



## REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2004.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture and sale of liquid crystal displays and related products.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 27 on the financial statements.

### **SUBSIDIARIES**

Particulars of the Company's subsidiaries at 31 December 2004 are set out in note 14 on the financial statements.

### **FINANCIAL STATEMENTS**

The profit of the Group for the year ended 31 December 2004 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 21 to 57.

An interim dividend of 10.0 cents per share was paid on 11 November 2004 (2003: interim dividend 7.0 cents per share, special interim dividend 21.0 cents per share). The directors now recommend the payment of a final dividend of 28.0 cents per share (2003: 22.0 cents per share). No special dividend was recommended in respect of the year ended 31 December 2004 (2003: 6.0 cents per share).

### **SHARE CAPITAL**

Details of the movements in share capital of the Company during the year are set out in note 25 on the financial statements. Shares were issued on the exercise of share options and as a result of scrip dividends.

### **CHARITABLE DONATIONS**

Charitable donations made by the Group during the year amounted to HK\$48,734 (2003: HK\$84,000).

### **FIXED ASSETS**

Movements in fixed assets during the year are set out in note 11 on the financial statements.

### **DIRECTORS**

The Directors during the financial year and up to the date of this report were:

#### **Executive directors:**

Dr Chang Chu Cheng, *Chairman*

Tony Tsoi Tong Hoo

(appointed on 14 March 2005)

Dr Yan Sze Kwan

Chung Shun Ming

Kwok Siu Kwan

Cecil Ho Te Hwai

(appointed on 14 March 2005)

**DIRECTORS** (Continued)**Non-Executive directors:**

Professor Charles Kao Kuen*	
Anthony Lui Chi Shing*	
Dr William Lo Wing Yan*	(appointed on 22 July 2004)
Yuen Kin*	(appointed on 14 March 2005)
Hou Ziqiang*	(appointed on 14 March 2005)
James Lee Goon Nam	(resigned on 7 June 2004)

\* Independent Non-Executive Directors

In accordance with the Bye-laws of the Company, Dr Yan Sze Kwan, Anthony Lui Chi Shing, Professor Charles Kao Kuen, Tony Tsoi Tong Hoo, Ho Te Hwai, Dr William Lo Wing Yan, Yuen Kin and Hou Ziqiang shall retire from office by rotation and are eligible for re-election at the forthcoming annual general meeting.

**DIRECTORS' INTERESTS IN SHARES**

The Directors who held office at 31 December 2004 had the following interests in the issued share capital of the Company and its subsidiaries (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and share positions required to be kept under Section 352 of the SFO:

**(a) Interests in the Company**

	Shares of HK\$0.25 each	
	Personal interests	Corporate interests
<b>Varitronix International Limited</b>		
Dr Chang Chu Cheng	22,462	69,203,716 (note)
Dr Yan Sze Kwan	10,371,072	–
Chung Shun Ming	4,434,314	–
Kwok Siu Kwan	2,283,959	–

Note: A family trust of Dr Chang Chu Cheng and his wife, Madam Iling Sieh, is the beneficial owner of the issued share capital of Colville Group Limited which holds 69,203,716 shares of the Company.

**DIRECTORS' INTERESTS IN SHARES** (Continued)**(b) Interests in subsidiaries**

	<b>Non-voting deferred shares of HK\$1,000 each in Varitronix Limited</b>	<b>Non-voting deferred shares of HK\$100 each in Polysources Properties Limited</b>
Dr Chang Chu Cheng	960	78
Dr Yan Sze Kwan	123	10
Chung Shun Ming*	50	8
Kwok Siu Kwan	50	4
	<hr/>	<hr/>
	1,183	100
	<hr/> <hr/>	<hr/> <hr/>

\* Mr Chung Shun Ming holds 4 non-voting deferred shares in Polysources Properties Limited in trust for all non-voting deferred shareholders of that company.

**DIRECTORS' SERVICE CONTRACTS**

Drs Chang Chu Cheng and Yan Sze Kwan and Messrs Tony Tsoi Tong Hoo, Chung Shun Ming, Kwok Siu Kwan and Cecil Ho Te Hwai have entered into management agreements with the Company which may be terminated by either party to the agreements at three months' notice.

Non-Executive Directors are appointed for a period up to 31 December 2006 or such other date as agreed by the Non-Executive Directors and the Company.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

**DIRECTORS' INTERESTS IN CONTRACTS**

No contract of significance to which the Company, or any of its subsidiaries was a party, in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



## SHARE OPTION SCHEMES

The Company had a Share Option Scheme for the employees of the Group which was adopted on 6 June 1991, subsequently amended on 8 June 1999 and expired on 5 June 2001. A second Share Option Scheme of the Company was adopted on 22 June 2001 and terminated on 12 May 2003.

A third Share Option Scheme of the Company was adopted on 12 May 2003 as an incentive to the Group's employees and business associates. This Scheme shall be valid and effective for a period of ten years ending on 11 May 2013, after which no further options will be granted. The maximum number of shares in respect of which options may be granted under the third Share Option Scheme and any other Share Option Schemes of the Company may not exceed 10 percent of the issued share capital of the Company at the date of approval of the third Share Option Scheme. The maximum entitlement of each participant in the total number of shares issued and to be issued upon exercise of options granted under the third Share Option Scheme and any other Share Option Scheme of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue.

The total number of shares available for issue under the Share Option Schemes at 31 December 2004 represents 5.71% (2003: 2.06%) of the issued share capital of the Company at that date. The share options granted are not recognised in the financial statements until they are exercised. Further details of the Share Option Schemes are set out in note 25 on the financial statements.

The weighted average value per option granted in 2004 estimated at the date of grant using the Black-Scholes pricing model was HK\$3.19 (2003: HK\$4.10). The weighted average assumptions used are as follows:

	<b>2004</b>	2003
Risk-free interest rate	<b>3.65%</b>	4.37%
Expected life (in years)	<b>10</b>	10
Volatility	<b>23.84</b>	37.21

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.



SHARE OPTION SCHEMES (Continued)

	Date granted	Number of options at 1 January 2004	Granted during the year	Options cancelled during the year	Options exercised during the year	Number of options at 31 December 2004	Exercisable period	Price per share to be paid on exercise of option	Market value per share at date of grant of options	Weighted average market value per share on exercise of options
<b>Directors</b>										
Chang Chu Cheng	30 October 2002	1,000,000	-	-	-	1,000,000	31 October 2002 to 30 October 2012	HK\$4.605	HK\$4.35	N/A
	21 December 2004	-	300,000	-	-	300,000	21 December 2004 to 20 December 2014	HK\$7.450	HK\$7.45	N/A
Yan Sze Kwan	30 October 2002	1,000,000	-	-	-	1,000,000	31 October 2002 to 30 October 2012	HK\$4.605	HK\$4.35	N/A
	21 December 2004	-	3,000,000	-	-	3,000,000	21 December 2004 to 20 December 2014	HK\$7.450	HK\$7.45	N/A
Chung Shun Ming	30 October 2002	1,000,000	-	-	-	1,000,000	31 October 2002 to 30 October 2012	HK\$4.605	HK\$4.35	N/A
	21 December 2004	-	3,000,000	-	-	3,000,000	21 December 2004 to 20 December 2014	HK\$7.450	HK\$7.45	N/A
Kwok Siu Kwan	9 June 1999	150,000	-	-	-	150,000	9 July 1999 to 8 July 2009	HK\$10.90	HK\$15.00	N/A
	30 October 2002	1,000,000	-	-	-	1,000,000	31 October 2002 to 30 October 2012	HK\$4.605	HK\$4.35	N/A
	21 December 2004	-	3,000,000	-	-	3,000,000	21 December 2004 to 20 December 2014	HK\$7.450	HK\$7.45	N/A
Employees	9 June 1999	442,250	-	(12,000)	-	430,250	9 July 1999 to 8 July 2009	HK\$10.90	HK\$15.00	N/A
	1 June 2000	712,000	-	(24,000)	-	688,000	1 July 2000 to 30 June 2010	HK\$11.30	HK\$13.40	N/A
	30 August 2001	283,500	-	-	(18,500)	265,000	30 August 2001 to 29 August 2011	HK\$3.06	HK\$3.68	HK\$7.44
	13 September 2002	280,500	-	-	(81,500)	199,000	13 September 2002 to 12 September 2012	HK\$3.905	HK\$3.85	HK\$7.53
	6 October 2003	525,500	-	(33,500)	(59,000)	433,000	6 October 2003 to 5 October 2013	HK\$7.35	HK\$7.35	HK\$7.98
	20 December 2004	-	2,596,000	-	-	2,596,000	20 December 2004 to 19 December 2014	HK\$7.50	HK\$7.50	N/A
		<u>6,393,750</u>	<u>11,896,000</u>	<u>(69,500)</u>	<u>(159,000)</u>	<u>18,061,250</u>				

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

***SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY***

The register of interests in shares and short positions maintained under Section 336 of the SFO Ordinance shows that at 31 December 2004, other than the interests disclosed above in respect of Dr. C.C. Chang and Colville Group Limited, the following company had an interest of 5% or more in the issued share capital of the Company:

<b>Name</b>	<b>Number of shares</b>	<b>Capacity</b>	<b>Approximate % of shareholding</b>
J.P. Morgan Chase & Co.			
– Long position	22,210,567	Investment manager and other	7.02
– Lending pool	22,210,280	–	7.02

*Note:* The interests of J.P. Morgan Chase & Co. in the Company were held by a number of its wholly-owned subsidiaries.

Save as stated above, no other person is recorded in the register of substantial shareholders maintained under Section 336 of the SFO Ordinance as having an interest of 5% or more in the issued share capital of the Company as at 31 December 2004.

***PRE-EMPTIVE RIGHTS***

There is no provision for pre-emptive rights under the Company's Bye-laws and the law in Bermuda.

***BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS***

Particulars of bank loans, overdrafts and other borrowings of the Group at 31 December 2004 are set out in notes 21 and 23 on the financial statements.

***PROPERTIES***

Particulars of the properties held by the Group are shown on pages 59 and 60 of the annual report.

***FIVE YEAR SUMMARY***

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 58 of the annual report.



### **CONNECTED TRANSACTIONS**

On 21 December 2004, Varitronix Marketing (China) Limited ("Varitronix Marketing"), an indirect wholly owned subsidiary of the Company, Varitronix Pengyuan Limited ("Varitronix Pengyuan"), owned as to 51% by Varitronix Marketing and as to 49% owned by Tsinghua Holdings Limited, and Harvest King Corporation Limited ("Harvest King") entered into a joint venture agreement for the establishment of a sino-foreign equity joint venture enterprise in Beijing, the PRC ("the JV Company"). The JV Company would be owned as to 42% by Varitronix Pengyuan, 38% by Varitronix Marketing and 20% by Harvest King.

The registered capital of the JV Company amounted to RMB15,000,000 (approximately HK\$14,151,000). Varitronix Pengyuan, Varitronix Marketing and Harvest King would contribute RMB6,300,000 (approximately HK\$5,943,000), RMB5,700,000 (approximately HK\$5,377,000) and RMB3,000,000 (approximately HK\$2,831,000) respectively in cash.

Harvest King is a connected person of the Company under the Listing Rules as it is 40% owned by a director of Varitronix Pengyuan and his associates.

The JV Company will be engaged in the development, manufacturing and sale of liquid crystal displays and related electronic products.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2004.

### **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited ("the Stock Exchange") in Appendix 14 to the Listing Rules.

### **AUDITORS**

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

**Dr C. C. Chang**

*Chairman*

Hong Kong, 18 April 2005