

NOTES to the Accounts

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. Significant Accounting Policies

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

- (i) The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.
- (ii) Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is written off to revenue reserves on acquisition.

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill which has previously been written off to revenue reserves is included in the calculation of the profit or loss on disposal.

(d) Investments in subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the Directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

Notes on the Accounts *(continued)**(Expressed in Hong Kong dollars)***1. Significant Accounting Policies** *(continued)***(e) Associates**

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year. Goodwill arising on the acquisition of an associate, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is written off to revenue reserves on acquisition.

(f) Fixed assets

(i) Fixed assets are stated at cost less accumulated depreciation.

(ii) Land and buildings

No amortisation is provided on freehold land. Leasehold land is amortised on a straight line basis over the unexpired terms of the leases or 50 years, whichever is the lesser.

Buildings are depreciated on a straight line basis over their anticipated useful lives of 40 years.

(iii) Other fixed assets

Depreciation is calculated to write off the cost of other fixed assets over their anticipated useful lives on a straight line basis as follows:

Plant and machinery	4 years
Tools and equipment	5 years
Others	2 to 5 years

Notes on the Accounts *(continued)*

(Expressed in Hong Kong dollars)

1. Significant Accounting Policies *(continued)*

(f) Fixed assets *(continued)*

(iv) Disposal of fixed assets

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the profit and loss account on the date of retirement or disposal.

(g) Investments in securities

The Group's policies for investments in securities other than investments in subsidiaries and associates are as follows:

- (i) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the profit and loss account.
- (ii) Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iii) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.
- (iv) Profits or losses on disposal of investments in securities are accounted for in the profit and loss account as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

Notes on the Accounts *(continued)**(Expressed in Hong Kong dollars)***1. Significant Accounting Policies** *(continued)***(h) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

(j) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

- (i) Revenue arising from the sale of goods is recognised on delivery of goods to customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of returns and any trade discounts.
- (ii) Interest income from bank deposits and debt securities is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.
- (iii) Income from other securities is recognised when the Company's right to receive such income is established.

Notes on the Accounts *(continued)*

(Expressed in Hong Kong dollars)

1. Significant Accounting Policies *(continued)*

(k) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as an expense in the period in which they are incurred.

(l) Retirement scheme costs

The Group operates defined contribution retirement schemes. The cost of providing retirement benefits is charged to the profit and loss account as incurred.

(m) Operating leases

Rentals payable and receivable under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

(n) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and the accounts of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the profit and loss account, except for those arising from the translation at closing rates of the net investment in foreign subsidiaries and associates, which are taken directly to exchange fluctuation reserve.

(p) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

2. Turnover

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.

Turnover represents the invoiced value of goods supplied to customers by the Group less returns and discounts. The analysis of the geographical locations of the operations of the Company and its subsidiaries during the financial year are as follows:

	Group turnover	
	2000	1999
	\$'000	\$'000
France	165,445	108,685
United Kingdom	151,919	95,882
Germany	100,708	73,971
Other European countries	243,361	169,349
North America	336,857	218,165
Hong Kong	91,726	107,386
Rest of Asia	142,316	67,433
Others	22,297	5,267
	1,254,629	846,138

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

3. Income

	2000 \$'000	1999 \$'000
Other revenue		
Dividend income from listed equity securities	295	756
Interest income from listed debt securities	17,617	16,332
Interest income from unlisted debt securities	1,300	81
Income from listed investment funds	191	–
Interest income from unlisted investment funds	525	607
Other interest income	17,804	22,701
Rental under operating leases	772	1,554
Other income	4,056	3,950
	<u>42,560</u>	<u>45,981</u>
Other net income		
Profit on disposal of fixed assets	122	1,070
Realised gains on disposal of non-trading securities	3,941	8,794
Realised and unrealised (losses)/gains on trading securities	(5,446)	8,252
Exchange gain	13,066	61
Sundry income	–	171
	<u>11,683</u>	<u>18,348</u>

Notes on the Accounts *(continued)**(Expressed in Hong Kong dollars)***4. Profit from Ordinary Activities before Taxation**

Profit from ordinary activities before taxation is arrived at after charging:

	2000	1999
	\$'000	\$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	890	1,095
Interest on convertible notes	487	115
Amortisation of finance costs	5	11
	<u>1,382</u>	<u>1,221</u>
(b) Other items:		
Cost of inventories	855,539	415,636
Retirement scheme costs	7,045	4,645
Auditors' remuneration	1,230	1,166
Research and development costs	42,642	33,174
Rental charges under operating leases	1,387	518
Exchange loss	5,548	5,962
	<u>5,548</u>	<u>5,962</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

5. Directors' Remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2000 \$'000	1999 \$'000
Fees	140	80
Salaries and allowances	9,083	9,709
Retirement scheme contributions	177	208
Discretionary and performance related bonuses	<u>14,223</u>	<u>14,051</u>
	<u><u>23,623</u></u>	<u><u>24,048</u></u>

Fees in respect of independent Non-Executive Directors for the year ended 31 December 2000 amounted to \$140,000 (1999: \$80,000).

In 1999, a Director waived the discretionary and performance related bonus which he was offered under his service contract.

In addition to the above emoluments, certain Directors were granted share options under the Company's Share Option Scheme. The details of these benefits in kind are disclosed under the paragraph "Directors' Interests in Shares" in the Directors' report. In the absence of a ready market for the options granted on the shares of the Company, the Directors are unable to arrive at an accurate estimate of the value of the options granted to the respective Directors.

The Directors' remuneration, which includes the five highest individuals' remuneration, fell within the following ranges:

	Number of Directors	
	2000	1999
\$0 – \$1,000,000	2	2
\$1,500,001 – \$2,000,000	–	1
\$3,000,001 – \$3,500,000	3	–
\$3,500,001 – \$4,000,000	1	2
\$4,000,001 – \$4,500,000	1	–
\$4,500,001 – \$5,000,000	–	2
\$5,000,001 – \$5,500,000	1	–
\$5,500,001 – \$6,000,000	<u>–</u>	<u>1</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

6. Taxation**(a) Taxation in the consolidated profit and loss account represents:**

	2000	1999
	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	4,678	22,577
Overprovision in respect of prior years	(1,368)	(1,663)
	3,310	20,914
Overseas tax	6,577	5,089
	9,887	26,003

The provision for Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profits for the year ended 31 December 2000. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Taxation in the balance sheet represents:

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	4,678	22,577	91	–
Provisional Profits Tax paid	(11,582)	(12,923)	(12)	–
Balance of Profits Tax provision relating to prior years	25,591	16,440	–	168
Overseas tax	3,119	3,749	–	–
	21,806	29,843	79	168

(c) No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

7. Profit Attributable to Shareholders

The profit attributable to shareholders includes a profit of \$96,114,000 (1999: \$333,147,000) which has been dealt with in the accounts of the Company.

8. Dividends

	2000 \$'000	1999 \$'000
Additional special and final dividend of last year on exercised share options and converted convertible notes	1,099	525
Interim dividend at 15 cents (1999: 15 cents) per share	43,823	43,280
Special dividend in 1999 of 55 cents per share	–	158,883
Proposed final dividend at 18 cents (1999: 45 cents) per share	52,589	129,995
	<u>97,511</u>	<u>332,683</u>

Subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares, the Directors recommend the payment of a final dividend of 18 cents per share, to be satisfied by way of a scrip dividend, with shareholders being given the option to receive cash in lieu of scrip.

9. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$200,343,000 (1999: \$256,216,000) and on the weighted average of 290,290,205 shares (1999: 287,043,044 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the adjusted profit attributable to shareholders of \$200,801,000 (1999: \$256,315,000) and the weighted average number of shares of 292,174,290 shares (1999: 289,461,848 shares) after adjusting for the effects of all dilutive potential shares.

Notes on the Accounts *(continued)**(Expressed in Hong Kong dollars)***9. Earnings Per Share** *(continued)***(c) Reconciliations**

	2000	1999
	Number of	Number of
	shares	shares
Weighted average number of shares used in calculating basic earnings per share	290,290,205	287,043,044
Deemed issue of shares for no consideration arising from share options	1,092,908	1,933,025
Deemed issue of shares from convertible notes	791,177	485,779
	<hr/>	<hr/>
Weighted average number of shares used in calculating diluted earnings per share	292,174,290	289,461,848
	<hr/>	<hr/>
	2000	1999
	Earnings	Earnings
	\$'000	\$'000
Net profit attributable to shareholders	200,343	256,216
Interest saved as the convertible notes converted	458	99
	<hr/>	<hr/>
Adjusted profit attributable to shareholders used in calculating diluted earnings per share	200,801	256,315
	<hr/>	<hr/>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

10. Fixed Assets

The Group

	Land and buildings \$'000	Plant, machinery, tools and equipment \$'000	Others \$'000	Total \$'000
Cost:				
At 1 January 2000	264,361	266,313	105,293	635,967
Exchange adjustment	(238)	(105)	(141)	(484)
Additions	7,702	75,762	44,877	128,341
Disposals	–	(15)	(755)	(770)
At 31 December 2000	271,825	341,955	149,274	763,054
Aggregate depreciation:				
At 1 January 2000	28,392	190,349	82,728	301,469
Exchange adjustment	(37)	(49)	(99)	(185)
Charge for the year	6,206	51,639	19,373	77,218
Written back on disposals	–	(14)	(722)	(736)
At 31 December 2000	34,561	241,925	101,280	377,766
Net book value:				
At 31 December 2000	237,264	100,030	47,994	385,288
At 31 December 1999	235,969	75,964	22,565	334,498

Other fixed assets comprise mainly leasehold improvements, furniture, fixtures, office equipment and motor vehicles.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

10. Fixed Assets (continued)

The analysis of the net book value of properties is as follows:

	2000	1999
	\$'000	\$'000
In Hong Kong		
– under medium term leases	178,572	183,609
Outside Hong Kong		
– freehold	567	593
– under long term leases	42,709	35,948
– under medium term leases	4,172	4,275
– no specified lease term	11,244	11,544
	58,692	52,360
	237,264	235,969

The gross amount of fixed assets of the Group held for use in operating leases was \$5,837,000 (1999: \$15,496,000) and the related accumulated depreciation was \$658,000 (1999: \$964,000) at 31 December 2000.

11. Interest in Subsidiaries**(a) The Company**

	2000	1999
	\$'000	\$'000
Unlisted shares, at cost	101,453	101,453
Amounts due from subsidiaries	737,741	711,170
	839,194	812,623

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

11. Interest in Subsidiaries (continued)

(a) The Company (continued)

Details of these subsidiaries are as follows:

Name of company	Place of incorporation/ operation	Particulars of issued/registered capital	Percentage of equity held by		Principal activities
			Company	Subsidiaries	
Varitronix (B.V.I.) Limited	British Virgin Islands/ Hong Kong	18,480 ordinary shares of US\$1 each	100%	–	Investment holding
Varintelligent (BVI) Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1	100%	–	Holding and licensing of trademarks
Vogue Industries Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US\$1 each	100%	–	Investment holding
Varitronix Limited	Hong Kong	2 ordinary shares of \$1,000 each 1,848 non-voting deferred ordinary shares of \$1,000 each	–	100%	Design, manufacture and sale of liquid crystal displays and related products
* Varitronix (Malaysia) Sdn. Bhd.	Malaysia	38,000,000 ordinary shares of Myr\$1 each	–	70.80%	Design, manufacture and sale of liquid crystal displays and related products
* Varitronix (Heyuan) Co. Ltd.	The People's Republic of China	Rmb43,470,000	–	80%	Manufacture of liquid crystal displays and related products
* Varitronix Manufacturing (BVI) Limited	British Virgin Islands/The People's Republic of China	100 ordinary shares of US\$1 each	–	100%	Subcontract and operate production plant in the People's Republic of China

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

11. Interest in Subsidiaries (continued)**(a) The Company** (continued)

Name of company	Place of incorporation/ operation	Particulars of issued/registered capital	Percentage of equity held by		Principal activities
			Company	Subsidiaries	
* Varitronix (Singapore) Pte Ltd.	Singapore	200,000 ordinary shares of SGD 1 each	–	100%	Research development centre
* Varitronix (UK) Limited	United Kingdom	100 ordinary shares of £10 each	–	100%	Marketing and sales consultants
* VL Electronics, Inc.	United States	5,000 common stock of US\$10 each	–	100%	Marketing and sales consultants
* Varitronix (Canada) Limited	Canada	100 ordinary shares of C\$1 each	–	100%	Marketing and sales consultants
* Varitronix Italia, s.r.l.	Italy	25,000 ordinary shares of ITL 1,000 each	–	100%	Marketing and sales consultants
* Varitronix GmbH	Germany	100,000 shares of DM 1 each	–	60%	Marketing and sales consultants
Varitronix France SAS (formerly Varitronix (France) S.A.R.L.)	France	2,500 ordinary shares of FF 100 each	–	100%	Marketing and sales consultants
Link Score Investment Limited	Hong Kong	100 ordinary shares of \$1 each	–	100%	Property investment and investment holding

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

11. Interest in Subsidiaries (continued)

(a) The Company (continued)

Name of company	Place of incorporation/operation	Particulars of issued/registered capital	Percentage of equity held by		Principal activities
			Company	Subsidiaries	
Polysources Properties Limited	Hong Kong	2 ordinary shares of \$100 each 154 non-voting deferred ordinary shares of \$100 each	–	100%	Property investment
* Starel Trading Limited	Republic of Cyprus/United Kingdom	1,000 shares of Cyprus £1 each	–	100%	Property investment
* Quest Industries Limited	British Virgin Islands/The People's Republic of China	100 ordinary shares of US\$1 each	–	100%	Property investment
* Cadac Electronic (M) Sdn. Bhd.	Malaysia	276,002 ordinary shares of Myr\$1 each	–	100%	Property investment
Varitronix Investment Limited	British Virgin Islands/Hong Kong	5,000 ordinary shares of US\$1 each	–	100%	Investment holding
Varitronix Agencies Limited	British Virgin Islands/Hong Kong	50,000 shares of US\$1 each	–	100%	Investment holding
Varitronix Finance Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US\$1 each	–	100%	Provision of financial co-ordination services for group companies and holding of trading securities

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

11. Interest in Subsidiaries (continued)**(a) The Company** (continued)

Name of company	Place of incorporation/ operation	Particulars of issued/registered capital	Percentage of equity held by		Principal activities
			Company	Subsidiaries	
* Varitronix Marketing Limited	British Virgin Islands/ United Kingdom	1,000 shares of US\$1 each	–	100%	Investment holding
* Mcalpine Management Limited	British Virgin Islands/ United Kingdom	1,000 shares of US\$1 each	–	100%	Investment holding
* Varitronix Marketing (China) Limited	British Virgin Islands/ The People's Republic of China	1 share of US\$1	–	100%	Investment holding
* Varitronix (Shenzhen) Limited	British Virgin Islands/ The People's Republic of China	1 share of US\$1	–	100%	Investment holding
* Varitronix Pengyuan Limited	The People's Republic of China	RMB8,000,000	–	51%	Not yet commenced business
Varitronix Video Limited	Hong Kong	100,000 ordinary shares of \$1 each	–	65%	Dormant

* Companies not audited by KPMG. The accounts of the subsidiaries not audited by KPMG reflect total assets and total turnover constituting approximately 27% (1999: 18%) and 40% (1999: 32%) respectively of the related consolidated totals.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

12. Interest in Associate

	The Group	
	2000 \$'000	1999 \$'000
Share of net assets/(liabilities)	12,018	(1,481)
Amount due from associate	9,223	21,946
	<u>21,241</u>	<u>20,465</u>

Name of company	Country of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity held by subsidiary	Principal activities
Varitronix EC (Malaysia) Sdn. Bhd.	Malaysia	11,324,250 class 'B' ordinary shares of Myr\$1 each	100% of class 'B' ordinary shares	Design, manufacture and sale of electrochromic mirror systems

The Group has an interest in 50% of the equity of Varitronix EC (Malaysia) Sdn. Bhd. which is owned by Varitronix (Malaysia) Sdn. Bhd.

Notes on the Accounts *(continued)**(Expressed in Hong Kong dollars)***13. Non-trading Securities**

	The Group	
	2000	1999
	\$'000	\$'000
Debt securities		
Listed		
– in Hong Kong	25,245	37,152
– outside Hong Kong	166,717	188,816
	<u>191,962</u>	225,968
Unlisted	10,026	3,393
	<u>201,988</u>	229,361
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Equity securities		
Listed in Hong Kong	3,160	2,672
Unlisted	8,526	8,527
Investment funds listed outside Hong Kong	29,724	–
Unlisted investment funds	7,088	48,238
	<u>48,498</u>	59,437
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Total	250,486	288,798
	<u>250,486</u>	<u>288,798</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

14. Trading Securities

	The Group	
	2000	1999
	\$'000	\$'000
Debt securities		
Listed		
– in Hong Kong	3,870	–
– outside Hong Kong	24,982	23,237
	<u>28,852</u>	<u>23,237</u>
	-----	-----
Equity securities		
Listed		
– in Hong Kong	5,548	29,546
– outside Hong Kong	16,552	5,345
	<u>22,100</u>	<u>34,891</u>
Unlisted investment funds	15,473	10,843
	<u>37,573</u>	<u>45,734</u>
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Total	<u><u>66,425</u></u>	<u><u>68,971</u></u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

15. Inventories

	The Group	
	2000	1999
	\$'000	\$'000
Raw materials	214,173	129,958
Work in progress	74,765	48,821
Finished goods	71,882	34,161
	<u>360,820</u>	<u>212,940</u>

Raw materials and work in progress are stated after deducting a general provision. In addition, the Group has fully written off inventories amounting to \$28,995,000 during the year (1999: Nil).

16. Trade and Other Receivables

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Debtors, prepayments and deposits	367,418	249,754	145	–
Dividend receivable from a subsidiary	–	–	52,589	288,878
	<u>367,418</u>	<u>249,754</u>	<u>52,734</u>	<u>288,878</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

16. Trade and Other Receivables (continued)

Included in debtors, prepayments and deposits are trade debtors and bills receivable (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Within 60 days of the invoice issue date	212,237	135,143	–	–
61 to 90 days after the invoice issue date	48,336	26,228	–	–
91 to 120 days after the invoice issue date	16,948	16,921	–	–
More than 120 days but within 12 months after the invoice issue date	59,387	41,291	–	–
	<u>336,908</u>	<u>219,583</u>	<u>–</u>	<u>–</u>

Debts are due within 90 days from the date of the invoice.

17. Cash and Cash Equivalents

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Deposits with banks and other financial institutions	95,168	489,059	–	–
Cash at bank and in hand	97,129	55,096	159	230
	<u>192,297</u>	<u>544,155</u>	<u>159</u>	<u>230</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

18. Unsecured Interest-bearing Bank Loans and Overdrafts

Unsecured interest-bearing bank loans and overdrafts are repayable as follows:

	The Group	
	2000	1999
	\$'000	\$'000
Within 1 year or on demand	21,412	47,586

19. Trade and Other Payables

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis:

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Within 60 days of supplier invoice date	103,890	67,345	–	–
61 to 120 days after supplier invoice date	38,955	9,384	–	–
More than 120 days but within 12 months after supplier invoice date	9,666	2,353	–	–
	152,511	79,082	–	–

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

20. Convertible Notes

	Principal amount \$'000	Finance costs \$'000	Carrying value \$'000
1999			
Balance at 1 January 1999	5,538	16	5,522
Amortisation of finance costs	–	(11)	11
	<u>5,538</u>	<u>5</u>	<u>5,533</u>
Balance at 31 December 1999	<u>5,538</u>	<u>5</u>	<u>5,533</u>
2000			
Balance at 1 January 2000	5,538	5	5,533
Conversion of notes	(5,538)	–	(5,538)
Issue of convertible notes	31,200	–	31,200
Amortisation of finance costs	–	(5)	5
	<u>31,200</u>	<u>–</u>	<u>31,200</u>
Balance at 31 December 2000	<u>31,200</u>	<u>–</u>	<u>31,200</u>

The notes in issue at 31 December 2000 may be converted up to 26 September 2010 at the option of the noteholders into shares of the Company at a conversion price, subject to adjustment in certain circumstances, of \$13.81 per share. The notes bear interest at 6 percent per annum until conversion of any portion of the notes, and thereafter at 2 percent per annum. In event of conversion, the noteholders are required to return to the Group the amount of interest in excess of the rate of 2 percent per annum previously received.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

21. Share Capital

	2000		1999	
	No. of shares '000	Amount \$'000	No. of shares '000	Amount \$'000
<i>Authorised:</i>				
Ordinary shares of \$0.25 each	400,000	100,000	400,000	100,000
<i>Issued and fully paid:</i>				
At 1 January	288,681	72,170	285,328	71,332
Shares issued under share option scheme	1,466	367	3,353	838
Shares issued on exercise of conversion rights attached to the convertible notes	486	121	–	–
Shares issued as purchase consideration for shares in subsidiaries	1,897	474	–	–
Shares repurchased	(370)	(92)	–	–
At 31 December	292,160	73,040	288,681	72,170

(a) Share option scheme

The Company has a Share Option Scheme which was adopted on 6 June 1991 and subsequently amended on 8 June 1999 whereby the Directors of the Company are authorised, at their discretion, to invite any employee or director of the Group, including executive and non-executive directors of any company in the Group, to take up options to subscribe for shares at a price determined by the Board and notified to each grantee and which will not be less than 80 percent of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option granted to such grantee or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) under the Share Option Scheme may not exceed 10 percent of the issued capital of the Company, excluding any shares issued on exercise of options from time to time.

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

21. Share Capital (continued)

(a) Share option scheme (continued)

At 31 December 2000, options to subscribe for 3,992,250 shares of the Company at prices ranging from \$10.55 to \$11.40 granted to a number of executives under the Share Option Scheme were unexercised. These options are exercisable up to 31 May 2010.

During the year, share options in respect of 873,000 shares exercisable at \$11.30 were granted for consideration of \$107. Options to subscribe for 1,466,500 shares were exercised and options to subscribe for 570,000 shares lapsed during the year.

(b) Shares repurchased

During the year, the Company repurchased its own shares on the Stock Exchange of Hong Kong Limited as follows:

Month	Number of shares repurchased	Highest price paid per share \$	Lowest price paid per share \$	Aggregate price paid \$'000
September	200,000	11.00	10.60	2,150
October	170,000	9.80	9.05	1,619
				3,769

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of \$3,677,000 was charged to share premium (note 22).

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

22. Reserves**(a) The Group**

	Share premium (note a) \$'000	Exchange fluctuation reserve \$'000	Investment revaluation reserve \$'000	Retained profits \$'000	Total \$'000
At 1 January 1999	458,208	(23,442)	–	683,902	1,118,668
Exchange differences	–	(245)	–	–	(245)
Share premium arising from issue of shares	35,977	–	–	–	35,977
Revaluation surplus	–	–	7,659	–	7,659
Profit for the year	–	–	–	256,216	256,216
Dividends	–	–	–	(332,683)	(332,683)
	<u>494,185</u>	<u>(23,687)</u>	<u>7,659</u>	<u>607,435</u>	<u>1,085,592</u>
At 1 January 2000	494,185	(23,687)	7,659	607,435	1,085,592
Exchange differences	–	(1,200)	–	–	(1,200)
Goodwill on acquisition of shares in subsidiaries	–	–	–	(48,468)	(48,468)
Share premium arising from issue of shares	46,656	–	–	–	46,656
Premium paid on purchase of own shares	(3,677)	–	–	–	(3,677)
Revaluation deficit	–	–	(8,677)	–	(8,677)
Revaluation surplus transferred to the profit and loss account on disposal of securities	–	–	(3,871)	–	(3,871)
Profit for the year	–	–	–	200,343	200,343
Dividends	–	–	–	(97,511)	(97,511)
	<u>537,164</u>	<u>(24,887)</u>	<u>(4,889)</u>	<u>661,799</u>	<u>1,169,187</u>

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

22. Reserves (continued)

(a) The Group (continued)

Profits are retained as follows:

	2000 \$'000	1999 \$'000
By the Company and its subsidiaries	668,793	616,300
By associate	(6,994)	(8,865)
	<u>661,799</u>	<u>607,435</u>

(b) The Company

	Share premium (note a) \$'000	Contributed surplus (note b) \$'000	Retained profit \$'000	Total \$'000
At 1 January 1999	458,208	51,636	175,959	685,803
Share premium arising from issue of shares	35,977	–	–	35,977
Profit for the year	–	–	333,147	333,147
Dividends	–	–	(332,683)	(332,683)
	<u>494,185</u>	<u>51,636</u>	<u>176,423</u>	<u>722,244</u>
At 31 December 1999	494,185	51,636	176,423	722,244
At 1 January 2000	494,185	51,636	176,423	722,244
Share premium arising from issue of shares	46,656	–	–	46,656
Premium paid on purchase of own shares	(3,677)	–	–	(3,677)
Profit for the year	–	–	96,114	96,114
Dividends	–	–	(97,511)	(97,511)
	<u>537,164</u>	<u>51,636</u>	<u>175,026</u>	<u>763,826</u>
At 31 December 2000	537,164	51,636	175,026	763,826

Notes on the Accounts (continued)

(Expressed in Hong Kong dollars)

22. Reserves (continued)**(a) The Company** (continued)

Notes:

- (a) Under the Bye-laws of the Company, share premium is not distributable.
- (b) The excess value of the shares of the subsidiaries acquired pursuant to the Group reorganisation scheme in 1991 over the nominal value of the new shares of the Company issued in exchange is credited to the contributed surplus account. Under the Companies Act 1981 of Bermuda (as amended) and the Bye-laws of the Company, the contributed surplus is distributable to shareholders. However, the Directors have no current intention to distribute this surplus.
- (c) The distributable reserves at 31 December 2000 amounted to \$226,662,000 (1999: \$228,059,000).

23. Capital and Other Commitments

- (a) Capital commitments outstanding at 31 December 2000 not provided for in the accounts were as follows:

	The Group	
	2000	1999
	\$'000	\$'000
Contracted for	23,973	23,117

- (b) At the balance sheet date, the Group had a commitment to make payments under operating leases in respect of land and buildings as set out below:

	The Group	
	2000	1999
	\$'000	\$'000
<i>Leases expiring:</i>		
Within 1 year	144	304
After 1 year but within 5 years	2,948	695
	3,092	999

24. Contingent Liabilities

At 31 December 2000, the Company had contingent liabilities for guarantees given to banks in respect of banking facilities granted to certain subsidiaries, which were utilised to the extent of \$5,454,000 (1999: \$30,788,000).

25. Material Related Party Transactions

There were no material related party transactions during the year (1999: Nil).