

## Directors' Report

*For the year ended 31 December 2002*

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The Directors have the pleasure in presenting their annual report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2002.

### Principal Activities

The Company is an investment holding company. The Group is principally engaged in the manufacturing and trading of liquid crystal display panels and transformers. Details of the principal activities of the subsidiaries are set out in note 14 to the accompanying financial statements.

### Segment Information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2002 is set out in note 4 to the accompanying financial statements.

### Major Customers and Suppliers

For the year ended 31 December 2002, the five largest customers of the Group accounted for approximately 52.1% of the Group's total turnover while the largest customer of the Group accounted for approximately 19.2% of the Group's total turnover. In addition, for the year ended 31 December 2002, the five largest suppliers of the Group accounted for approximately 54.5% of the Group's total purchases while the largest supplier of the Group accounted for approximately 23.3% of the Group's total purchases.

None of the directors of the Company, any of their associates or any shareholders of the Company (which, to the best knowledge of the directors, owned more than 5% of the Company's issued share capital) had a beneficial interest in the Group's five largest customers or suppliers.

### Results and Appropriations

Details of the Group's results for the year ended 31 December 2002 are set out in the consolidated income statement on page 20 of this annual report.

Apart from the interim dividend of HK\$0.01 per share paid on 30 August 2002 for a total of HK\$7,810,000, the directors do not recommend the payment of a final dividend in respect of the year.

### Summary Financial Information

A Summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 49 and 50 of this annual report.

### Property, Plant and Equipment

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$97,681,000. Details of these and the other movements in the property, plant and equipment of the Group during the year are set out in note 12 to the accompanying financial statements.

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### Share Capital and Share Options

Details of the Company's share capital are set out in note 20 to the accompanying financial statements.

The Company operates a share option scheme ("the Scheme"), further details of which are set out under the heading "Share Option Scheme" below. As at 31 December 2002, the Company has not granted any options under the Scheme.

### Reserves

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

As at 31 December 2002, approximately HK\$110,021,000 of the Group's reserves was available for distribution to its shareholders.

### Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2002.

### Retirement Benefits Schemes

Particulars of the retirement benefits schemes are set out in note 22 to the accompanying financial statements.

### Charitable Donations

During the year, the Group made charitable donations amounting to HK\$15,000.

### Connected Transactions

#### **Business Facilities Agreement**

On 16 April 2002, the Group has entered into a business facilities agreement with Nam Tai Group Management Limited, a wholly-owned subsidiary of Nam Tai Electronics, Inc. ("Nam Tai") (the Company's controlling shareholder) provided the Group with (i) office space of gross area of approximately 4,500 square feet furnished with fittings, decorations, office equipment and furniture and use of common areas; and (ii) certain office facilities, office services and outgoings, office equipment and utilities.

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The business facilities agreement runs for one year from 4 June 2002, the date on which the Company's shares are listed on the Stock Exchange, and may be extended for further periods of 12 months by the Company giving to Nam Tai Group Management Limited not less than two months' written notice prior to the expiration of the term. Either party may terminate the business facilities agreement after the initial term of 12 months by giving not less than three months' prior written notice to the other party.

The monthly service charge payable by the Company to Nam Tai Group Management Limited for the initial 12 month term is HK\$440,000. In the event that business facilities agreement extended, the monthly service charge will be reviewed based on the then open market rate to be mutually agreed between the parties. During the year, the Group paid service fees in respect of the business facilities agreement amounting to HK\$3,080,000.

## Asset acquisition

It was announced on 23 October 2002 that the Group acquired machines from a wholly owned subsidiary of Nam Tai, Zastron Electronic (Shenzhen) Co., Ltd., for silk screening production for a consideration of approximately HK\$1,352,000. Details of this and other connected transactions entered into by the Group are set out in note 26 to the accompanying financial statements under the heading of "Related Party Transactions".

## Directors

The directors who held office during the year ended 31 December 2002 and up to the date of this report were:

### Executive Directors

Seitaro Furukawa ( <i>Chairman</i> )	(appointed on 6 March 2002)
Koo Ming Kown	(appointed on 6 March 2002)
Tadao Murakami	(appointed on 6 March 2002)
Li Shi Yuen, Joseph	(appointed on 8 January 2002)
Chui Kam Wai	(appointed on 6 March 2002)

### Independent Non-executive Directors

Cham Yau Nam	(appointed on 6 March 2002)
Leung Wai Hung	(appointed on 6 March 2002)
Cheng Chi Heng	(appointed on 2 July 2002)

### Non-executive Director

Wong Toe Yeung	(appointed on 6 March 2002)
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In accordance with Article 87 (1) and (2) of the Company's articles of association, Mr. Chui Kam Wai, Mr. Cham Yau Nam, Mr. Leung Wai Hung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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### Directors' and Senior Managements' Biographies

#### Directors

**Mr. Seitaro Furukawa**, aged 61, is the Chairman of the Board and Managing Director of the Company. He studied in Aoyama Gakuin University in Japan in 1965 and has extensive experience in international operational management. He held management positions in the Japan office of General Electric, Admiral International Company and Thompson CSF. After joining the Group in 1992 as a Managing Director, he assumed responsibility for production management and monitoring daily operations of the LCD plant in Shenzhen.

**Mr. Koo Ming Kown**, aged 58, has been a Director of Nam Tai since 1 November 1987 and was the President of Nam Tai from 1 November 1987 to 1 July 1994. He served as the Chairman of the Board of Directors of Nam Tai and its predecessor companies from inception until 3 September 1998. He currently assumes the position of Chief Financial Officer for handling corporate strategy, finance and administration, merger and acquisitions and investment projects of the Nam Tai Group. He received his Bachelor of Laws degree from National Taiwan University in 1970. He advises the Group on financial and administrative matters.

**Mr. Tadao Murakami**, aged 59, has been serving Nam Tai in various executive capacities since 1984. Since 1989, he has been employed as the President of Nam Tai's Hong Kong subsidiary. He became the Secretary and a Director of Nam Tai on 16 November 1989. On 1 July 1994, he ceased to be the Secretary of Nam Tai and succeeded Mr. Koo Ming Kown as the President of Nam Tai. He was Nam Tai's Chief Executive Officer from 2 June 1995 to 3 September 1998, and was Nam Tai's Vice Chairman from 12 January 1996 to 3 September 1998. He was Chairman of Nam Tai from 3 September 1998 to 9 February 2001. Since 1 March 2001, he has been transferred to act as the Chief Marketing Officer of Nam Tai and has reassumed his position as Chairman of Nam Tai from 1 February 2002. He studied technology in Japan Electronic Technology College in 1964 and provides marketing advice to the Group.

**Mr. Li Shi Yuen, Joseph**, aged 51, a co-founder of the Group and Vice Managing Director of the Company. He has been a Director of Nam Tai since 1 February 2001 and currently assumes the position of President and Chief Executive Officer. He advises the Group on operations in The People's Republic of China ("P.R.C.") including matters such as local regulations and liaising with the P.R.C. government officials. He has considerable experience in general business management and has been directing the business development since establishing the J.I.C. Group in 1980. He has been participating actively in public affairs in the P.R.C. for a number of years. He is a representative of Hong Kong members of the Luohu District Committee of the Chinese People's Political Consultative Conference and the Luohu Chamber of Commerce.

**Mr. Chui Kam Wai**, aged 44, is a co-founder of the Group. His principal role is the commercialization and marketing of LCD products. His experience and expertise are in the areas of new business development, project management and streamlining business operation. He has over 20 years of experience in the LCD business and has extensive experience in doing business with Japanese based companies.

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## Independent Non-executive Directors

**Mr. Cham Yau Nam**, aged 55, has been the Managing Director and Shareholder of Kwong Fat Hong (Securities) Limited since 1996. He has over 20 years of experience in the securities industry. He is a Certified General Accountant in Canada. He obtained his Bachelor of Science degree from St. Mary's University, Halifax, Canada, Bachelor of Engineering (Electrical) degree from Novascotia Technical College, Halifax, Canada and Master of Business Administration degree from University of British Columbia, Canada.

**Mr. Leung Wai Hung**, aged 44, is a qualified lawyer in Hong Kong. He served as a civil servant of the Hong Kong Government from 1979 to 1987. Thereafter he practised as a solicitor in various firms in Hong Kong and served with Messrs. Fairbairn Catley Low & Kong from 1989 to 1991. He is currently a Director of several private companies providing advisory and other services to bank and financial institutions. He is now the sole proprietor of his own legal firm under the name of Neville Leung & Co., which commenced business on 15 November 2002.

**Mr. Cheng Chi Heng**, aged 25, is currently the Executive Director and CEO of Net Plus Company Limited which runs a pharmaceutical and healthcare business. He obtained his Bachelor of Arts degree majoring in Economics from the University of Western Ontario, Ontario, Canada in 1999. Beforehand, Mr. Cheng works in Yu Ming Investment Management Limited from 1999 to 2000 as a Corporate Finance Executive.

## Non-executive Director

**Mr. Wong Toe Yeung**, aged 62, is a Non-Executive Director of TCL International Holdings Limited, a company listed on the Main Board of the Stock Exchange. He is also a director and Chief Executive Officer of Huizhou TCL Mobile Communication Co., Ltd., in which Nam Tai has a three per cent interest, and is one of the Chinese companies licensed to manufacture GSM cellular phones in the P.R.C. He has more than 30 years of experience in the consumer electronics products industry.

## Senior Managements

**Mr. Taizo Fujimoto**, aged 71, is the Managing Director of the transformer division of the Group. He studied in the Nihon University of Japan and was the General Manager of General Instrument International Corp. in Japan, a subsidiary of General Instrument Corp. of the United States. He joined the J.I.C. Group in 1993 as a Managing Director. He is now in charge of production at the transformer plant in Shenzhen and is responsible for sales and marketing to certain key customers.

**Mr. Wah Wang Kei, Jackie**, aged 36, is the Company Secretary of the Company since May 2002. He graduated from the University of Hong Kong in 1990. He is a practising solicitor in Hong Kong and was qualified as a solicitor in 1992. Mr. Wah was a partner of Vivien Chan and Company, a law firm in Hong Kong until 1997 and is a consultant of Messrs. Beiten Burkhardt, an international law firm. He left private practice and joined China Strategic Holdings Limited as its General Counsel in 1997. He has experience in secretarial works with various listed companies and in mergers and acquisitions. He currently assumes the position of In-house Legal Counsel in Nam Tai Group and provides company secretarial support to the Group.

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## Directors' Service Contracts

None of the directors of the Company has a service contract or proposed service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

## Directors' Interests in Contracts

Save as disclosed under the headings "Related Party Transactions" in the note 26 to the accompanying financial statements, no director of the Company had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its fellow subsidiaries or subsidiaries was a party at the balance sheet date or during the year.

## Directors' Interests in Securities

At 31 December 2002, the interests of the directors in the share capital or equity interest of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance) {"SDI Ordinance"} as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

### The Company

As at 31 December 2002, none of the directors held any shares in the issued share capital of the Company.

### Associated Corporation

Name of Company	Name of Director	Number of common shares held				Total
		Personal Interests	Family Interests	Corporate Interests	Other Interests	
Nam Tai <sup>1</sup>	Koo Ming Kown	2,226,131 <sup>3</sup>	—	—	99,000 <sup>4</sup>	2,325,131
	Li Shi Yuen, Joseph <sup>2</sup>	18,900	—	1,061,087	20,000 <sup>4</sup>	1,099,987
	Chui Kam Wai <sup>2</sup>	18,900	—	1,061,087	10,000 <sup>4</sup>	1,089,987
	Tadao Murakami	667,155	—	—	65,000 <sup>4</sup>	732,155
	Seitaro Furukawa	—	—	—	10,000 <sup>4</sup>	10,000
	Leung Wai Hung	3,000	—	—	—	3,000

#### Notes:

- Nam Tai holds 74.8% shareholding of the Company as at 31 December 2002.
- Mr. Li Shi Yuen, Joseph ("Mr. Li") and Mr. Chui Kam Wai ("Mr. Chui") are the beneficial owners of the entire issued share capital of Li & Chui Holdings (B.V.I.) Limited ("Li and Chui"). Each of them holds 50% interest in Li & Chui. Li & Chui holds 1,061,087 common shares of Nam Tai and Mr. Li and Mr. Chui are deemed to be interested in the same number of shares held by Li & Chui by virtue of the SDI Ordinance.

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3. 1,588,495 common shares of US\$0.01 each in Nam Tai are owned by Mr. Koo Ming Kown and Ms. Sui Sin Cho (spouse of Mr. Koo Ming Kown) jointly.
4. As at 31 December 2002, the directors who held options granted under the 1993 and 2001 stock option plans of Nam Tai are as follows:

Name of Director	Number of share options	Date granted	Period during which rights exercisable	Exercise price US\$
Tadao Murakami	40,000	16 March 2001	16 March 01 - 16 March 04	13.940
	25,000	30 April 2002	30 April 02 - 30 April 05	19.850
	<u>65,000</u>			
Koo Ming Kown	20,000	1 February 2000	1 May 01 - 31 January 03	13.875
	40,000	22 June 2001	22 June 01 - 22 June 04	14.500
	39,000	30 April 2002	30 April 02 - 30 April 05	19.850
	<u>99,000</u>			
Li Shi Yuen, Joseph	<u>20,000</u>	30 April 2002	30 April 02 - 30 April 05	19.850
Chui Kam Wai	<u>10,000</u>	30 April 2002	30 April 02 - 30 April 05	19.850
Seitaro Furukawa	<u>10,000</u>	30 April 2002	30 April 02 - 30 April 05	19.850

### Substantial Shareholders' Interests in the Share Capital of the Company

As at 31 December 2002, the following party was interested in 10% or more in the issued share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of ordinary shares held	Number of preference shares held
Nam Tai <sup>1</sup>	136,500,688	598,420,000

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance as at 31 December 2002.

Note:

1. Nam Tai holds 598,420,000 preference shares of the Company. Such preference shares of the Company are convertible into ordinary shares of the Company at the conversion ratio of 1.03 preference shares to 1 ordinary share provided that no holder of preference shares shall be entitled to exercise the conversion rights if as a result, the minimum prescribed percentage of ordinary shares in "public hands" as prescribed in the Listing Rules is not satisfied.

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### Directors' Rights to Acquire Shares

Save as disclosed under the headings "Directors' Interests in Securities" above and "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under the age of 18, or were any such rights exercised by them; or was the Company, its holding company or any of its fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### Share Option Scheme

On 16 April 2002, a share option scheme ("the Scheme") was approved by the Board and enables the Company to grant options to eligible participants for the purpose of providing incentives and rewards to who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employee of the Group (including any director of the Company or any of its subsidiaries) and those companies in the equity share capital of which the Company, directly or indirectly, has a 20 percentage or greater beneficial interest but excluding Company's subsidiaries. The Scheme became effective on 4 June 2002, the date on which the Company's shares are listed on the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The exercise price of the share option is determinable by the Board, but shall not be less than the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of that option, which must be a business day; (ii) the average of the closing share price per Company's share as stated in the Stock Exchange for the five trading days immediately preceding the date of grant of that option, and (iii) the nominal value of the Company's shares.

The maximum number of shares which may be issued on exercise of all options granted under the Scheme (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme and any other scheme) shall not exceed 10% of the ordinary share capital of the Company in issue from time to time. As at 31 December 2002, the Company has not granted any options under the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the maximum number of shares that may be issued pursuant to the Scheme. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options shall be deemed to have been accepted when the counterpart of the option agreement is duly signed by the grantee together with payment by the grantee of a nominal consideration of the amount specified in the offer, as being the consideration for the grant of the option, is received by the Company at the place specified in the option agreement within 28 days from the date of the offer or such other period as the Board may specify in writing. An option may be exercised during the period specified in the terms of grant.

The Company shall amend, in due course, the terms of the Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

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## Compliance with the Code of Best Practice of the Listing Rules

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange, throughout the accounting year ended 31 December 2002, save that the non-executive directors are not appointed for specific terms, but are subject to retirement by rotation in accordance with the articles of association of the Company.

## Audit Committee

The Company has an audit committee which was established in accordance with the requirement of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises of Mr. Cham Yau Nam and Mr. Leung Wai Hung, two independent non-executive directors of the Company. The Group's financial statements for the year ended 31 December 2002 have been reviewed by the committee, who is of the opinion that such statements comply with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

## Change of Auditors

The Directors have resolved on 12 December 2002 to appoint Messrs. Grant Thornton as auditors of the Company in place of Messrs. HLB Hodgson Impey Cheng with effect from 12 December 2002 to hold office until the conclusion of the next Annual General Meeting and they have offered themselves for re-election as auditors of the Company at the forthcoming Annual General Meeting.

On behalf of the Board

**Seitaro Furukawa**

*Chairman*

Hong Kong, 14 February 2003

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