

REPORT OF THE DIRECTORS

The directors (the “Directors”) of J.I.C. Technology Company Limited (the “Company”) have the pleasure of 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 2004.

► Principal Activities

The Company is an investment holding company. The Group is principally engaged in the manufacturing of liquid crystal display (“LCD”) products. 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 note 5 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 geographical markets for the year ended 31 December 2004 is set out in note 3 to the accompanying financial statements.

► Results and Appropriations

Details of the Group’s results for the year ended 31 December 2004 are set out in the consolidated income statement on page 32 of this annual report.

The board of Directors (the “Board”) declared payment of an interim dividend of HK\$0.015 (2003: HK\$0.02) per ordinary and preference share in 2004. The Board has not recommended any payment of final dividend for the year ended 31 December 2004 (2003: HK\$0.022 per share) having considered the cash required for capital expenditure to support the continuous growth of the Company.

► 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 70 of this annual report.

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► Major Customers and Suppliers

For the year ended 31 December 2004, the five largest customers of the Group accounted for approximately 68% of the Group's total turnover while the largest customer of the Group accounted for approximately 25% of the Group's total turnover. In addition, for the year ended 31 December 2004, the five largest suppliers of the Group accounted for approximately 69% of the Group's total purchases while the largest supplier of the Group accounted for approximately 33% 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.

► Property, Plant and Equipment

During the year, the Group acquired property, plant and equipment of approximately HK\$17,367,000 (2003: 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 10 to the accompanying financial statements. Moreover, the Group paid a total of approximately HK\$44,193,000 (2003: HK\$482,000) for machinery under installation and deposit for the acquisition of property, plant and equipment, details of which are set out in note 11 to the accompanying financial statements.

► Share Capital and Issue of the Company's Listed Shares

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

During the year ended 31 December 2004, the Company issued 410,990,290 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 423,320,000 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.

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► 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 2004, approximately HK\$103,704,000 (2003: 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 articles of association of the Company or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

► 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 2004.

► Charitable Donations

During the year, the Group made charitable donations amounting to HK\$143,000 (2003: HK\$1,060,000).

► Bank Borrowings

Details of the Group's bank borrowings as at 31 December 2004 are set out in the Consolidated Balance Sheet on page 33 of this annual report and note 19 to the accompanying financial statements.

► Capitalisation of Interest

No interest was capitalised by the Group during the year.

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► **Connected Transactions**

During the year ended 31 December 2004, the Group entered into the following transactions with subsidiaries of Nam Tai. The transactions are defined in Chapter 14A of the Rules (the "Listing Rules") Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as "continuing connected transactions" and are exempt from the independent shareholders' approval requirements. The transactions are subject to the reporting and announcement requirements as set out in Chapter 14A of the Listing Rules.

(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 two agreements with Zastron, a wholly owned subsidiary of Nam Tai. Pursuant to the two agreements, JIC Ent would sell and Zastron would purchase from JIC Ent LCDs, anisotropic conductive films and integrated circuits ("Agreement I") and under the other agreement, Zastron would sell and JIC Ent would purchase from Zastron COG panels utilizing the materials purchased from JIC Ent ("Agreement II"). Details of Agreement I and Agreement II were set out in the announcements of the Company dated 11 March 2003 and 14 August 2003 respectively.

On 21 March 2003, the Stock Exchange granted the Company a waiver from strict compliance with the requirements set out in the then 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 Agreement I and Agreement II should not exceed HK\$10 million. On 14 August 2003, the Company announced that the aggregate value of the transactions under each of Agreement I and Agreement II would be expected to be approximately HK\$40 million during the financial year ended 31 December 2003 and approximately HK\$60 million during each of the financial year ended 31 December 2004 and 31 December 2005, and would thus exceed the threshold of HK\$10 million. The Company therefore made another application to the Stock Exchange and the Stock Exchange on 8 October 2003 granted the Company a waiver from strict compliance with the requirements as set out in the then Chapter 14 of the Listing Rules in respect of the transactions subject to certain conditions which had been duly complied with by the Company.

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During the year, each of the aggregate consideration of the transactions under Agreement I and Agreement II was approximately HK\$24,400,000 (2003: HK\$35,638,000) and approximately HK\$34,264,000 (2003: HK\$39,848,000) respectively.

The independent non-executive Directors have reviewed the transactions under Agreement I and Agreement II and confirmed that:

1. the transactions have been entered into in the ordinary and usual course of business of the Company;
2. the transactions have been entered into on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties;
3. the transactions have been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
4. the annual aggregate consideration of the transactions under each of Agreement I and Agreement II has not exceeded the cap of HK\$60 million for the financial year ended 31 December 2004.

(II) The Company and Nam Tai Group Management Limited ("NTGM")

On 16 April 2003, 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. As the Company required more office space for expansion, the Company and NTGM entered into a new business facilities agreement on 30 April 2004 with the gross floor area granted to the Company increased to approximately 7,200 square feet. This new agreement was for a period from 1 April 2004 to 31 March 2005 with an option to the Company to renew for a further period of 12 months by the Company giving to NTGM not less than 2 months' notice prior to the expiration of the term. The business facilities agreement dated 16 April 2003 was accordingly terminated.

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The service fee payable to NTGM by the Company during the term of the agreement was HK\$510,000 per month. The aggregate service fees paid by the Company to NTGM during the year was HK\$5,910,000 (2003: HK\$5,280,000).

The independent non-executive Directors have reviewed the transactions and confirmed that:

1. the transactions have been entered into in the ordinary and usual course of business of the Company;
2. the transactions have been entered into on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and
3. the transactions have been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(III) JIC Ent and Namtai Electronic (Shenzhen) Company Limited ("NTSZ")

On 8 April 2004, JIC Ent and NTSZ, an indirect subsidiary of Nam Tai, entered into a letter purchase agreement for a term of 3 years commencing on 1 April 2004 under which JIC Ent would sell and NTSZ would purchase from JIC Ent LCD panels. The purpose of the agreement was to expand the customer base of the Group. Pursuant to the agreement, it was agreed that JIC Ent would be included in NTSZ's list of designated suppliers of LCD panels and NTSZ may from time to time place purchase orders with JIC Ent at a price no less favourable than that available to NTSZ from independent third parties in accordance with the standard business terms of NTSZ.

The aggregate consideration of sales from JIC Ent to NTSZ under the letter purchase agreement during the year was approximately HK\$4,393,000 (2003: nil).

The independent non-executive Directors have reviewed the transactions and confirmed that:

1. the transactions have been entered into in the ordinary and usual course of business of the Company;

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2. the transactions have been entered into on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and
3. the transactions have been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(IV) Two Directors guaranteed repayment of certain trade receivables of the Company as at 31 December 2004 amounting to approximately HK\$423,000 (2003: Nil) at nil consideration.

► Contracts of Significance

There are no contracts of significance (as defined in the Listing Rules) subsisting during or at the end of the financial year in which any Director is materially interested, either directly or indirectly, nor has the Company or its subsidiaries entered into any contracts of significance with Nam Tai or its subsidiaries (other than the connected transactions as set out in the paragraph above).

► Management Contracts

During the year, the Company has not entered into any contracts concerning the management and administration for the whole or any substantial part of the business of the Company.

► Directors and Service Contracts

The Directors who held office during the year ended 31 December 2004 and up to the date of this annual report were:

Executive Directors:

Seitaro FURUKAWA (<i>Chairman</i>)	(appointed on 6 March 2002)
LI Shi Yuen, Joseph	(appointed on 8 January 2002)
CHUI Kam Wai	(appointed on 6 March 2002)
YEOH Teck Hooi	(appointed on 7 February 2005)

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Non-executive Directors:

KOO Ming Kown	(appointed on 6 March 2002 as an executive director and redesignated as a non-executive director on 30 March 2004)
Tadao MURAKAMI	(appointed on 6 March 2002 as an executive director and redesignated as a non-executive director on 30 April 2004)
WONG Toe Yeung	(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)

All the executive Directors are not appointed on specific terms but are subject to retirement by rotation in accordance with the articles of association of the Company.

The term of directorship of all the non-executive Directors is one year commencing from 1 January 2005. The term will continue for successive periods of one year unless terminated by either party giving not less than one month's notice to the other party.

During the year, Messrs. KOO Ming Kown and Tadao MURAKAMI were re-designated from an executive Director to a non-executive Director of the Company with effect from 30 March 2004 and 30 April 2004 respectively. Mr. YEOH Teck Hooi was appointed as an executive Director on 7 February 2005.

All the independent non-executive Directors have confirmed their independence pursuant to Rule 3.13 of the Listing Rules and based on such confirmation, the Company is of the opinion that the independent status of the independent non-executive Directors remains intact as at 31 December 2004.

In accordance with Articles 87(1) and 87(2) of the articles of association of the Company, Messrs. Seitaro FURUKAWA, KOO Ming Kown and WONG Toe Yeung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. In accordance with Articles 86(3) of the articles of association of the Company, Mr. YEOH Teck Hooi shall hold office only until the forthcoming annual general meeting and be eligible for re-election.

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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 in the section "Connected Transactions" above and under the headings "Related Party Transactions" in note 29 to the accompanying financial statements, no Director (including past Director) 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 and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2004, 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") (Cap. 571 of the Laws of Hong Kong)) 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:

(I) Long position in the shares of the Company

As at 31 December 2004, none of the Directors held any shares in the issued share capital of the Company.

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(II) Long position in the shares of Associated Corporation

(A) As at 31 December 2004 the Directors who held common share of US\$0.01 each in Nam Tai (Note a) are as follows:—

Name of Director	Personal interests	Corporate interests	Capacity	Percentage of the issued share capital of the	
				Number of common shares held	associated corporation
LI Shi Yuen, Joseph (Note b)	78,870	2,935,087	Beneficial Owner	3,013,957	7.06%
CHUI Kam Wai (Note b)	45,870	2,935,087	Beneficial Owner	2,980,957	6.99%
KOO Ming Kown (Note c)	6,445,786	—	Beneficial Owner	6,445,786	15.11%
Tadao MURAKAMI	1,849,225	—	Beneficial Owner	1,849,225	4.33%
WONG Toe Yeung (Note d)	—	1,416,764	Beneficial Owner	1,416,764	3.32%
LEUNG Wai Hung	10,600	—	Beneficial Owner	10,600	0.02%

Notes:

- a. Nam Tai holds 71.63% shareholding of the Company as at 31 December 2004.
- b. 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 & Chui"). Each of them holds 50% interest in Li & Chui. As at 31 December 2004, 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.
- c. As at 31 December 2004, 5,445,786 common shares of Nam Tai are registered in the names of Mr. KOO Ming Kown ("Mr. Koo") and Ms. CHO Sui Sin (spouse of Mr. Koo) jointly.

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d. Mr. WONG Toe Yeung ("Mr. Wong") is the beneficial owner of the entire issued share capital of Top Scale Company Limited ("Top Scale"). As at 31 December 2004, Mr. Wong holds 100% interest in Top Scale and Top Scale holds 1,416,764 common shares of Nam Tai.

(B) As at 31 December 2004, the Directors who held share options granted by Nam Tai are as follows:

Name of Director	Number of share options	Number of underlying shares	Date of grant	Exercisable period	Exercise Price (US\$)
LI Shi Yuen, Joseph (Note e)	30,000	30,000	30 July 2004	30 July 2004 to 30 July 2006	19.4
KOO Ming Kown (Note e)	180,000	180,000	30 July 2004	30 July 2004 to 30 July 2006	19.4
Tadao MURAKAMI (Note e)	180,000	180,000	30 July 2004	30 July 2004 to 30 July 2006	19.4

Note:

e. Subsequent to the year end, Mr. LI Shi Yuen, Joseph, Mr. KOO Ming Kown and Mr. Tadao MURAKAMI have been granted 50,000, 350,000 and 350,000 share options of Nam Tai respectively.

Save as disclosed above, no Directors nor chief executive have any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be 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 were taken or deemed to be have under such provisions), 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.

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► **Directors' Benefits from Rights to Acquire Shares or Debentures**

Save as disclosed in the section "Share Option Scheme" below, at no time during the 12 months ended 31 December 2004 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of shares in or debenture of the Company or any other body corporate.

► **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 2004, 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:

Long position of the substantial shareholder in the shares of the Company

<u>Name of substantial shareholder</u>	<u>Capacity</u>	<u>Number of ordinary shares held</u>	<u>Percentage of shareholding</u>
Nam Tai	Beneficial owner	546,890,978 (Note *)	71.63%

Note:

- * Nam Tai held 263,900,688 ordinary shares of the Company as at 31 December 2003. During the year, Nam Tai disposed of 128,000,000 ordinary shares and was allotted 410,990,290 ordinary shares pursuant to its exercise of conversion rights in respect of 423,320,000 preference shares of the Company (based on a conversion ratio of 1.03 preference shares to 1 ordinary share). As a result, Nam Tai held 546,890,978 ordinary shares as at 31 December 2004.

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Save as disclosed above, the Company has not been notified by any person (other than the Directors or chief executives 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.

► 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 per cent or greater beneficial interest but excluding the Company’s subsidiaries. The Scheme became effective on 4 June 2002, the date on which the Company’s ordinary shares were 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 issued ordinary 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 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.

► Emoluments of Directors and Five Highest Paid Directors/Employees

(I) Directors

For the year ended 31 December 2004, one of the independent non-executive Directors, Mr. CHENG Chi Heng, waived emoluments of HK\$120,000 (2003: HK\$120,000). Details of the emoluments of the Directors on a named basis during the year are set out in note 6 to the accompanying financial statements.

(II) Employees

Amongst the five highest paid individuals of the Group, three of them are Directors (2003: one Director).

► Employee & Emolument Policy

Up to 31 December 2004, the Group had a total of 1,929 dynamic and talented employees, among which 12 were marketing staff and 59 were research and development staff. All staff were dedicated to maintaining and advancing the quality and reliability of our operations. Total staff costs for the year ended 31 December 2004 was approximately HK\$50.3 million.

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The Group's emolument policy, including both salaries and bonuses, are in line with the local practices where the Company and its subsidiaries operate. In addition to receiving salaries and bonuses, employees are also entitled to other benefits, including medical subsidies and participation in retirement schemes. The Group follows a policy of encouraging its subsidiaries to send their staff to attend training classes or seminars that are directly or indirectly related to the Group's business. Furthermore, the emolument policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff.

The remuneration policy and remuneration packages of the executive Directors and members of the senior management will be reviewed by the remuneration committee of the Company, the composition and responsibilities of which are detailed in the section "Corporate Governance" below.

A share option scheme was established on 4 June 2002 in order for 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. Details of the share option scheme were set out in the section "Share Option Scheme" above. No option has been granted by the Company under the Scheme since its adoption.

The Company operates a mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for all their employees under Hong Kong employment. The MPF Scheme is a defined contribution scheme pursuant to which the Company and its employees have to each contribute 5% of the relevant income of the employees to the MPF Scheme subject to the minimum and maximum levels of income of HK\$5,000 and HK\$20,000 respectively with a statutory cap of HK\$1,000 per month. The Company's contributions are 100% vested in the employees' accounts once they are paid into the MPF Scheme until the employee reaches the retirement age of 65 subject to a few exceptions.

The Group's local employees in the People's Republic of China ("PRC") under PRC employment are covered under a local statutory retirement insurance policy operated by local government (the "PRC Scheme"). Both the Group and the employees are required to contribute a designated percentage of the employees' monthly salary to the PRC Scheme.

Details of the Group's costs with respect to the MPF Scheme and the PRC Scheme charged to its income statement are set out in note 27 to the accompanying financial statements.

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► Corporate Governance

The Company is committed to achieving high standards of corporate governance which it believes is crucial to the development of the Company and safeguarding the interests of the Company's shareholders.

To ensure objectivity and impartiality in the management of the Company, majority of the Board comprises non-executive Directors. The Board is responsible for the overall management of the Group's business but the day-to-day management is delegated to the executive Directors. Mr. Seitaro FURUKAWA as Chairman heads the Board and is responsible for the operations of the Group. Mr. CHUI Kam Wai as Chief Executive Officer is responsible for the marketing functions of the Group. Mr. YEOH Teck Hooi as Chief Financial Officer advises on financial matters of the Group. The Board held four meetings during the year.

The Company has set up an audit committee and a remuneration committee under the Board. The Board considers the recommendations on matters relating to the nomination and appointment of Directors to be the Board's collective effort and thus does not intend to set up a nomination committee.

The Board has also adopted the terms of the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules (the "Model Code") and the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code") during the accounting year ended 31 December 2004.

In the opinion of the Board, the Company has complied with the Code and upon specific enquiry of all Directors is not aware of any non-compliance with the Model Code throughout the accounting year ended 31 December 2004.

Audit Committee

The audit committee comprises three independent non-executive Directors, Messrs. CHAM Yau Nam, LEUNG Wai Hung and CHENG Chi Heng. Mr. CHAM Yau Nam is the chairman of the audit committee. The audit committee has adopted terms of reference which are in line with the Code and the Code on Corporate Governance Practices issued by the Stock Exchange. The audit committee will meet at least four times a year to review the completeness, accuracy and fairness of the Company's financial statements, the Company's financial reporting system and internal control procedures, the scope and nature of the external audit and matters concerning the engagement of external auditors. The audit committee has reviewed the Company's

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financial statements for the year ended 31 December 2004 and is of the opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosure has been made.

Remuneration Committee

The remuneration committee comprises three independent non-executive Directors, Messrs. CHAM Yau Nam, LEUNG Wai Hung and CHENG Chi Heng. Mr. Cham is the chairman of the remuneration committee. The remuneration committee has adopted terms of reference which are in line with the Code on Corporate Governance Practices issued by the Stock Exchange. The remuneration committee will meet at least once a year to review the remuneration policy and remuneration packages of the executive Directors and members of the senior management.

Sarbanes-Oxley Act

The Company's holding company, Nam Tai, is a New York Stock Exchange listed company. In this respect, Nam Tai will have to comply with the stringent requirements under the Sarbanes-Oxley Act (the "Act"). The Act mainly, among other things, focuses on the effectiveness of internal control and essentially requires the management of Nam Tai to annually state its responsibilities in establishing and maintaining an adequate internal control structure and procedure for financial reporting, and to conduct an assessment of the effectiveness of Nam Tai's internal controls and procedures for financial reporting, followed by an attestation of management's assertions by external auditors of Nam Tai.

In order for the management of Nam Tai to comply with the Act, each of its subsidiary companies will have to comply with the same stringent requirements under the Act. To this end, the Company will set up a task force and will follow the methodology and time schedule of Nam Tai to ensure that the internal control requirements under the Act can be fully complied with in year 2005.

We believe that upon full implementation of the internal control procedures under the Act, the Company's corporate governance and business practices will be even better enhanced.

Quarterly Review by Auditors

Currently, the Company engaged external auditors to review its interim results prior to publication. For better corporate governance in relation to financial reporting, the Company will engage its external auditors to review its quarterly financial information in the financial year ending 31 December 2005.

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► Audit Fees

During the year, the Group incurred a total fee of approximately HK\$673,000 in relation to the audit services provided by Messrs. Deloitte Touche Tohmatsu ("DTT"). The Group also paid DTT approximately HK\$85,000 for reviewing the Group's interim financial statements.

► Auditors

Messrs. Grant Thornton was appointed as auditors of the Company in place of Messrs. HLB Hodgson Impey Cheng with effect from 12 December 2002. DTT was appointed as auditors of the Company in place of Messrs. Grant Thornton with effect from 24 October 2003. The Board proposed to re-appoint DTT as auditors of the Company during the forthcoming annual general meeting of the Company.

► Sufficient Public Float

To the knowledge of the Directors based on publicly available information, the Company has sufficient public float as at the date of this Report.

On behalf of the Board

Seitaro FURUKAWA

Chairman

Hong Kong, 7 February 2005