

Report of the Directors

The Board of Directors (the "Board") is pleased to present their report and the audited financial statements of Semtech International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and jointly controlled entity as at 31 December 2005 are set out in notes 23 and 24 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 23.

An interim dividend of HK\$0.01 per share amounting to HK\$2,925,000 was paid to the shareholders during the year. The Board recommended the payment of a final dividend of HK\$0.03 per share, totaling HK\$9,652,500, in respect of the year ended 31 December 2005 to be paid on or around 12 July 2006 to shareholders whose names appear on the register of members of the Company on 5 June 2006, subject to the approval by shareholders at the forthcoming Annual General Meeting. This final dividend together with the interim dividend will make a total of HK\$0.04 per share for the year ended 31 December 2005 (2004: HK\$0.04)

The register of members of the Company will be closed from 1 June 2006 to 5 June 2006, both days inclusive, during which period no transfer of share will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant Share certificates must be lodged with the Company's Hong Kong Branch Share Registrars, Tengis Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 30 May 2006.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the past five financial years is set out on page 96.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 34 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$59,595,000 (2004: HK\$62,447,000). The Company's share premium account of HK\$124,707,000 (2004: HK\$104,013,000) could be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in note 16 to 18 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 9.8% and 30.6%, respectively, of the total turnover of the Group for the year.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for approximately 11.7% and 43.9% respectively, of the total purchases of the Group for the year.

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

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DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. Lam Yat Keung

Mr. Lam Hung Kit

Ms. Lam Pik Wah

Independent non-executive directors

Mr. Lo Wah Wai

Mr. Ho Chi Fai

Mr. Pai Te-Tsun

In accordance with clause 87 of the Company's bye-laws, Mr. Lam Yat Keung and Mr. Ho Chi Fai will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors do not have specific terms of appointment but are subject to retirement on the same basis as the executive directors as required by the Company's bye-laws.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company is of the opinion that the independent status of them remains intact as at 31 December 2005.

DIRECTORS' SERVICE CONTRACTS

Each of the existing executive directors has entered into a service contract with the Company for an initial term of two years commencing from 1 August 2004 and shall continue thereafter unless terminated in accordance with the terms of the service contracts.

The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2005, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long Positions in the Shares of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of shareholding
Lam Pik Wah	Held by controlled corporation	60,000,000 (note 1)	18.65%
Lam Hung Kit	Held by controlled corporation	60,000,000 (note 1)	18.65%
Lam Yat Keung	Held by family	60,000,000 (note 2)	18.65%

Note 1: These ordinary shares are owned by Smart Number Investments Limited ("Smart Number"), a company incorporated in the British Virgin Islands. The entire issued share capital of Smart Number is beneficially owned as to 66.67% by Ms Lam Pik Wah and as to 33.33% by Mr. Lam Hung Kit.

Note 2: These ordinary shares are owned by Smart Number, a controlled company of Ms Lam Pik Wah, the wife of Mr. Lam Yat Keung.

Save as disclosed above, none of the directors, chief executive or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to notify the Company and the Stock Exchange pursuant to the Model Code.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the directors nor the chief executive, or any of their spouses or children under the age of 18, had any rights to subscribe for the equity or debt securities of the Company, or had exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company or any of its subsidiaries was a party and 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.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors and chief executive, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions in the Shares of the Company

Shareholders	Capacity	Number of issued ordinary shares held	Percentage of shareholding
Smart Number Investments Limited	Beneficial owner	60,000,000	18.65%
Forever Gain Profits Limited (Note)	Beneficial owner	58,000,000	18.03%
Wan Bing Hung (Note)	Held by controlled corporation	58,000,000	18.03%

Note: Forever Gain Profits Limited is wholly owned by Mr. Wan Bing Hung.

Save as disclosed above, the Company had not been notified of any interests representing 5 percent or more in the issued share capital of the Company as at 31 December 2005.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2005, the Group had 2,180 (2004:2,587) employees spreading from Hong Kong to the PRC and industrial relationship had been well maintained. Remuneration Policy of the Group is reviewed regularly, making reference to the legal framework, market condition, performance of the Group and individual staff. The remuneration policy and remuneration packages of the executive Directors and members of the senior management are reviewed by the Remuneration Committee, the composition and responsibilities of which are detailed in "Corporate Governance Report" below.

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

Details of the Group's staff cost and MPF Scheme contribution are set out in Note 9 to the financial statements.

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SHARE OPTION SCHEME

The Company has adopted a share option scheme on 28 November 2002 (the "Share Option Scheme") for which the details are set out in note 35 to the financial statements.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Group during the year are set out in note 43 to the financial statements. These transactions were not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules except for the deviation from provision E.1.2 in respect of the Chairman of the Board to attend the annual general meeting of the Company which are detailed in "Corporate Governance Report" below.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained sufficient public float as required by the Listing Rules.

OTHER MATTER

Recently there have been articles appearing in various newspapers concerning the trial and prosecution on four persons including Mr. Wong, the former Chairman and director of the Company. The Board wishes to clarify its position for the benefits of the shareholders of the Company and general public that the Matter, details of which refer to the Company's announcement dated 5 March 2005, do not have any impact on the day-to-day operations or financial position or the cashflow position of the Group.

AUDITORS

During the year KLL Associates CPA Limited resigned as a result of the combination of practice with that of BDO McCabe Lo Limited (“BDO”) which took place on 1 August 2005 and BDO were then appointed as auditors of the Company.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO as auditors of the Company.

On behalf of the Board

Lam Yat Keung
President

Hong Kong, 10 April 2006