



NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Basis of preparation of the financial statements

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

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in accordance with the policy for investments in securities set out in note 1(i) below.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.



1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries (Continued)

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any impairment losses (see note 1(h)).

(d) 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 the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements 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 income statement reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e) and impairment losses (see note 1(h)).

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries:

- for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(h)); and
- for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(h)).

Amortisation of positive goodwill is on a straight-line basis over an estimated useful life of 20 years.

(f) Fixed assets

- (i) Fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 1(h)).
- (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.

**1. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(f) Fixed assets** *(Continued)**(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	2 to 4 years
Tools and equipment	2 to 5 years
Others	2 to 5 years

(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 income statement on the date of retirement or disposal.

(g) Intangible assets (other than goodwill)

Intangible assets are stated at cost less accumulated amortisation and impairment losses (see note 1(h)).

Costs incurred in connection with the acquisition of patent rights are amortised on a straight-line basis over their estimated economic lives of between ten and twenty years.

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- investments in subsidiaries and associates;
- positive goodwill (whether taken initially to reserves or recognised as an asset);
- fixed assets; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset (including positive goodwill taken directly to reserves) exceeds its recoverable amount.



1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets(Continued)

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(i) 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 income statement.

Transfers from the investment revaluation reserve to the income statement 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.

- (ii) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.
- (iii) Profits or losses on disposal of investments in securities are accounted for in the income statement 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.



1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(l) 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 income statement 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 Group's right to receive such income is established.



1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to defined contribution plans and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income statement as incurred.
- (iii) When the Group grants employees options to acquire shares of the Company, no employee benefit cost or obligation is recognised at that time. When the options are exercised, equity is increased by the amount of the proceeds received.

(n) Operating leases

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

(o) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.



1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) 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 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 income statement. Foreign currency assets, being equity investments or other long-term non-monetary assets, the holding or the use or the subsequent disposal of which will generate receipts in a foreign currency, hedged by foreign currency borrowings, are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

The results of overseas subsidiaries are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(q) Related parties

For the purposes of these financial statements, 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.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

**Notes on the Financial Statements***(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.

3. INCOME

	2004	2003
	\$'000	\$'000
Other revenue		
Dividend income from listed equity securities	541	377
Interest income from listed debt securities	3,857	11,498
Interest income from unlisted debt securities	1,512	187
Income from listed investment funds	–	1,394
Interest income from unlisted investment funds	184	201
Other interest income	5,853	5,542
Rental under operating leases	3,193	3,174
Other income	2,420	4,322
	17,560	26,695
Other net income		
Profit on disposal of fixed assets	1,602	43
Profit on disposal of associate	4,858	–
Realised (losses)/gains on disposal of other non-trading securities	(188)	4,884
Realised and unrealised gains on trading securities	1,782	5,202
Exchange gain	11,167	14,873
	19,221	25,002

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION****Profit from ordinary activities before taxation is arrived at after charging:**

	2004	2003
	\$'000	\$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	3,373	1,042
Interest on convertible notes	1,872	1,871
	<u>5,245</u>	<u>2,913</u>
(b) Other items:		
Cost of inventories	1,460,869	879,321
Auditors' remuneration	1,426	1,074
Research and development costs	26,141	21,236
Rental charges under operating leases	3,034	3,220
Exchange loss	2,194	3,658
Contributions to defined contribution retirement plan	6,993	6,580
Other retirement scheme costs	1,734	2,136
	<u>1,460,869</u>	<u>879,321</u>

5. DIRECTORS' REMUNERATION

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

	2004	2003
	\$'000	\$'000
Fees	576	600
Salaries and allowances	6,224	6,218
Retirement scheme contributions	216	222
Discretionary and performance related bonuses	14,960	8,400
	<u>21,976</u>	<u>15,440</u>

Fees in respect of independent non-executive directors for the year ended 31 December 2004 amounted to \$489,071 (2003: \$400,000).

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 "Share Option Schemes" in the Directors' Report.

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***5. DIRECTORS' REMUNERATION (Continued)**

The Directors' remuneration fell within the following ranges:

	Number of Directors	
	2004	2003
\$0 – \$1,000,000	4	3
\$3,000,001 – \$3,500,000	–	3
\$4,000,001 – \$4,500,000	–	1
\$4,500,001 – \$5,000,000	2	–
\$5,000,001 – \$5,500,000	1	–
\$6,500,001 – \$7,000,000	1	–
	<u>1</u>	<u>–</u>

6. FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

The five highest paid individuals in the Group includes four (2003: four) Directors, whose emoluments are disclosed in note 5, and one (2003: one) other whose emoluments are as follows:

	2004 \$'000	2003 \$'000
Salaries and allowances	1,301	1,094
Retirement scheme contributions	249	188
	<u>1,550</u>	<u>1,282</u>

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT**(a) Taxation in the consolidated income statement represents:**

	2004 \$'000	2003 \$'000
Current tax – Provision for Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	19,336	9,239
Under/(over)-provision in respect of prior years	3,857	(18)
	<u>23,193</u>	<u>9,221</u>
Current tax – Overseas		
Tax for the year	<u>10,031</u>	<u>4,863</u>
Deferred tax		
Reversal of temporary differences	(5,122)	(594)
Effect of increase in tax rate on deferred tax balances at 1 January	–	950
	<u>(5,122)</u>	<u>356</u>
	<u>28,102</u>	<u>14,440</u>

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)****(a) Taxation in the consolidated income statement represents: (Continued)**

The provision for Hong Kong Profits Tax for 2004 is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

A subsidiary has received from the Hong Kong Inland Revenue Department ("IRD") additional assessments relating to prior years for taxation totalling \$141 million (2003: \$118 million). These additional assessments relate to a dispute over the deductibility of certain sub-contracting charges for tax assessment purposes. The directors of the subsidiary consider that there are grounds to contest the additional assessments and have indicated that they will pursue this case vigorously. The subsidiary has formally objected to the additional assessments and has purchased Tax Reserve Certificates totalling \$45 million (2003: \$40 million) pending the outcome of the objection. They are now in negotiation with the IRD and have made provisions of \$61 million based on the expected outcome on these discussions. The directors of the Company believe that the resolution of this tax dispute will not result in a material additional unprovided tax liability.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2004 \$'000	2003 \$'000
Profit before tax	<u>243,924</u>	<u>182,676</u>
Notional tax on profit before tax calculated at the rates applicable to profits in the countries concerned	40,162	32,502
Tax effect of non-deductible expenses	10,578	4,745
Tax effect of non-taxable revenue	(28,017)	(27,069)
Tax effect of unused tax losses not recognised	446	3,115
Under/(over)-provision in prior years	3,857	(18)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	–	950
Others	<u>1,076</u>	<u>215</u>
Actual tax expense	<u>28,102</u>	<u>14,440</u>

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of \$118,124,000 (2003: \$155,292,000) which has been dealt with in the financial statements of the Company.

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***9. DIVIDENDS****(a) Dividends attributable to the year**

	2004	2003
	\$'000	\$'000
Interim dividend declared and paid of 10.0 cents (2003: 7.0 cents) per share	31,462	21,525
Special interim dividend declared and paid of nil cents (2003: 21.0 cents) per share	–	64,575
Special dividend proposed after the balance sheet date of nil cents (2003: 6.0 cents) per share	–	18,622
Final dividend proposed after the balance sheet date of 28.0 cents (2003: 22.0 cents) per share	88,604	68,281
	120,066	173,003

The dividends attributable to the years ended 31 December 2003 and 2004 are scrip dividends with a cash option.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2004	2003
	\$'000	\$'000
Special dividend in respect of the previous financial year, approved and paid during the year, of 6.0 cents (2003: 4.0 cents) per share	18,622	12,164
Final dividend in respect of the previous financial year, approved and paid during the year, of 22.0 cents (2003: 18.0 cents) per share	68,281	54,736
	86,903	66,900

10. EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$192,712,000 (2003: \$151,241,000) and on the weighted average of 312,459,056 shares (2003: 306,195,391 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of \$192,712,000 (2003: \$151,241,000) and the weighted average number of shares of 314,348,690 shares (2003: 307,636,259 shares) after adjusting for the effects of all dilutive potential shares.

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***10. EARNINGS PER SHARE (Continued)****(c) Reconciliation**

	2004	2003
	Number of	Number of
	shares	shares
Weighted average number of shares used in calculating basic earnings per share	312,459,056	306,195,391
Deemed issue of shares for no consideration arising from share options	1,889,634	1,440,868
	<u>314,348,690</u>	<u>307,636,259</u>

11. FIXED ASSETS**The Group**

	Land and	Plant,	Others	Total
	buildings	machinery,	\$'000	\$'000
	\$'000	tools and		
		equipment		
		\$'000		
Cost:				
At 1 January 2004	323,919	514,375	200,595	1,038,889
Exchange adjustment	283	255	328	866
Additions	198	63,911	19,734	83,843
Transfer	1,771	416	(2,187)	–
Disposals	(3,248)	(904)	(54)	(4,206)
	<u>322,923</u>	<u>578,053</u>	<u>218,416</u>	<u>1,119,392</u>
At 31 December 2004				
Aggregate depreciation:				
At 1 January 2004	56,784	406,450	160,993	624,227
Exchange adjustment	77	224	200	501
Charge for the year	7,749	60,739	15,092	83,580
Transfer	26	36	(62)	–
Written back on disposals	(362)	(578)	(53)	(993)
	<u>64,274</u>	<u>466,871</u>	<u>176,170</u>	<u>707,315</u>
At 31 December 2004				
Net book value:				
At 31 December 2004	<u>258,649</u>	<u>111,182</u>	<u>42,246</u>	<u>412,077</u>
At 31 December 2003	<u>267,135</u>	<u>107,925</u>	<u>39,602</u>	<u>414,662</u>

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

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***11. FIXED ASSETS (Continued)**

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

	2004	2003
	\$'000	\$'000
In Hong Kong		
– under medium-term leases	140,469	145,447
Outside Hong Kong		
– freehold	537	543
– under long-term leases	51,659	52,615
– under medium-term leases	55,941	58,187
– no specified lease term	10,043	10,343
	118,180	121,688
	258,649	267,135

The gross amount of fixed assets of the Group held for use in operating leases was \$31,625,000 (2003: \$31,584,000), the related accumulated depreciation was \$8,551,000 (2003: \$8,055,000) at 31 December 2004 and the depreciation charge for the year was \$496,000 (2003: \$494,000).

12. INTANGIBLE ASSETS

	Patent rights
	\$'000
Cost:	
At 1 January 2004 and 31 December 2004	30,845
Accumulated amortisation:	
At 1 January 2004	(2,173)
Charge for the year	(1,622)
At 31 December 2004	(3,795)
Net book value:	
At 31 December 2004	27,050
At 31 December 2003	28,672

The amortisation charge for the year is included in "other operating expenses" in the consolidated income statement.

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***13. GOODWILL**

	\$'000
Cost:	
At 1 January 2004 and 31 December 2004	33,640
Accumulated amortisation:	
At 1 January 2004	(3,618)
Amortisation for the year	(1,682)
At 31 December 2004	(5,300)
Carrying amount:	
At 31 December 2004	28,340
At 31 December 2003	30,022

The amortisation for the year is included in "other operating expenses" in the consolidated income statement.

14. INTEREST IN SUBSIDIARIES**(a) The Company**

	2004	2003
	\$'000	\$'000
Unlisted shares, at cost	101,453	101,453
Amounts due from subsidiaries	859,217	809,898
	960,670	911,351

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***14. 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 each	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	–	100%	Design, manufacture and sale of liquid crystal displays and related products
#* Varitronix (Heyuan) Co. Ltd.	The People's Republic of China	Rmb56,096,000	–	90.1%	Manufacture of liquid crystal displays and related products
#* Varitronix (Heyuan) Display Technology Limited	The People's Republic of China	Rmb109,212,224	–	100%	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
# Varitronix Pengyuan Limited	The People's Republic of China	Rmb8,000,000	–	51%	Liquid crystal displays business

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***14. 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 (U.K.) 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 €0.52 each	–	100%	Marketing and sales consultants
* Varitronix GmbH	Germany	100,000 shares of €0.51 each	–	60%	Marketing and sales consultants
Varitronix (France) SAS	France	2,500 ordinary shares of €15.25 each	–	100%	Marketing and sales consultants
Link Score Investment Limited	Hong Kong	100 ordinary shares of \$1 each	–	100%	Property investment and investment holding
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

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***14. 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	
Cadac Electronic (M) Sdn. Bhd.	Malaysia	276,002 ordinary shares of Myr\$1 each	–	100%	Property investment
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
Varitronix Investment Limited	British Virgin Islands/ Hong Kong	5,000 ordinary shares of US\$1 each	–	100%	Investment holding
* 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 Island/ The People's Republic of China	1 share of US\$1	–	100%	Investment holding
* Varitronix (Shenzhen) Limited	British Virgin Island/ The People's Republic of China	1 share of US\$1	–	100%	Investment holding
Varitronix Agencies Limited	British Virgin Islands/ Hong Kong	50,000 shares of US\$1 each	–	100%	Dormant
* Varitronix Optech Limited	Hong Kong	100,000 ordinary shares of \$1 each	–	100%	Dormant

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***14. INTEREST IN SUBSIDIARIES (Continued)****(a) The Company (Continued)**

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total assets and total turnover constituting approximately 14% (2003: 22%) and 8% (2003: 32%) respectively of the related consolidated totals.

#	Name of company	Type of legal entity
	Varitronix (Heyuan) Co. Ltd.	Sino-foreign co-operative joint venture
	Varitronix Pengyuan Limited	Sino-foreign equity joint venture
	Varitronix (Heyuan) Display Technology Limited	Wholly owned foreign enterprise

15. INTEREST IN ASSOCIATE

	The Group	
	2004	2003
	\$'000	\$'000
Share of net assets	–	4,490
Amount due from associate	–	799
	<u>–</u>	<u>5,289</u>
	–	5,289

The Group had a 50% interest in the equity of Varitronix EC (Malaysia) Sdn. Bhd. in 2003 which was disposed of during the year. Details as at 31 December 2003 were as follows:

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

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***16. NON-TRADING SECURITIES**

	The Group	
	2004	2003
	\$'000	\$'000
Debt securities		
Listed outside Hong Kong	23,930	138,976
Unlisted	18,947	3,306
	42,877	142,282
Equity securities		
Listed in Hong Kong	5,360	3,957
Unlisted	7,751	7,751
Investment funds listed outside Hong Kong	–	4,259
Unlisted investment funds	4,501	13,361
	17,612	29,328
Total	60,489	171,610

17. TRADING SECURITIES

	The Group	
	2004	2003
	\$'000	\$'000
Debt securities		
Listed outside Hong Kong	32,752	36,322
Unlisted	5,781	–
	38,533	36,322
Equity securities		
Listed		
– in Hong Kong	9,423	3,659
– outside Hong Kong	23,712	33,701
	33,135	37,360
Unlisted investment funds	18,918	24,958
	52,053	62,318
Total	90,586	98,640

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***18. INVENTORIES**

	The Group	
	2004	2003
	\$'000	\$'000
Raw materials	188,703	141,780
Work in progress	42,579	38,177
Finished goods	81,133	57,282
	312,415	237,239

Included in finished goods are inventories of \$5,594,000 (2003: \$3,567,000) stated net of a provision, made in order to state these inventories at the lower of their cost and estimated net realisable value.

19. TRADE AND OTHER RECEIVABLES

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

	The Group	
	2004	2003
	\$'000	\$'000
Within 60 days of the invoice issue date	437,715	161,410
61 to 90 days after the invoice issue date	40,565	60,927
91 to 120 days after the invoice issue date	5,255	11,715
More than 120 days but less than 12 months after the invoice issue date	17,647	15,311
	501,182	249,363

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

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***20. CASH AND CASH EQUIVALENTS**

	The Group		The Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Deposits with banks and other financial institutions	587,871	495,574	–	–
Cash at bank and in hand	81,535	53,585	419	704
Cash and cash equivalents in the balance sheet	669,406	549,159	419	704
Bank overdrafts	(12)	(14,275)		
Cash and cash equivalents in the cash flow statement	669,394	534,884		

21. BANK LOANS AND OVERDRAFTS

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

	The Group	
	2004 \$'000	2003 \$'000
Within 1 year or on demand	98,750	86,298

22. TRADE AND OTHER PAYABLES

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

	The Group	
	2004 \$'000	2003 \$'000
Within 60 days of supplier invoice date	216,675	121,423
61 to 120 days after supplier invoice date	23,268	15,498
More than 120 days but within 12 months after supplier invoice date	13,293	3,880
	253,236	140,801

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***23. CONVERTIBLE NOTES**

	Principal amount and carrying value
	<i>\$'000</i>
Balance at 31 December 2003 and 2004	<u>31,200</u>

The notes in issue at 31 December 2004 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.

24. INCOME TAX IN THE BALANCE SHEET**(a) Current taxation in the balance sheet represents:**

	The Group	
	2004	2003
	<i>\$'000</i>	<i>\$'000</i>
Provision for Hong Kong Profits		
Tax for the year	19,336	9,239
Provisional Profits Tax paid	(267)	(324)
Balance of Profits Tax recoverable		
relating to prior years	(7,215)	(13,510)
Overseas tax	587	74
	<u>12,441</u>	<u>(4,521)</u>
Tax recoverable	(1,667)	(6,006)
Tax payable	14,108	1,485
	<u>12,441</u>	<u>(4,521)</u>

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***24. INCOME TAX IN THE BALANCE SHEET (Continued)****(b) Deferred tax liabilities recognised:**

The components of deferred tax liabilities recognised in the balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of depreciation \$'000	Tax allowances for intangible assets in excess of amortisation \$'000	Provisions \$'000	Others \$'000	Total \$'000
At 1 January 2003	13,164	167	(3,188)	–	10,143
Charge/(credit) to income statement	(4,498)	4,850	4	–	356
At 31 December 2003	<u>8,666</u>	<u>5,017</u>	<u>(3,184)</u>	<u>–</u>	<u>10,499</u>
At 1 January 2004	8,666	5,017	(3,184)	–	10,499
Charge/(credit) to income statement	225	(283)	(3,718)	(1,346)	(5,122)
At 31 December 2004	<u>8,891</u>	<u>4,734</u>	<u>(6,902)</u>	<u>(1,346)</u>	<u>5,377</u>

25. SHARE CAPITAL

	2004		2003	
	No. of shares '000	Amount \$'000	No. of shares '000	Amount \$'000
Authorised:				
Ordinary shares of \$0.25 each	<u>400,000</u>	<u>100,000</u>	<u>400,000</u>	<u>100,000</u>
	2004		2003	
	No. of shares '000	Amount \$'000	No. of shares '000	Amount \$'000
Issued and fully paid:				
At 1 January	310,295	77,574	304,091	76,023
Shares issued under share option scheme	159	40	769	192
Allotment of shares from scrip dividends	5,781	1,445	5,435	1,359
At 31 December	<u>316,235</u>	<u>79,059</u>	<u>310,295</u>	<u>77,574</u>

**25. SHARE CAPITAL (Continued)****Share Option Scheme**

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. The options under the first Share Option Scheme are exercisable for a period of ten years following the date of grant. A second Share Option Scheme of the Company for the employees of the Group was adopted on 22 June 2001 and terminated on 12 May 2003. The options under the second Share Option Scheme are exercisable for a period of ten years following the date of grant.

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. The directors of the Company are authorised, at their discretion, to invite any employee, director, including executive and non-executive directors, or business associate 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 the closing price of the shares on the Stock Exchange on the date of offer of the option granted to such grantee or 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 higher.

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 options under the third Share Option Scheme are exercisable for a period of ten years from the date of grant.

(i) Movements in share options

	2004	2003
	Number	Number
At 1 January	6,393,750	6,657,750
Issued	11,896,000	532,500
Exercised	(159,000)	(769,000)
Cancelled	(69,500)	(27,500)
	<hr/>	<hr/>
At 31 December	18,061,250	6,393,750
	<hr/> <hr/>	<hr/> <hr/>

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***25. SHARE CAPITAL (Continued)****(ii) Terms of unexpired and unexercised share options at balance sheet date**

Date granted	Exercise period	Exercise price	2004 Number	2003 Number
9 June 1999	9 July 1999 to 8 July 2009	\$10.90	580,250	592,250
1 June 2000	1 July 2000 to 30 June 2010	\$11.30	688,000	712,000
30 August 2001	30 August 2001 to 29 August 2011	\$3.06	265,000	283,500
13 September 2002	13 September 2002 to 12 September 2012	\$3.905	199,000	280,500
30 October 2002	31 October 2002 to 30 October 2012	\$4.605	4,000,000	4,000,000
6 October 2003	6 October 2003 to 5 October 2013	\$7.35	433,000	525,500
20 December 2004	20 December 2004 to 19 December 2014	\$7.50	2,596,000	–
21 December 2004	21 December 2004 to 20 December 2014	\$7.45	9,300,000	–
			<u>18,061,250</u>	<u>6,393,750</u>

At 31 December 2004 all share options were held by employees of the Group and were fully vested.

(iii) Share options granted

Exercise period	Exercise price	2004 Number	2003 Number
6 October 2003 to 5 October 2013	\$7.35	–	532,500
20 December 2004 to 19 December 2014	\$7.50	2,596,000	–
21 December 2004 to 20 December 2014	\$7.45	9,300,000	–
		<u>11,896,000</u>	<u>532,500</u>

The consideration paid by each employee for the options granted was \$1.

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***25. SHARE CAPITAL (Continued)****(iv) Share options exercised**

Exercise date	Exercise price	Market value per share at exercise date	Number	Proceeds received HK\$
2004				
20 February – 25 October	\$3.060	\$7.30 – \$8.25	18,500	56,610
9 February – 29 November	\$3.905	\$6.40 – \$8.25	81,500	318,258
4 February – 28 September	\$7.350	\$7.65 – \$8.30	59,000	433,650
			<u>159,000</u>	<u>808,518</u>
2003				
19 May – 17 December	\$3.060	\$5.20 – \$8.80	333,000	1,018,980
16 April – 30 December	\$3.905	\$4.65 – \$8.80	429,000	1,675,245
3 November – 17 November	\$7.350	\$8.25 – \$8.80	7,000	51,450
			<u>769,000</u>	<u>2,745,675</u>

26. RESERVES**(a) The Group**

	Share premium	Exchange fluctuation reserve	Investment revaluation reserve	Other reserves (note)	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2003						
At 1 January 2003	579,172	(21,195)	6,604	1,304	747,794	1,313,679
Special and final dividends approved in respect of the previous year	–	–	–	–	(66,900)	(66,900)
Share premium arising from issue of shares	37,114	–	–	–	–	37,114
Revaluation surplus	–	–	772	–	–	772
Revaluation surplus transferred to the income statement on disposal of securities	–	–	(4,884)	–	–	(4,884)
Profit for the year	–	–	–	–	151,241	151,241
Interim and special interim dividends declared in respect of the current year	–	–	–	–	(86,100)	(86,100)
Transfer to other reserves	–	–	–	629	(629)	–
Exchange differences	–	4,722	–	–	–	4,722
At 31 December 2003	<u>616,286</u>	<u>(16,473)</u>	<u>2,492</u>	<u>1,933</u>	<u>745,406</u>	<u>1,349,644</u>

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***26. RESERVES (Continued)****(a) The Group (Continued)**

	Share premium	Exchange fluctuation reserve	Investment revaluation reserve	Other reserves <i>(note)</i>	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2004						
At 1 January 2004	616,286	(16,473)	2,492	1,933	745,406	1,349,644
Special and final dividends approved in respect of the previous year	–	–	–	–	(86,903)	(86,903)
Share premium arising from issue of shares	41,103	–	–	–	–	41,103
Revaluation surplus	–	–	2,685	–	–	2,685
Revaluation deficit transferred to the income statement on disposal of securities	–	–	188	–	–	188
Profit for the year	–	–	–	–	192,712	192,712
Interim dividends declared in respect of the current year	–	–	–	–	(31,462)	(31,462)
Exchange differences	–	4,004	–	–	–	4,004
At 31 December 2004	<u>657,389</u>	<u>(12,469)</u>	<u>5,365</u>	<u>1,933</u>	<u>819,753</u>	<u>1,471,971</u>

Profits are retained as follows:

	2004	2003
By the Company and its subsidiaries	819,753	760,025
By associate	–	(14,619)
	<u>819,753</u>	<u>745,406</u>

Note: Other reserves comprise statutory reserves required in respect of the PRC incorporated subsidiaries.

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***26. RESERVES (Continued)****(b) The Company**

	Share premium (note a) \$'000	Contributed surplus (note b) \$'000	Retained profit \$'000	Total \$'000
At 1 January 2003	579,172	51,636	155,078	785,886
Special and final dividends approved in respect of the previous year	–	–	(66,900)	(66,900)
Share premium arising from issue of shares	37,114	–	–	37,114
Profit for the year	–	–	155,292	155,292
Interim and special interim dividends declared in respect of the current year	–	–	(86,100)	(86,100)
	<u>616,286</u>	<u>51,636</u>	<u>157,370</u>	<u>825,292</u>
At 31 December 2003	<u>616,286</u>	<u>51,636</u>	<u>157,370</u>	<u>825,292</u>
At 1 January 2004	616,286	51,636	157,370	825,292
Special and final dividends approved in respect of the previous year	–	–	(86,903)	(86,903)
Share premium arising from issue of shares	41,103	–	–	41,103
Profit for the year	–	–	118,124	118,124
Interim dividends declared in respect of the current year	–	–	(31,462)	(31,462)
	<u>657,389</u>	<u>51,636</u>	<u>157,129</u>	<u>866,154</u>
At 31 December 2004	<u>657,389</u>	<u>51,636</u>	<u>157,129</u>	<u>866,154</u>

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 2004 amounted to \$208,765,000 (2003: \$209,006,000).

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***27. SEGMENT REPORTING**

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segment

As all of the Group's turnover and profits were derived from the design, manufacture and sale of liquid crystal displays and related products, accordingly no separate business segment analysis is presented for the Group.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong and PRC		Rest of Asia		Europe		North America		Others	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	941,308	421,431	298,571	163,154	632,932	583,784	89,103	94,072	44,417	12,347
Segment assets	1,869,751	1,549,279	119,683	136,194	95,300	75,150	26,893	29,633		
Capital expenditure incurred during the year	80,432	113,352	2,571	14,978	793	1,316	47	46		

Revenue from external customers located in Europe is analysed as follows:

	2004 \$'000	2003 \$'000
France	127,224	120,521
United Kingdom	100,358	95,934
Germany	146,087	126,545
Other European countries	259,263	240,784
	632,932	583,784

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

**Notes on the Financial Statements***(Expressed in Hong Kong dollars)***28. CAPITAL AND OTHER COMMITMENTS**

- (a) Capital commitments representing purchase of property, plant and equipment not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	\$'000	\$'000
Contracted for	7,184	15,117

- (b) Other commitments

At 31 December 2004 in addition to the above, the Group had commitments to contribute capital of \$11,320,000 to the establishment of a JV Company in the PRC.

- (c) At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases for properties are payable as follows:

	2004	2003
	Properties	Properties
	\$'000	\$'000
Within 1 year	3,657	1,470
After 1 year but within 5 years	5,429	1,167
	9,086	2,637

29. CONTINGENT LIABILITIES

At 31 December 2004, 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 \$76,674,000 (2003: \$72,023,000).

30. MATERIAL RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year (2003: Nil).