—	1,000,000	0.04%
	Short position	—	—	—	—	—	—
Huang Hsing Hua (note (i))	Long position	8,300,000	300,000	7,950,000	—	16,550,000	0.66%
	Short position	—	—	3,950,000	—	3,950,000	0.16%
Kao Kuen, Charles	Long position	—	500,000	—	—	500,000	0.02%
	Short position	—	—	—	—	—	—
Lai Woon Ching (note (ii))	Long position	32,400,000	300,000	11,300,000	—	44,000,000	1.76%
	Short position	—	—	6,300,000	—	6,300,000	0.25%
Lam Pak Lee	Long position	70,000,000	800,000	—	—	70,800,000	2.83%
	Short position	—	—	—	—	—	—
Leung Kwong Wai (note (iii))	Long position	59,400,001	800,000	55,000,000	—	115,200,001	4.60%
	Short position	—	—	25,000,000	—	25,000,000	1.00%
Lo Wai Ming (note (iv))	Long position	25,180,000	300,000	17,200,000	—	42,680,000	1.70%
	Short position	—	—	10,200,000	—	10,200,000	0.41%
Sun, Patrick	Long position	—	500,000	—	—	500,000	0.02%
	Short position	—	—	—	—	—	—
Wong Yuet Leung, Frankie	Long position	—	500,000	—	—	500,000	0.02%
	Short position	—	—	—	—	—	—

**Directors' and Chief Executive's interests and short positions in the shares and underlying shares of the Company or any associated corporation (continued)**

Notes:

- (i) Out of the 7,950,000 Shares held by Mr. Huang:
  - (a) 3,200,000 Shares are subject to a lock-up and held in custody by HSBC International Trustee Limited as custodian ("the Custodian") for Mr. Huang under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after 8th April 2004 (the "Listing Date");
  - (b) 750,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Huang under the employee share reward plan of Solomon Systech Limited for a period commencing 23rd December 2003 to a date falling twelve months after the Listing Date; and
  - (c) 4,000,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Huang under the Pre-IPO Share Purchase Scheme for a period commencing 9th February 2004 to a date falling twelve months after the Listing Date.
  
- (ii) Out of the 11,300,000 Shares held by Mr. Lai:
  - (a) 4,000,000 Shares are subject to a lock-up and held in custody by the Custodian for Mr. Lai under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date;
  - (b) 2,300,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lai under the employee share reward plan of Solomon Systech Limited for a period commencing 23rd December 2003 to a date falling twelve months after the Listing Date; and
  - (c) 5,000,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lai under the Pre-IPO Share Purchase Scheme for a period commencing 9th February 2004 to a date falling twelve months after the Listing Date.
  
- (iii) Out of the 55,000,000 Shares held by Mr. Leung:
  - (a) 12,000,000 Shares are subject to a lock-up and held in custody by the Custodian for Mr. Leung under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date;
  - (b) 13,000,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Leung under the employee share reward plan of Solomon Systech Limited for a period commencing 23rd December 2003 to a date falling twelve months after the Listing Date; and
  - (c) 30,000,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Leung under the Pre-IPO Share Purchase Scheme for a period commencing 9th February 2004 to a date falling twelve months after the Listing Date.



## **Directors' and Chief Executive's interests and short positions in the shares and underlying shares of the Company or any associated corporation (continued)**

Notes: (continued)

- (iv) Out of the 17,200,000 Shares held by Mr. Lo:
  - (a) 7,200,000 Shares are subject to a lock-up and held in custody by the Custodian for Mr. Lo under the Pre-IPO Loyalty Plan for a period from the vesting date up to 4 years after the Listing Date;
  - (b) 3,000,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lo under the employee share reward plan of Solomon Systech Limited for a period commencing 23rd December 2003 to a date falling twelve months after the Listing Date; and
  - (c) 7,000,000 Shares are subject to a lock-up and held on trust by Cardio Investments Limited as trustee for the benefit of Mr. Lo under the Pre-IPO Share Purchase Scheme for a period commencing 9th February 2004 to a date falling twelve months after the Listing Date.
- (v) Details of the Pre-IPO Loyalty Plan, employee share reward plan (being part of the Pre-IPO Stock Reward Scheme) and the Pre-IPO Share Purchase Scheme are set out in the prospectus of the Company dated 25th March 2004 issued in connection with the IPO.

As at 31st December 2004, the register maintained by the Company under Section 352 of the SFO did not have any entry of any interest or short position of any director or the chief executive of the Company in the shares, underlying shares and debentures of any associated corporation of the Company, as the Company had not received notice of any interest or short position of any director or the chief executive of the Company in the shares, underlying shares or debentures of any associated corporation of the Company.

Share options are granted to Directors and senior management under the Pre-IPO Share Option Scheme approved by shareholders at an Extraordinary General Meeting on 25th February 2004 and adopted by the Board of Directors on 19th March 2004. Please refer to the section headed "Share Options" above for more details.

Save for as set out above, and other than the arrangements under the Pre-IPO Loyalty Plan and the Pre-IPO Share Reward Plan set out in the prospectus of the Company dated 25th March 2004 issued in connection with the IPO, at no time during the year was the Company, its subsidiaries or its associated company a party to any arrangement to enable the directors and the chief executive of the Company to hold any interest or short position in the shares or underlying shares in the Company or its associated corporation.

### Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2004, the Company had been notified of the following substantial shareholders' interests and short positions. These interests are in addition to those disclosed above in respect of the Directors and the chief executive.

#### (a) ordinary shares of HK\$0.1 each in the Company

Ordinary shares of HK\$0.10 each in the Company				
	Capacity	Long/Short Position	Number of shares	Percentage
Cardio Investments Limited (note (i))	Trustee	Long	174,740,250	6.98%
		Short	174,740,250	6.98%
HSBC International Trustee Limited (note (ii))	Trustee/ Interest by attribution	Long	196,123,520	7.83%
		Short	121,223,520	4.84%
Wintek Corporation (note (iii))	Attributable interest of controlled corporation	Long	139,000,000	5.55%
		Short	—	—

Notes:

- (i) Cardio Investments Limited is the trustee holding these shares on trust for the beneficiaries under the Pre-IPO Share Purchase Scheme and the employee share reward plan adopted by Solomon Systech Limited. Cardio Investments Limited is owned as to approximately 33.33% by each of Mr. Leung Kwong Wai, an executive director and Mr. Chang Ching Yi, Steven, a non-executive director respectively of the Company.
- (ii) Out of the 196,123,520 shares:
  - (a) HSBC International Trustee Limited ("HSBC Trust") is the trustee holding an aggregate of 123,123,520 shares, of which 121,223,520 shares are on trust for the beneficiaries under the Pre-IPO Share Reward Plan and the Share Award Plan adopted by the Company.
  - (b) HSBC International Trustee Limited is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Shui On Company Limited and therefore is deemed to be interested in the 73,000,000 shares held by Extreme Performance Limited.
  - (c) 73,650,000 shares under the Pre-IPO Share Reward Plan were vested to directors and employees of the Group on 31st December 2004 pursuant to a resolution passed on 3rd December 2004 by the Remuneration Committee of the Company. The transfer of the legal title of the Shares was completed in January 2005 and HSBC Trust ceased to be a substantial shareholder.
- (iii) Wintek Corporation is deemed to be interested in these shares by virtue of the fact that Wintek Technology (Cayman) Corporation and Wintek (BVI) Corporation are its wholly-owned subsidiaries. Wintek Technology (Cayman) Corporation is interested in 72,000,000 Shares and Wintek (BVI) Corporation is interested in 67,000,000 Shares.

## Substantial shareholders' interests and short positions in the shares and underlying shares of the Company (continued)

### (a) ordinary shares of HK\$0.1 each in the Company (continued)

Save as disclosed above, the Company was not notified of any interests or short positions in the shares or underlying shares of the Company as at 31st December 2004

## 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	30%
– five largest suppliers combined	84%

### Sales

– the largest customer	21%
– five largest customers combined	74%

Insofar as the directors of the Company are aware, as at 31st December, 2004, none of the Directors, their associates or any shareholder (who to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers 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 the then appendix 14 of the Listing Rules. The Code on Corporate Governance Practices under the new appendix 14 of the revised Listing Rules is not applicable to the financial period of the Company ended 31st December 2004.

### **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 Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants in February 2002 and the relevant provisions in the latest edition of the Listing Rules.

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 the external audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive Directors and a non-executive Director, namely Messrs. Choy Kwok Hung, Patrick, Sun, Patrick and Wong Yuet Leung, Frankie. Two meetings were held during the current financial year.

### **Auditors**

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

On behalf of the Board

#### **LEUNG Kwong Wai**

Managing Director  
Hong Kong,  
9th March 2005