

## 1. GENERAL

The Company was incorporated in the Cayman Islands on 17th October, 1990 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company. The Company is a public limited company with its shares listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the business of manufacture and sale of liquid crystal display products, electronic consumer products including calculators and pagers and electronic components.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared in accordance with accounting policies generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

### Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a business/subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a business/subsidiary over the purchase consideration is credited to reserves.

On disposal of a business/subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the business/subsidiary.

### Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls, directly or indirectly, the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

## 2. SIGNIFICANT ACCOUNTING POLICIES — *continued*

### **Turnover**

Turnover represents the net proceeds received and receivable on the sale of goods during the year.

### **Revenue recognition**

Sale of goods is recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

### **Property, plant and equipment and depreciation**

Property, plant and equipment, other than properties under development, is stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

The cost of buildings is depreciated over forty years or the terms of the respective leases, if shorter, using the straight line method. The cost of leasehold land is amortised over the remaining unexpired terms of the respective leases using the straight line method.

Depreciation is provided to write off the cost of other items of plant and equipment, other than properties under development, over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Furniture and fixtures	15% to 50%
Plant and machinery	15% to 40%
Motor vehicles	25% to 45%

Assets held under hire purchase contracts are depreciated over their estimated useful lives on the same basis as assets owned by the Group. Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the terms of the respective leases.

**2. SIGNIFICANT ACCOUNTING POLICIES** — *continued***Properties under development**

Land and buildings in the course of development for production are carried at cost, less any impairment loss considered necessary by the directors. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended uses.

**Deferred development expenditure**

Expenditure on research and development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operations subject to a maximum of five years.

**Intangible assets**

Costs incurred in the registration of trademarks and expenditure on acquiring rights to technical know-how are capitalised and amortised on a straight line basis over their estimated useful lives at 20% per annum.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents 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.

**Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

**Leased assets/assets held under hire purchase contracts**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases and hire purchase contracts are capitalised at their fair values at the dates of acquisition. The corresponding liability to the lessor/hirer, net of interest charges, is included in the balance sheet as a finance lease/hire purchase obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases or hire purchase contracts so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

### 2. SIGNIFICANT ACCOUNTING POLICIES — *continued*

#### **Leased assets/assets held under hire purchase contracts** — *continued*

All other leases are classified as operating leases and the rentals payable or receivable are charged or credited to the income statement on a straight line basis over the relevant lease term.

#### **Foreign currencies**

Transactions in foreign currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries, which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Exchange differences arising on consolidation are dealt with in the exchange reserve.

#### **Cash equivalents**

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

#### **Retirement benefits scheme**

The pension costs charged in the income statement represent the amount of contributions payable in respect of the current year to the Group's defined contribution scheme.

**3. TURNOVER AND CONTRIBUTIONS TO PROFIT FROM OPERATIONS**

Indirect sales represent sales of electronic consumer products currently made to Hong Kong trading companies which are regarded as sales to the People's Republic of China ("PRC") since the directors believe that they sell the Group's electronic consumer products mainly to the customers in the PRC. The turnover and contribution to profit from operations of the Group for the year ended December 31, 2000, analysed by principal activity and by geographical market, are as follows:

	Turnover		Contribution to profit from operations	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By geographical market:				
Direct sales				
The People's Republic of China	115,992	78,775	15,091	10,912
Asia (other than the PRC, Japan and South Korea)	129,517	187,227	27,483	25,620
North America	34,244	17,150	(1,562)	2,405
South America	12,324	5,819	(1,144)	817
Europe	113,208	50,714	15,649	7,004
Japan	64,421	2,086	14,076	289
South Korea	151,657	76,292	33,451	10,403
Australia	1,637	1,282	224	176
Others (Note)	11,024	7,365	(78)	1,035
	<u>634,024</u>	<u>426,710</u>	<u>103,190</u>	<u>58,661</u>
Indirect sales	<u>78,472</u>	<u>68,835</u>	<u>(7,938)</u>	<u>9,722</u>
	<u>712,496</u>	<u>495,545</u>	<u>95,252</u>	<u>68,383</u>
Interest income			<u>3,546</u>	<u>580</u>
Profit from operations			<u>98,798</u>	<u>68,963</u>
By principal activity:				
Sales of liquid crystal display products	520,075	328,701	114,716	44,818
Sales of electronic consumer products	192,421	166,844	(19,464)	23,565
	<u>712,496</u>	<u>495,545</u>	<u>95,252</u>	<u>68,383</u>
Interest income			<u>3,546</u>	<u>580</u>
Profit from operations			<u>98,798</u>	<u>68,963</u>

Note:

This category includes sales to countries in the Middle East, Africa and the Commonwealth of independent states.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 4. PROFIT FROM OPERATIONS

	2000 HK\$'000	1999 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation on:		
Owned assets	51,712	55,039
Assets held under finance leases and hire purchase contracts	<u>9,730</u>	<u>4,477</u>
	<u>61,442</u>	<u>59,516</u>
Staff costs, inclusive of directors' emoluments	82,767	66,251
Less: amount capitalised as deferred development expenditure	<u>(2,928)</u>	<u>(5,657)</u>
	<u>79,839</u>	<u>60,594</u>
Amortisation of deferred development expenditure	5,991	8,188
Amortisation of intangible assets	238	419
Auditors' remuneration	1,228	1,219
Interest income from bank deposits	(3,546)	(580)
(Gain) loss on disposal of other property, plant and equipment	(27)	64
Net foreign exchange loss	5,694	754
Net operating lease rentals income	(846)	(745)
Operating lease rentals in respect of		
— rented premises	1,130	937
— other equipment	269	—
Write off of intangible assets	<u>110</u>	<u>—</u>

### 5. GAIN ON DISPOSAL OF LAND AND BUILDINGS

The gain in prior year represented the profit arising from the disposal of land and buildings to a director of the Company.

**6. FINANCE COSTS**

	2000 HK\$'000	1999 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	12,124	10,284
Finance leases and hire purchase contracts	<u>2,602</u>	<u>2,562</u>
	<u><u>14,726</u></u>	<u><u>12,846</u></u>

**7. DIRECTORS' EMOLUMENTS**

	2000 HK\$'000	1999 HK\$'000
Directors' fees:		
Executive	—	—
Non-executive	50	50
Independent non-executive	40	40
Other emoluments paid to the executive directors:		
Salaries and other benefits	5,414	5,449
Performance related incentive payments	10,085	7,993
Contributions to retirement benefits scheme	<u>163</u>	<u>257</u>
	<u><u>15,752</u></u>	<u><u>13,789</u></u>

During the year, directors' emoluments amounting to HK\$2,273,000 (1999: HK\$2,297,000) were capitalised as development cost.

Emoluments of the directors were within the following bands:

	2000 Number of directors	1999 Number of directors
Nil to HK\$1,000,000	3	3
HK\$2,000,001 to HK\$2,500,000	2	2
HK\$9,000,001 to HK\$9,500,000	—	1
HK\$10,500,001 to HK\$11,000,000	<u>1</u>	<u>—</u>

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (1999: three) were directors of the Company whose emoluments are set out in note 7 above. The emoluments of the remaining two (1999: two) individuals were as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries and other benefits	1,901	1,528
Contributions to retirement benefits scheme	<u>42</u>	<u>49</u>
	<u><u>1,943</u></u>	<u><u>1,577</u></u>

Their emoluments were within the following bands:

	2000 Number of employees	1999 Number of employees
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>—</u>

### 9. TAXATION

	2000 HK\$'000	1999 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	2,370	4,910
Overseas taxation	<u>1,314</u>	<u>312</u>
	<u><u>3,684</u></u>	<u><u>5,222</u></u>

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits for the year.

Overseas taxation is calculated at the rates prevailing in the respective jurisdiction.

In 1999, the taxable income for the year to Hong Kong Profits Tax has been relieved by HK\$2,922,000, as a result of tax losses brought forward from previous years.

**9. TAXATION** — *continued*

The subsidiary of the Group that is operating in the People's Republic of China (the "PRC") is subject to income tax of the PRC at half the rate prevailing in the PRC as it is still under the period of tax relief granted because of its status as a foreign-owned enterprise.

Details of the potential deferred tax charge not provided for the year are set out in note 29.

**10. PROFIT FOR THE YEAR**

Of the consolidated profit of HK\$80,419,000 (1999: HK\$63,075,000), a profit of HK\$44,240,000 (1999: HK\$27,206,000) has been dealt with in the financial statements of the Company.

**11. DIVIDENDS**

	2000 HK\$'000	1999 HK\$'000
Interim dividend paid of 4 cents (1999: 2 cents) per share	17,340	8,670
Final dividend proposed of 6 cents (1999: 4 cents) per share	<u>26,009</u>	<u>17,339</u>
	<u><u>43,349</u></u>	<u><u>26,009</u></u>

The final dividend of 6 cents per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

**12. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share is based on the following data:

	2000 HK\$'000	1999 HK\$'000
Earnings for the purposes of basic and diluted earnings per share	<u>80,419</u>	<u>63,075</u>

  

	2000 Number of shares	1999 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	433,500,804	433,472,678
Effect of dilutive share options	<u>4,552,595</u>	<u>3,045,797</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><u>438,053,399</u></u>	<u><u>436,518,475</u></u>

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 13. PROPERTY, PLANT AND EQUIPMENT

	Properties under development HK\$'000	Land and buildings HK\$'000	Furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
<b>COST</b>						
At 1st January, 2000	17,079	308,028	39,965	545,156	6,552	916,780
Currency realignment	—	—	(32)	—	—	(32)
Additions	12,767	—	8,135	151,441	1,797	174,140
Disposals	—	(433)	(42)	—	(152)	(627)
Reclassification	(10,303)	10,303	—	—	—	—
At 31st December, 2000	<u>19,543</u>	<u>317,898</u>	<u>48,026</u>	<u>696,597</u>	<u>8,197</u>	<u>1,090,261</u>
<b>DEPRECIATION</b>						
At 1st January, 2000	—	31,004	21,801	277,273	4,895	334,973
Currency realignment	—	—	(24)	—	—	(24)
Provided for the year	—	7,705	3,998	48,709	1,030	61,442
Eliminated on disposals	—	(49)	(11)	—	(146)	(206)
At 31st December, 2000	<u>—</u>	<u>38,660</u>	<u>25,764</u>	<u>325,982</u>	<u>5,779</u>	<u>396,185</u>
<b>NET BOOK VALUES</b>						
At 31st December, 2000	<u>19,543</u>	<u>279,238</u>	<u>22,262</u>	<u>370,615</u>	<u>2,418</u>	<u>694,076</u>
At 31st December, 1999	<u>17,079</u>	<u>277,024</u>	<u>18,164</u>	<u>267,883</u>	<u>1,657</u>	<u>581,807</u>

**13. PROPERTY, PLANT AND EQUIPMENT** — *continued*

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
The net book value of the Group's property interests shown above comprises:		
Leasehold properties in Hong Kong held under medium term leases	<b>8,987</b>	9,241
Leasehold properties in the PRC held under medium term leases	<u>270,251</u>	<u>267,783</u>
	<b>279,238</b>	277,024
Properties under development in the PRC held under medium term leases	<u>19,543</u>	<u>17,079</u>
	<u><b>298,781</b></u>	<u>294,103</u>

The net book values of plant and machinery includes an amount of HK\$54,684,000 (1999: HK\$25,629,000) in respect of assets held under finance leases and hire purchase contracts.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 14. DEFERRED DEVELOPMENT EXPENDITURE

	Development cost		Total HK\$'000
	Liquid crystal display products HK\$'000	Other electronic products HK\$'000	
<b>THE GROUP</b>			
<b>COST</b>			
At 1st January, 2000	47,518	54,733	102,251
Additions	—	3,232	3,232
Compensation received*	—	(8,622)	(8,622)
At 31st December, 2000	<u>47,518</u>	<u>49,343</u>	<u>96,861</u>
<b>AMORTISATION</b>			
At 1st January, 2000	41,051	31,182	72,233
Provided for the year	<u>3,234</u>	<u>2,757</u>	<u>5,991</u>
At 31st December, 2000	<u>44,285</u>	<u>33,939</u>	<u>78,224</u>
<b>NET BOOK VALUES</b>			
At 31st December, 2000	<u>3,233</u>	<u>15,404</u>	<u>18,637</u>
At 31st December, 1999	<u>6,467</u>	<u>23,551</u>	<u>30,018</u>

\* The compensation was received from a third party which was engaged by the Company to carry out certain development projects but the projects were subsequently found to be infeasible. The compensation was based on the actual expenditure incurred by the Company before.

**15. INTANGIBLE ASSETS**

	Technical know-how HK\$'000	Trademarks HK\$'000	Total HK\$'000
<b>THE GROUP</b>			
<b>COST</b>			
At 1st January, 2000	1,610	1,784	3,394
Additions	—	130	130
Write off	—	(110)	(110)
	<u>1,610</u>	<u>1,804</u>	<u>3,414</u>
At 31st December, 2000	<u>1,610</u>	<u>1,804</u>	<u>3,414</u>
<b>AMORTISATION</b>			
At 1st January, 2000	1,610	1,297	2,907
Provided for the year	—	238	238
	<u>1,610</u>	<u>1,535</u>	<u>3,145</u>
At 31st December, 2000	<u>1,610</u>	<u>1,535</u>	<u>3,145</u>
<b>NET BOOK VALUES</b>			
At 31st December, 2000	<u>—</u>	<u>269</u>	<u>269</u>
At 31st December, 1999	<u>—</u>	<u>487</u>	<u>487</u>

**16. INTEREST IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	2000 HK\$'000	1999 HK\$'000
Unlisted investments, at cost	64,002	64,002
Amounts due from subsidiaries	<u>231,937</u>	<u>231,343</u>
	<u>295,939</u>	<u>295,345</u>

Details of the subsidiaries at 31st December, 2000 are set out in note 36.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 17. INVENTORIES

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	83,524	63,228
Work in progress	82,031	68,571
Finished goods	<u>30,513</u>	<u>26,817</u>
	<u>196,068</u>	<u>158,616</u>

Included above are work in progress of HK\$5,192,000 (1999: HK\$21,505,000) and finished goods of HK\$2,873,000 (1999: HK\$7,093,000) which are carried at net realisable values.

During the year, as a result of the increased demand on liquid crystal display products, there was a significant increase in the net realisable value of inventories. As a result, provision made in prior years against the carrying value of work in progress of HK\$5,764,000 and finished goods of HK\$1,134,000 had been reversed.

### 18. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit terms ranging from 30 to 90 days to its trade customers.

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Aged analysis of trade receivables:		
Within 60 days	85,124	51,844
60 to 90 days	12,451	6,688
More than 90 days	<u>20,118</u>	<u>24,042</u>
	117,693	82,574
Deposits and prepayments	<u>61,704</u>	<u>65,443</u>
	<u>179,397</u>	<u>148,017</u>

**19. TRADE AND OTHER PAYABLES**

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Aged analysis of trade payables:		
Within 60 days	39,011	22,555
60 to 90 days	9,914	5,788
More than 90 days	<u>16,616</u>	<u>3,638</u>
	65,541	31,981
Other payables and accrued charges	<u>28,799</u>	<u>17,508</u>
	<u><u>94,340</u></u>	<u><u>49,489</u></u>

**20. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS**

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
The maturity of obligations under finance leases and hire purchase contracts is as follows:		
Within one year	18,758	12,039
Between one to two years	12,192	9,531
Between two to five years	<u>7,623</u>	<u>3,333</u>
	38,573	24,903
Less: Amount due within one year shown under current liabilities	<u>(18,758)</u>	<u>(12,039)</u>
Amount due after one year	<u><u>19,815</u></u>	<u><u>12,864</u></u>

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 21. BANK BORROWINGS

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Short term bank loans	41,731	25,450
Trust receipt loans	192,929	88,369
Bank overdrafts	7,908	18,438
Mortgage loans	<u>2,400</u>	<u>4,080</u>
	244,968	136,337
Less: Amount due within one year shown under current liabilities	<u>(244,968)</u>	<u>(135,137)</u>
Amount due after one year but not exceeding two years	<u>—</u>	<u>1,200</u>
Secured	2,400	4,080
Unsecured	<u>242,568</u>	<u>132,257</u>
	<u>244,968</u>	<u>136,337</u>

### 22. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, non-interest bearing and has no fixed repayment term.

Pursuant to an agreement signed on 26th April, 1996 between a subsidiary and the minority shareholder, (upon completion of a research and development project engaged by a subsidiary, Truly GSM Technologies Limited ("Truly GSM")), the amount advanced from the minority shareholder to Truly GSM shall be capitalised on a dollar for dollar basis, based on the total research and development costs incurred in the relevant project, by the issue of equivalent number of shares in Truly GSM.

At 31st December, 2000, the project is considered to be infeasible and the directors are now negotiating with the minority shareholder requesting it to waive the amount advanced to Truly GSM.

**23. SHARE CAPITAL**

	2000 Number of shares	1999 Number of shares	2000 Share capital HK\$'000	1999 Share capital HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised				
At 1st January and 31st December	<u>500,000,000</u>	<u>500,000,000</u>	<u>50,000</u>	<u>50,000</u>
Issued and fully paid				
At 1st January	433,487,527	433,467,527	43,348	43,346
Issue of shares under share option scheme	20,000	20,000	2	2
Shares repurchased and cancelled	<u>(8,000)</u>	<u>—</u>	<u>(1)</u>	<u>—</u>
At 31st December	<u>433,499,527</u>	<u>433,487,527</u>	<u>43,349</u>	<u>43,348</u>

During the year, the Company issued 20,000 ordinary shares of HK\$0.1 each under share option scheme at HK\$1.68 per share, for a consideration of HK\$34,000. The new shares rank pari passu with the existing shares in all respects.

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary share of HK\$0.1 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
October 2000	2,000	1.90	1.27	2,900
November 2000	4,000	1.92	1.28	6,200
December 2000	2,000	2.85	1.71	3,900

These shares were cancelled upon repurchase and accordingly, the issued capital of the Company was reduced by the nominal value of these shares. The premium payable on repurchase was paid out of the Company's share premium account.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 24. SHARE OPTION SCHEME

- (i) On 23rd July, 1996, the Company granted share options to certain directors and employees of the Company and its subsidiaries. Each share option entitles the holder to subscribe in cash for shares in the Company of HK\$0.1 each at an option price of HK\$1.68. The options are exercisable between 23rd October, 1996 to 23rd October, 2001 (both dates inclusive).
- (ii) On 26th July, 1999, the Company granted an aggregate 8,000,000 share options to certain directors and employees of the Company and its subsidiaries at nil consideration. Each share option entitles the holder to subscribe in cash for shares in the Company of HK\$0.1 each at an option price of HK\$1.864. The options are exercisable between 26th October, 1999 to 10th July, 2001 (both dates inclusive).

A summary of the movement of options granted during the year is as follows:

Name	Capacity	Exercise price HK\$	Balance at 1.1.2000	Exercised during the year	Balance at 31.12.2000
Lam Wai Wah, Steven	Director	1.680	5,000,000	—	5,000,000
Wong Pong Chun, James	Director	1.680	4,250,000	—	4,250,000
		1.864	750,000	—	750,000
Cheung Tat Sang, James	Director	1.680	700,000	—	700,000
		1.864	3,025,000	—	3,025,000
Others	Employee	1.680	3,630,000	(20,000)	3,610,000
		1.864	4,225,000	—	4,225,000
			<u>21,580,000</u>	<u>(20,000)</u>	<u>21,560,000</u>

**25. RESERVES**

	Share premium HK\$'000	Special reserve HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At 1st January, 1999	233,235	990	82	996	626	408,918	644,847
Exchange differences on translation of overseas operations	—	—	—	—	577	—	577
Issue of shares under share option scheme	32	—	—	—	—	—	32
Profit for the year	—	—	—	—	—	63,075	63,075
Dividends	—	—	—	—	—	(26,009)	(26,009)
At 1st January, 2000	233,267	990	82	996	1,203	445,984	682,522
Exchange differences on translation of overseas operations	—	—	—	—	95	—	95
Issue of shares under share option scheme	32	—	—	—	—	—	32
Repurchase of own shares	(12)	—	—	—	—	—	(12)
Profit for the year	—	—	—	—	—	80,419	80,419
Dividends	—	—	—	—	—	(43,349)	(43,349)
At 31st December, 2000	<u>233,287</u>	<u>990</u>	<u>82</u>	<u>996</u>	<u>1,298</u>	<u>483,054</u>	<u>719,707</u>
<b>THE COMPANY</b>							
At 1st January, 1999	233,235	17,409	82	—	—	682	251,408
Issue of shares under share option scheme	32	—	—	—	—	—	32
Profit for the year	—	—	—	—	—	27,206	27,206
Dividends	—	—	—	—	—	(26,009)	(26,009)
At 1st January, 2000	233,267	17,409	82	—	—	1,879	252,637
Issue of shares under share option scheme	32	—	—	—	—	—	32
Repurchase of own shares	(12)	—	—	—	—	—	(12)
Profit for the year	—	—	—	—	—	44,240	44,240
Dividends	—	—	—	—	—	(43,349)	(43,349)
At 31st December, 2000	<u>233,287</u>	<u>17,409</u>	<u>82</u>	<u>—</u>	<u>—</u>	<u>2,770</u>	<u>253,548</u>

The special reserve of the Company represents the difference between the net book values of the underlying assets of the Company's subsidiaries acquired at the date on which the shares of these companies were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisitions. Under the applicable laws of the Cayman Islands, the special reserve is available for distribution.

The special reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisitions.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 26. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 HK\$'000	1999 HK\$'000
Profit before taxation	84,072	68,262
Interest income	(3,546)	(580)
Interest expenses	14,726	12,846
Amortisation of deferred development expenditure	5,991	8,188
Amortisation of intangible assets	238	419
Write off of intangible assets	110	—
Depreciation	61,442	59,516
Gain on disposal of land and buildings	—	(12,145)
(Gain) loss on disposal of other property, plant and equipment	(27)	64
Increase in inventories	(37,452)	(3,894)
Increase in trade and other receivables	(31,271)	(5,266)
Increase in trade and other payables	44,361	4,849
Effect of realignment of foreign exchange rate	177	726
	<u>138,821</u>	<u>132,985</u>
Net cash inflow from operating activities	<u>138,821</u>	<u>132,985</u>

### 27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Obligations under finance leases and hire purchase contracts HK\$'000	Mortgage loans HK\$'000	Trust receipt loans HK\$'000	Bank loans HK\$'000
At 1st January, 1999	276,581	24,210	4,200	20,271	—
Issue of shares	34	—	—	—	—
New borrowings raised	—	10,865	—	12,646	—
Repayment of borrowings	—	(10,172)	(120)	(20,271)	—
	<u>276,615</u>	<u>24,903</u>	<u>4,080</u>	<u>12,646</u>	<u>—</u>
At 31st December, 1999	276,615	24,903	4,080	12,646	—
Issue of shares	34	—	—	—	—
Repurchase of own shares	(13)	—	—	—	—
New borrowings raised	—	38,785	1,200	13,456	19,781
Repayment of borrowings	—	(25,115)	(2,880)	—	—
	<u>276,636</u>	<u>38,573</u>	<u>2,400</u>	<u>26,102</u>	<u>19,781</u>
At 31st December, 2000	<u>276,636</u>	<u>38,573</u>	<u>2,400</u>	<u>26,102</u>	<u>19,781</u>

**28. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS**

	2000	1999
	HK\$'000	HK\$'000
Bank balances and cash	99,228	60,085
Bank overdrafts	(7,908)	(18,438)
Trust receipt loans	(166,827)	(75,723)
Short term bank loans	<u>(21,950)</u>	<u>(25,450)</u>
	<u><u>(97,457)</u></u>	<u><u>(59,526)</u></u>

**29. UNPROVIDED DEFERRED TAXATION**

At the balance sheet date, the major components of the unprovided deferred tax liabilities (assets) are as follows:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	19,589	14,202
Other timing differences	2,715	3,269
Tax losses	<u>(2,504)</u>	<u>(2,409)</u>
	<u><u>19,800</u></u>	<u><u>15,062</u></u>

No provision for deferred taxation has been recognised in the financial statements in respect of timing differences arising during the year as in the opinion of the directors, it is not expected that the potential deferred taxation liability will reverse in the foreseeable future, after taking into account of the Group's medium term financial plans and projections.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 29. UNPROVIDED DEFERRED TAXATION — *continued*

The amount of the unprovided deferred tax charge (credit) for the year is as follows:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Difference of tax allowances over depreciation	5,387	(820)
Other timing differences	(554)	(238)
Tax losses (arising) utilised	<u>(95)</u>	<u>38</u>
	<u>4,738</u>	<u>(1,020)</u>

The Company did not have any material unprovided deferred taxation for the year or at the balance sheet date.

### 30. CONTINGENT LIABILITIES

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Export bills discounted with recourse	<u>1,335</u>	<u>4,171</u>

  

	THE COMPANY	
	2000	1999
	HK\$'000	HK\$'000
Guarantees given to bankers in respect of banking facilities utilised by subsidiaries	<u>244,968</u>	<u>127,031</u>

**31. OPERATING LEASE COMMITMENTS**

At the balance sheet date, the Group and the Company had outstanding commitments under non-cancellable operating leases as follows:

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating leases which expire:				
Within one year	915	—	—	—
In the second to fifth year inclusive	420	—	—	—
	<u>1,335</u>	<u>—</u>	<u>—</u>	<u>—</u>

**32. CAPITAL COMMITMENTS**

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Development cost for other electronic products	—	5
Motor vehicles	—	674
Leasehold land	7,117	—
Plant and equipment	<u>2,723</u>	<u>88</u>
	<u>9,840</u>	<u>767</u>
Capital expenditure for the next three years in respect of acquisition of property, plant and equipment authorised but not contracted for	<u>350,000</u>	<u>273,000</u>

In addition, a subsidiary of the Company has committed to contribute approximately HK\$96,048,000 (1999: HK\$96,048,000) in respect of outstanding contribution to share capital of another subsidiary.

The Company did not have any material capital commitments at the balance sheet date.

### 33. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost charged to income statement represent contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

During the year, the retirement benefits scheme contribution net of forfeited contributions of approximately HK\$44,000 (1999: HK\$196,000) are HK\$433,000 (1999: HK\$671,000).

At 31st December, 2000, the Group did not have any forfeited contributions arising upon the employees leaving the defined contribution benefit scheme. At 31st December, 1999, the amount of forfeited contributions, which arose upon employees leaving the retirement benefits scheme and which were available to reduce the contributions payable in the future years was HK\$90,000.

Commencing from 1st December, 2000, the Group is required to contribute to Mandatory Provident Fund for all employees of the Group in Hong Kong based on applicable rates of monthly salary in accordance with government regulations.

### 34. PLEDGE OF ASSETS

At 31st December, 2000, the Group had pledged certain of its leasehold properties and other properties, plant and equipment with an aggregate carrying value of HK\$8,724,000 (1999: HK\$8,971,000) to secure banking facilities granted to the Company's subsidiaries.

### 35. RELATED PARTY TRANSACTIONS

In 1999, the Group had through its wholly-owned subsidiary, disposed of land and buildings to Lam Wai Wah, Steven, a director of the Company. The price of HK\$16,400,000 was negotiated on an arm's length basis and was by reference to an independent valuation report dated 4th May, 1999.

## 36. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration/operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Proportionate equity interest of the Group		Principal activities
			Directly	Indirectly	
Truly Electronics Manufacturing Limited	Hong Kong	HK\$1,000,010	100%	—	Trading in electronic calculators
Truly Industrial Limited	Hong Kong	HK\$872,894	—	100%	Trading in electronic components
Truly Semiconductors (Europe) GmbH	Germany	DM50,000	—	100%	Trading in liquid crystal display products
Truly Semiconductors Limited	Hong Kong	HK\$1,000	—	100%	Manufacture of liquid crystal display products
Truly Telecommunications Company Limited	Hong Kong	HK\$1,000	—	100%	Trading in pagers
Truly (USA) Inc.	United States of America	US\$20,000	100%	—	Marketing of electronic calculators
Truly GSM Technologies Limited	Hong Kong	HK\$100	—	62%	Inactive
廣東省汕尾市信利電子有限公司	PRC	HK\$109,699,227	—	100%	Manufacture of electronic calculators and pagers
汕尾市信益房地產開發有限公司	PRC	HK\$22,512,000	—	100%	Property holding

None of the subsidiaries had any loan capital outstanding at 31st December, 2000 or at any time during the year.