

## Report of the Directors

The Directors have the pleasure of presenting the annual report together with the audited financial statements of the Group for the year ended 31 December 2003.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the manufacturing of LCD. Details of the principal activities of its subsidiaries are set out in note 12 to the accompanying financial statements. In the past, the Group was also engaged in the manufacture and sale of transformers (see notes 6 and 23 to the accompanying financial statements), which business was disposed of in June 2003.

### SEGMENTAL 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 2003 is set out in note 4 to the accompanying financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003, the five largest customers of the Group accounted for approximately 55% of the Group's total turnover while the largest customer of the Group accounted for approximately 16% of the Group's total turnover. In addition, for the year ended 31 December 2003, the five largest suppliers of the Group accounted for approximately 67% of the Group's total purchases while the largest supplier of the Group accounted for approximately 20% of the Group's total purchases.

None of the Directors, 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 2003 are set out in the consolidated income statement on page 26 of this annual report.

Apart from the interim dividend of HK\$0.02 per share paid on 29 August 2003 for a total of HK\$15,619,000, the Board has proposed to declare a final dividend of HK\$0.022 per share for a total of HK\$17,069,000. The final dividend will be payable on or before 30 April 2004 to shareholders whose names appear on the Register of Members of the Company at the close of business on 16 April 2004.

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### SUMMARY FINANCIAL INFORMATION

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 64 of this annual report.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$3,661,000. Details of these acquisitions and the other movements in the property, plant and equipment of the Group during the year are set out in note 11 to the accompanying financial statements.

### SHARE CAPITAL

Details and movements of the Company's share capital are set out in note 21 to the accompanying financial statements.

### RESERVES

Details of movements in the reserves of the Company during the year are set out in note 22 to the accompanying financial statements.

As at 31 December 2003, approximately HK\$115,176,000 of the Company's reserves were 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 its existing shareholders.

### ISSUE OF THE COMPANY'S LISTED SHARES

During the year, the Company issued 170,000,000 ordinary shares to Nam Tai Electronics, Inc. ("Nam Tai"), the controlling shareholder of the Company, pursuant to its exercise of conversion rights in respect of 175,100,000 preference shares of the Company. Details of the share capital of the Company before and after the said issuance are set out in note 21 to the accompanying financial statements.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED 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 2003.

### RETIREMENT BENEFIT SCHEMES

Particulars of the retirement benefit schemes are set out in note 27 to the accompanying financial statements.

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### CHARITABLE DONATIONS

During the year, the Group made charitable donations which amounted to HK\$1,060,000.

### BANK BORROWINGS

Details of the Group's bank borrowings as at 31 December 2003 are set out in the Consolidated Balance Sheet and note 19 to the accompanying financial statements.

### CAPITALIZED INTERESTS

No interest was capitalized by the Group during the year.

### CONNECTED TRANSACTIONS

During the year ended 31 December 2003, the Group had entered into the following transactions with subsidiaries of Nam Tai, which are defined by the Rules Governing the Listing of Securities on the Stock Exchange the ("Listing Rules") as "connected transactions".

#### (I) **J.I.C. Enterprises (Hong Kong) Limited ("JIC Ent") and Zastron Electronic (Shenzhen) Company Limited ("Zastron")**

During the year ended 31 December 2003, JIC Ent, a wholly owned subsidiary of the Company, entered into 2 agreements ("Agreements") with Zastron, a wholly owned subsidiary of Nam Tai. Pursuant to one of the Agreements, JIC Ent will sell and Zastron will purchase from JIC Ent LCD, anisotropic conductive films and integrated circuits and under the other Agreement, Zastron will sell and JIC Ent will purchase from Zastron COG panels utilizing the materials purchased from JIC Ent. Details of the Agreements have been set out in the announcements of the Company dated 11 March 2003 and 14 August 2003 respectively. During the year, the aggregate value of the transactions under each of the Agreements was HK\$35,757,000 and HK\$39,848,000 respectively.

On 21 March 2003, the Stock Exchange granted the Company a waiver from strict compliance with the requirements set out in Chapter 14 of the Listing Rules in respect of the transactions (the "Waiver Letter"). Pursuant to the Waiver Letter, the annual aggregate consideration of the transactions under each of the Agreements shall not exceed HK\$10 million. On 14 August 2003, the Company announced that the aggregate value of the transactions under each of the Agreements for the year would be expected to be approximately HK\$40 million and would thus exceed the threshold of HK\$10 million. The Company had therefore made another application to the Stock Exchange and the Stock Exchange had on 8 October 2003, granted the Company a waiver from strict compliance with the requirements set out in Chapter 14 of the Listing Rules in respect of the transactions subject to certain conditions which had been duly complied with by the Company. The Independent Non-executive Directors have reviewed the transactions and confirmed that the respective amounts of the transactions had not exceeded HK\$40 million for the year ended 31 December 2003 and that the transactions were entered into on normal

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commercial terms in the ordinary and usual course of business of the Company which were fair and reasonable so far as the shareholders of the Company are concerned and were entered into on terms no less favourable than terms available to and from independent third parties.

### (II) **J.I.C. Technology Company Limited and Nam Tai Group Management Limited ("NTGM")**

On 16 April 2002, the Company and NTGM, a wholly owned subsidiary of Nam Tai, entered into a Business Facilities Agreement pursuant to which office space of approximately 4,500 square feet furnished with fittings, decorations, office equipment and furniture and use of common area, certain office facilities, office services and outgoings, office equipment and utilities would be provided by NTGM to the Company and its subsidiaries. The agreement ended on 30 May 2003. A new Business Facilities Agreement comprising the same terms was signed by the Company and NTGM on 16 April 2003. This new agreement commenced on 31 May 2003 and shall end on the day immediately prior to the first anniversary of the commencement date. The term of the agreement may be extended for further periods of 12 months by the Company giving NTGM not less than 2 months' written notice prior to its expiry.

The service fee payable to NTGM by the Company during the term of the agreement is HK\$440,000 per month subject to adjustments to the then market rate if the agreement is extended. The total service fee paid to NTGM by the Company during the year was HK\$5,280,000.

### (III) **J.I.C. Enterprises (Hong Kong) Limited and Namtai Electronic (Shenzhen) Company Limited ("NTSZ")**

During the year ended 31 December 2003, JIC Ent provided silk screening services in the sum of HK\$2,889,000 to NTSZ, a wholly owned subsidiary of Nam Tai, by selling electronic components bearing the logo or marks of customers of NTSZ to NTSZ. Details of the transactions have been set out in the announcement of the Company dated 17 April 2003.

As the transactions took place on an on-going basis, the Company applied to the Stock Exchange for a waiver from strict compliance with the requirements set out in Chapter 14 of the Listing Rules and the Stock Exchange had on 6 May 2003 granted the said waiver to the Company subject to certain conditions which had been duly complied with by the Company. The Independent Non-executive Directors have reviewed the transactions and confirmed that the respective amounts of the transactions had not exceeded HK\$10 million for the year ended 31 December 2003 and that the transactions were entered into on normal commercial terms in the ordinary and usual course of business of the Company which were fair and reasonable so far as the shareholders of the Company are concerned and were entered into on terms no less favourable than terms available to and from independent third parties.

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During the year, JIC Ent also sold LCD in the sum of HK\$143,000 to NTSZ. As this amount falls within the exemption under the Listing Rules, no disclosure was made. This sum when aggregated with the amount for the above silk screening services did not exceed the prescribed limit of HK\$10 million.

### DIRECTORS

The Directors who held office during the year ended 31 December 2003 and up to the date of this report were:

#### Executive Directors:

Seitaro Furukawa (*Chairman*)

Koo Ming Kown

Tadao Murakami

Li Shi Yuen, Joseph

Chui Kam Wai

#### Independent Non-executive Directors

Cham Yau Nam

Leung Wai Hung

Cheng Chi Heng

#### Non-executive Director

Wong Toe Yeung

In accordance with Articles 87(1) and (2) of the Company's articles of association, Mr. Li Shi Yuen, Joseph, Mr. Tadao Murakami and Mr. Cheng Chi Heng will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

#### Executive Directors

**Mr. Seitaro Furukawa**, aged 62, 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.

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**Mr. Koo Ming Kown**, aged 59, has been a Director of Nam Tai, since 1 November 1987 and was the President of Nam Tai for the period from 1 November 1987 to 1 July 1994. He served as the Chairman of the Board of Nam Tai and its predecessor companies from inception until 3 September 1998. He currently assumes the position of Chief Financial Officer and is responsible for handling corporate strategy, finance and administration, merger and acquisitions and investment projects of 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 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 52, a co-founder of the Group and Vice Managing Director of the Company. He has been a Director of Nam Tai since 22 June 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 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 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 45, 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 experience in the LCD business and has extensive experience in doing business with Japanese based companies.

### Independent Non-executive Directors

**Mr. Cham Yau Nam**, aged 56, has been the Managing Director and Shareholder of Kwong Fat Hong (Securities) Limited since 1996. He has over 20 years 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.

## Report of the Directors

**Mr. Leung Wai Hung**, aged 45, 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 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.

**Mr. Cheng Chi Heng**, aged 26, is currently the Executive Director and Chief Executive Officer 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 worked in Yu Ming Investment Management Limited from 1999 to 2000 as a Corporate Finance Executive.

### Non-executive Director

**Mr. Wong Toe Yeung**, aged 63, 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 P.R.C. He has more than 30 years experience in the consumer electronics products industry.

### Senior Management

**Mr. Wah Wang Kei**, Jackie, aged 37, has been 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 had been a partner of Messrs. Vivien Chan and Company, a law firm in Hong Kong, and was 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 Senior In-House Legal Counsel in Nam Tai Group and provides company secretarial support to the Group.

### DIRECTORS' SERVICE CONTRACTS

None of the Directors 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 paragraph "Connected Transactions" above, no contract of significance in relation to the business of the Group in which the Company, its holding company, its fellow subsidiaries or its subsidiaries was a party and in which the Directors had a material interest, whether directly or indirectly, subsisted at the balance sheet date or any time during the year.

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### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2003, the interests or short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules, were as follows:

#### THE COMPANY

As at 31 December 2003, none of the Directors held any shares in the issued share capital of the Company.

#### ASSOCIATED CORPORATION

Name of Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests <sup>4</sup>	Total
Nam Tai <sup>1</sup>	Koo Ming Kown	5,316,386 <sup>3</sup>	—	—	—	5,316,386
	Li Shi Yuen, Joseph <sup>2</sup>	78,870	—	2,935,087	—	3,013,957
	Chui Kam Wai <sup>2</sup>	45,870	—	2,935,087	—	2,980,957
	Tadao Murakami	1,849,225	—	—	—	1,849,225
	Leung Wai Hung <sup>5</sup>	23,600	—	—	—	23,600

Notes:

- Nam Tai holds 74.86% shareholding of the Company as at 31 December 2003.
- 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 2,935,087 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 SFO.
- 2,906,987 common shares of US\$0.01 each in Nam Tai are owned by Mr. Koo Ming Kown and Ms. Cho Sui Sin (spouse of Mr. Koo Ming Kown) jointly.
- During the year, share options held by the Directors under the 1993 and 2001 share option schemes of Nam Tai had been fully exercised by the Directors. For details of the 1993 and 2001 share option schemes, please refer to note 28 to the accompanying financial statements.
- Subsequent to the year end, Mr. Leung Wai Hung disposed of 13,000 shares of Nam Tai on 6 January 2004.



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All the interests disclosed above represent long position in the shares of the Company and its associated corporations.

Save as disclosed above, the Company has not been notified by any person (other than the Directors or Chief Executive of the Company) who had interests or short positions in the shares or underlying shares of the Company or any of its associated corporations which would have to be disclosed to the Company and the Stock Exchange under the provisions of the Listing Rules or Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 352 of the SFO.

### INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Director or Chief Executive of the Company, as at 31 December 2003, shareholders who had interests or short positions in the shares or underlying shares of the Company which would have to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Number of ordinary shares held	Number of preference shares held
Nam Tai	263,900,688 <sup>1</sup>	423,320,000 <sup>2</sup>

All the interests disclosed under this Section represent long position in the shares of the Company.

Save as disclosed above, the Company has not been notified by any person (other than the Directors or Chief Executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would have to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

#### Notes:

1. Nam Tai held 136,500,688 ordinary shares of the Company as at 31 December 2002. During the year, Nam Tai disposed of 42,600,000 ordinary shares and was allotted 170,000,000 ordinary shares pursuant to its exercise of conversion rights in respect of 175,100,000 preference shares of the Company. As a result, Nam Tai held 263,900,688 ordinary shares as at 31 December 2003.
2. Nam Tai held 598,420,000 preference shares of the Company as at 31 December 2002. During the year, Nam Tai exercised its right to convert 175,100,000 preference shares of the Company to ordinary shares of the Company and as a result, as at 31 December 2003, Nam Tai held 423,320,000 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

Saves as disclosed under the headings "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" 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 18 years of age, 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 those who contribute to the success of the Group's operations. Eligible participants of the Scheme include, among others, 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 percent or greater beneficial interest but excluding Company's subsidiaries. The Scheme became effective on 4 June 2002, the date on which the Company's ordinary 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 ordinary shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of option, which must be a business day; (ii) the average of the closing share price of the Company's ordinary share as stated in the Stock Exchange for the five trading days immediately preceding the date of grant of option; and (iii) the nominal value of the ordinary shares of the Company.

The maximum number of shares which may be issued on exercise of all options granted under the Scheme and any other share option schemes cannot exceed 10% (the "Mandate Limit") of the ordinary issued share capital of the Company at the date of approval of the Scheme, excluding any options lapsed in accordance with the terms of the Scheme. On 16 April 2002, the date of approval of the Scheme, the Company's ordinary shares in issue was 182,544,465 shares of HK\$0.01 each and accordingly the Mandate Limit upon which the maximum number of ordinary shares which may be granted under the Scheme cannot exceed 18,254,446 ordinary shares. However, the Company may seek approval by its shareholders in general meeting to renew the Mandate Limit from time to time. The maximum number of ordinary shares issuable under the Scheme to each eligible participant within any 12-month period is limited to 1% of the ordinary shares of the Company in issue unless separate approval by the shareholders in general meeting is obtained.

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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 a remittance in favour of the Company in the amount specified in the offer, 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.

No option has been granted by the Company under the Scheme since its adoption.

### 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, throughout the year ended 31 December 2003 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 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 2003 have been reviewed by the committee, who is of the opinion that such statements complied with the applicable accounting standard and legal requirements, and that adequate disclosures have been made.

### CHANGE OF AUDITORS

The Directors have resolved on 24 October 2003 to appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company in place of Messrs. Grant Thornton with effect from 24 October 2003 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

6 February 2004