

> NOTES TO THE ACCOUNTS

1. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) **Basis of preparation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention.

(b) **Consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account 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 are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) **Jointly controlled entities**

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity under a contractual arrangement whereby the Group and other parties undertaken that the economic activity of the jointly controlled entity is subject to joint control and none of the participating parties has unilateral control over its economic activity.

1. Principal Accounting Policies (continued)

(c) Jointly controlled entities (continued)

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity.

In the Company's balance sheet, the investment in a jointly controlled entity is stated at cost less provision, if necessary, for any permanent diminution in value. The results of the jointly controlled entity are accounted for by the Company on the basis of dividends received and receivable.

(d) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company.

In the Company's balance sheet the investment in an associated company is stated at cost less provision, if necessary, for any permanent diminution in value. The results of the associated company are accounted for by the Company on the basis of dividends received and receivable.

(e) Intangible assets

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries acquired, is recognised as an asset and amortised by equal annual instalments over its estimated useful economic life of 15 years.

Trademarks acquired from third parties are stated at cost less accumulated amortisation. Trademarks are amortised on a straight-line basis over their estimated useful life of 15 years.

> NOTES TO THE ACCOUNTS

1. Principal Accounting Policies (continued)

(f) Property, plant and equipment

Fixed assets are stated at cost less accumulated depreciation.

Land use rights outside Hong Kong are amortised on a straight-line basis over the remaining period of the lease. Other fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives, after taking into account their estimated residual values, on a straight-line basis. The estimated useful lives of the assets are as follows:

	Estimated useful life
Buildings	20 years
Leasehold improvements	20 years
Machinery and equipment	5 to 10 years
Moulds	2 years
Electrical appliances and equipment	3 to 5 years
Transportation equipment	3 to 5 years
Miscellaneous equipment	1 to 5 years

Major costs incurred in restoring fixed assets to their normal working conditions are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount. Recoverable amount is the amount which the Group expects to recover from future use of the asset, including its residual value on disposal. The amount of the reduction to recoverable amount, if any, is charged to the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

1. Principal Accounting Policies (continued)

(g) **Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(h) **Other investments**

Other investments, which represent unlisted equity investments, are held for the long-term and are stated at cost less provision, if necessary, for any permanent diminution in value.

(i) **Inventories**

Inventories comprise finished goods, work in progress, raw materials and production supplies and are stated at the lower of cost and net realisable value. Cost, calculated using the weighted average method, comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) **Construction in progress**

Construction in progress is property and plant under construction. The amount is stated at cost which includes development and construction expenditure incurred and other direct costs attributable to the construction.

(k) **Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful of recovery. Accounts receivable in the balance sheet are stated net of such provision.

> NOTES TO THE ACCOUNTS

1. Principal Accounting Policies (continued)

(l) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) Translation of foreign currencies

Transactions in foreign currencies are translated into United States dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries, an associated company and a jointly controlled entity expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with as a movement in reserves.

(n) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Operating lease rental income is recognised on a straight-line basis.

Export incentives provided by the local government in Fuqing, the PRC are recognised when the right to receive payment is established.

1. Principal Accounting Policies (continued)

(o) Retirement benefit costs

The subsidiaries of the Group in the PRC, Taiwan and Germany participate in employee pension schemes operated by the governments of the respective countries/places. Contributions are made to these schemes, which are defined contribution schemes in nature, based on a certain percentage of the applicable payroll costs. The contributions are expensed as incurred.

The Group's subsidiary in Hong Kong operates a defined contribution scheme which is available to all Hong Kong employees starting from 1st December 2000. Contribution to the scheme, calculated on the basis of certain percentage of employees' relevant income or a fixed sum of HK\$1,000 for each employee, whichever is lower, is expensed as incurred.

(p) Research and development costs

Research and development costs are expensed as incurred.

(q) Warranty costs

Provision for warranty costs is made based on management's estimates of the repair costs per unit of product manufactured in the relevant years. Actual warranty expenditure is charged against the provision as incurred.

(r) Related parties

Related parties of the Group are individuals and companies, including associated companies and jointly controlled entities, where the individual, company or group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

> NOTES TO THE ACCOUNTS

2. Revenue and Turnover

The Group is principally engaged in the manufacturing and trading of computer monitors and scanners. Revenues recognised during the year are as follows:

	2000 US\$'000	1999 US\$'000
Turnover		
Sales of goods to third parties and related companies	961,701	612,206
Other revenues		
Interest income	1,774	1,079
Rental income		
– an investee company	–	89
– third parties	284	320
Export incentives received	2,048	–
Miscellaneous income	366	787
	4,472	2,275
Total revenues	966,173	614,481

2. Revenue and Turnover (continued)

An analysis of the Group's turnover and contribution to operating profit for the year by market and by product type is as follows:

	2000		1999	
	Turnover US\$'000	Contribution to operating profit US\$'000	Turnover US\$'000	Contribution to operating profit US\$'000
Principal market:				
Europe	335,114	15,201	191,784	(i)
North America	86,454	3,706	126,218	(i)
South America	52,314	1,052	41,994	(i)
Africa	8,361	411	7,140	(i)
Australia	21,867	1,731	9,468	(i)
Asia				
– the PRC	290,786	13,156	165,806	(i)
– other Asian countries	166,805	7,587	69,796	(i)
	961,701	42,844	612,206	
Principal product type:				
CRT – monitors	857,642	40,031	548,737	24,313
LCD – monitors	11,570	312	3,930	112
CKD/SKD	41,157	331	31,973	106
Spare parts	10,997	592	4,058	28
Scanners	2,896	529	5,081	41
Others	37,439	1,049	18,427	620
	961,701	42,844	612,206	25,220

(i) No analysis of operating profit by principal markets for the year 1999 is presented as such information is not readily available.

> NOTES TO THE ACCOUNTS

3. Operating Profit

Operating profit is stated after crediting and charging the following:

	2000	1999
	US\$'000	US\$'000
Crediting:		
Net exchange gains	967	–
Charging:		
Depreciation	9,798	6,555
Staff costs	20,215	13,519
Operating lease rental for land and buildings	280	94
Retirement benefit costs (note 10)	198	160
Auditors' remuneration	197	96
Amortisation of intangible assets	295	127
Loss on disposal of fixed assets	56	86
Provision for doubtful debts	1,843	195
Provision for permanent diminution in value of other investments	383	–
Net exchange losses	–	1,309

4. VAT Refund

The amount of VAT refund of US\$3,087,000 for the year ended 31st December 1999 represented compensation for the additional tax burden suffered by a subsidiary as a result of the change in turnover tax regime on 1st January 1994 in the People's Republic of China (the "PRC") when VAT was introduced to replace Consolidated Industrial and Commercial Tax. The compensation arrangement was effective up to 31st December 1998 and no further refund entitlement is expected for subsequent years. The amount for the year ended 31st December 1999 represented the balance of VAT refund for the year ended 31st December 1998 which was finalised and agreed by the relevant authorities in that year.

5. Finance Costs

	2000 US\$'000	1999 US\$'000
Interest on bank loans	6,730	3,837

6. Taxation

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in countries/places in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2000 US\$'000	1999 US\$'000
Hong Kong profits tax		
– current year	4	3
– under provision in prior year	–	6
– 10% refund of tax rebate	–	(3)
Overseas taxation		
– current year	5,394	2,606
– fiscal refunds	(1,280)	(260)
– under/(over) provision in prior years	145	(13)
	4,263	2,339
Share of taxation attributable to an associated company	15	–
	4,278	2,339

There was no material unprovided deferred taxation as at 31st December 2000 and 1999.

> NOTES TO THE ACCOUNTS

6. Taxation (continued)

In accordance with an approval document issued by the Fuqing Municipal Finance Bureau dated 28th June 1999, a subsidiary of the Group is entitled to fiscal refunds totalling approximately US\$2.55 million, in respect of the profits tax for the year ended 31st December 1999 and prior years.

However, based on a circular issued by the State Council dated 11th January 2000, local bureaus are not allowed to make any further tax refunds subsequent to 1st January 2000 unless they are approved by the State Council. Accordingly, only refunds of approximately US\$1.28 million received from the Fuqing Municipal Finance Bureau during the year have been recognised in the accounts. The remaining balance of approximately US\$1.27 million has not been taken up in the accounts as it is uncertain as to whether it would be receivable.

7. Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US\$7,066,000 (1999: US\$2,313,000).

8. Dividends

	2000 US\$'000	1999 US\$'000
Interim, paid, of US0.21 cent (1999: US Nil cent) per ordinary share	2,520	–
Final, proposed, of US0.44 cent (1999: US0.19 cent) per ordinary share	5,337	2,280
	7,857	2,280

The directors declared an interim dividend of US0.21 cent per share payable in cash, with a scrip alternative made available to shareholders to elect for receiving such interim dividend, wholly or partly by allotment of new ordinary shares credited as fully paid in lieu of cash. Consequently, certain shareholders elected to receive ordinary shares of US\$0.01 each in lieu of cash and the Company in total issued and allotted 13,634,175 new ordinary shares of US\$0.01 each in the Company, credited as full-paid and capitalised approximately US\$1,280,000 standing to the credit of the Company's share premium account (note 25).

8. Dividends (continued)

The directors recommend the payment of a final dividend of US0.44 cent per share payable in cash, with a scrip alternative made available to shareholders to elect for receiving such final dividend, wholly or partly by allotment of new ordinary shares credited as fully paid in lieu of cash.

9. Earnings per Share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders for the year of US\$33,268,000 (1999: US\$22,129,000) and the weighted average number of 1,201,111,380 (1999: 1,047,123,288) ordinary shares deemed to be in issue during the year.

Diluted earnings per share for the years ended 31st December 1999 and 2000 have not been calculated as there were no diluting events existed during these years.

10. Retirement Benefit Costs

The retirement benefit costs represent contributions made by the subsidiaries of the Company in the PRC, Hong Kong, Taiwan and Germany which participate in employee pension schemes operated by the governments or authorised administrators of the respective countries/places.

The assets of the schemes are held separately from those of the Group in an independently administered fund.

The Group's contributions are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There was no forfeited contributions utilised during the year and no contributions payable to the fund at the year end.

> NOTES TO THE ACCOUNTS

11. Directors' and Senior Management's Emoluments

(a) Directors' remuneration

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2000 US\$'000	1999 US\$'000
Fees	62	–
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	638	522
Discretionary bonuses	430	312
	1,130	834

Directors' fees disclosed above include US\$30,769 (1999: US\$Nil) paid to independent non-executive directors.

None of the directors waived any of their emoluments during the year (1999: Nil).

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2000	1999
US\$ Nil to US\$128,205	5	8
US\$128,206 to US\$192,308	2	3
US\$192,309 to US\$256,410	3	1

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for both years were also directors and their emoluments are reflected in the analysis presented above.

12. Fixed Assets

Group										
	Land use rights outside Hong Kong - long term US\$'000	Buildings US\$'000	Leasehold improve- ments US\$'000	Machinery and equipment US\$'000	Moulds US\$'000	Electrical appliances and equipment US\$'000	Transport- ation equipment US\$'000	Miscell- aneous equipment US\$'000	Construct- ion in progress US\$'000	Total US\$'000
At cost:										
At 1st January 2000	815	8,977	1,797	11,639	9,334	14,189	492	1,371	586	49,200
Exchange adjustment	-	-	48	304	(7)	(340)	(2)	(71)	-	(68)
Acquisition of a subsidiary	-	19	-	-	-	74	37	43	-	173
Additions	407	933	35	3,689	10,309	9,068	195	659	1,097	26,392
Disposals	-	(13)	-	(151)	(1,722)	(463)	(9)	(50)	-	(2,408)
At 31st December 2000	1,222	9,916	1,880	15,481	17,914	22,528	713	1,952	1,683	73,289
Accumulated depreciation:										
At 1st January 2000	72	2,662	425	6,044	5,416	5,053	284	679	-	20,635
Exchange adjustment	-	1	10	46	(1)	(58)	-	(12)	-	(14)
Acquisition of a subsidiary	-	3	-	-	-	6	11	4	-	24
Charge for the year	8	411	129	1,172	4,737	3,064	68	209	-	9,798
Disposals	-	(3)	-	(83)	(1,616)	(407)	(9)	(39)	-	(2,157)
At 31st December 2000	80	3,074	564	7,179	8,536	7,658	354	841	-	28,286
Net book value:										
At 31st December 2000	1,142	6,842	1,316	8,302	9,378	14,870	359	1,111	1,683	45,003
At 31st December 1999	743	6,315	1,372	5,595	3,918	9,136	208	692	586	28,565

At 31st December 2000, the net book value of fixed assets pledged to banks to secure banking facilities amounted to US\$40.7 million (1999: US\$23.2 million).

> NOTES TO THE ACCOUNTS

13. Intangible Assets

	Group					
	2000			1999		
	Goodwill US\$'000	Trademarks US\$'000	Total US\$'000	Goodwill US\$'000	Trademarks US\$'000	Total US\$'000
At cost:						
At 1st January	1,207	800	2,007	-	-	-
Additions	5,803	-	5,803	1,207	800	2,007
At 31st December	7,010	800	7,810	1,207	800	2,007
Accumulated amortisation:						
At 1st January	74	53	127	-	-	-
Charge for the year	242	53	295	74	53	127
At 31st December	316	106	422	74	53	127
Net book value at 31st December	6,694	694	7,388	1,133	747	1,880

13. Intangible Assets (continued)

	Company Trademarks	
	2000 US\$'000	1999 US\$'000
At cost:		
At 1st January	800	–
Additions	–	800
At 31st December	800	800
Accumulated amortisation:		
At 1st January	53	–
Charge for the year	53	53
At 31st December	106	53
Net book value at 31st December	694	747

14. Interests in Subsidiaries

	Company	
	2000 US\$'000	1999 US\$'000
Unlisted shares in a subsidiary, at cost	59,066	59,066
Amount due from a subsidiary	33,293	29,310
	92,359	88,376

The amount due from a subsidiary is interest-free, unsecured and has no fixed terms of repayment.

> NOTES TO THE ACCOUNTS

14. Interests in Subsidiaries (continued)

The following is a list of subsidiaries at 31st December 2000:

Name	Place of incorporation and operation	Principal activities	Particulars of issued share/ registered capital	Interest held
Shares directly held by the Company:				
Top Victory International Limited	British Virgin Islands	Investment holding	1,000 ordinary shares of US\$1 each	100%
Shares indirectly held by the Company:				
Top Victory Investments Limited	Hong Kong	Trading of computer monitors and sourcing	HK\$11,000 divided into 1,000 voting class "A" ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each	100%
Top Victory Electronics (Taiwan) Company Limited	Taiwan	Research and development of computer monitors and sourcing of certain components	10,000,000 ordinary shares of NT\$10 each	100%
Top Victory Electronics (Fujian) Company Limited	People's Republic of China	Production and sales of computer monitors and scanners	Paid in capital of US\$30,000,000	100%
AOC International (Europe) GmbH	Germany	Sales and distribution of computer monitors in Europe	Ordinary shares DEM450,000	100%
AOC do Brasil Monitores Ltda	Brazil	Sales and distribution of computer monitors in Brazil	500,000 ordinary shares of Reais\$1 each	90%

15. Investment in a Jointly Controlled Entity

	2000	Group
	US\$'000	1999 US\$'000
Unlisted investment, at cost	12,720	12,720
Share of undistributed reserves	1,447	18
Share of net assets	14,167	12,738

Details of the indirectly held jointly controlled entity at 31st December 2000 are set out below:

Name	Place of incorporation and operation	Principal activities
Beijing Orient Top Victory Electronics Company Limited	People's Republic of China	Production and sale of computer monitors

The Group has a 48% interest in ownership and profit sharing and a 50% voting power in the jointly controlled entity.

Set out below is a summary of the financial information of the jointly controlled entity:

(a) Results for the year

	2000	1999
	US\$'000	US\$'000
Turnover	220,313	50,696
Operating profit	2,976	205
Group's share of operating profit	1,429	98

> NOTES TO THE ACCOUNTS

15. Investment in a Jointly Controlled Entity (continued)

(b) Net assets as at year end

	2000 US\$'000	1999 US\$'000
Fixed assets	18,840	14,691
Other assets	166	–
Current assets	104,957	58,747
Current liabilities	(92,695)	(45,146)
Long-term liabilities	(1,754)	(1,754)
	29,514	26,538

16. Investment in an Associated Company

	Group	
	2000 US\$'000	1999 US\$'000
Unlisted shares, at cost	240	240
Share of undistributed reserves	(115)	(103)
Share of net assets	125	137
Unlisted shares, share of net liabilities other than goodwill	(698)	(748)
Share of goodwill	823	885
	125	137

16. Investment in an Associated Company (continued)

Details of the indirectly held associated company at 31st December 2000 are set out below:

Name	Place of incorporation and operation	Principal activity	Particulars of issued share capital	Interest held indirectly
Envision Peripherals, Inc.	United States of America	Trading of computer monitors	1,000,000 ordinary shares of US\$1 each	24%

17. Other Investments

	Group	
	2000 US\$'000	1999 US\$'000
Unlisted investments, at cost	1,100	1,591
Provision for permanent diminution in value of other investments	(383)	–
	<u>717</u>	<u>1,591</u>
	Company	
	2000 US\$'000	1999 US\$'000
Unlisted investments, at cost	600	600
Provision for permanent diminution in value of other investments	(383)	–
	<u>217</u>	<u>600</u>

> NOTES TO THE ACCOUNTS

18. Inventories, at cost

	Group	
	2000 US\$'000	1999 US\$'000
Finished goods	89,221	29,792
Raw materials	79,600	70,114
Work in progress	2,793	1,339
Production supplies	1,211	1,593
	172,825	102,838

19. Trade Receivables

At 31st December 2000, the ageing analysis of trade receivables was as follows:

	Group	
	2000 US\$'000	1999 US\$'000
Current	81,595	49,869
31-60 days	37,900	21,407
61-90 days	12,263	3,566
Over 90 days	18,025	9,936
	149,783	84,778

The credit terms of the Group's sales are ranging from 30 to 120 days and a majority of its export sales are on letter of credit or documents against payment.

20. Amount due from an Associated Company

The amount due from an associated company is mainly related to the sale of goods. It is unsecured, interest-free and has normal commercial terms of repayment.

21. Trade Payables

At 31st December 2000, the ageing analysis of trade payables was as follows:

	Group	
	2000 US\$'000	1999 US\$'000
Current	95,313	86,078
31-60 days	88,611	61,852
61-90 days	48,155	34,278
Over 90 days	21,356	14,114
	253,435	196,322

22. Amount due to a Jointly Controlled Entity

The amount due from a jointly controlled entity is mainly related to the purchase of goods. It is unsecured, interest-free and has normal commercial terms of repayment.

23. Short-term Bank Loans, Secured

Approximately US\$40.7 million (1999: US\$23.2 million) of fixed assets and US\$31.9 million (1999: US\$34.6 million) of bank deposits have been pledged as security for bank borrowings.

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24. Share Capital

	2000 US\$'000	1999 US\$'000
<i>Authorised:</i>		
4,000,000,000 (1999: 4,000,000,000) ordinary shares of US\$0.01 each	40,000	40,000
<i>Issued and fully paid:</i>		
1,212,844,175 (1999: 1,200,000,000) ordinary shares of US\$0.01 each	12,128	12,000

A summary of the above movements in issued share capital of the Company is as follows:

	Number of issued ordinary shares of US\$0.01 each	Par value US\$'000
At 31st December 1999, pursuant to shares issued on 8th October 1999	1,200,000,000	12,000
Issue of shares pursuant to a scrip dividend scheme for the 2000 interim dividend	13,634,175	136
Shares repurchased and cancelled	(790,000)	(8)
At 31st December 2000	1,212,844,175	12,128

The following alterations in the Company's issued share capital took place during the year:

- (a) Pursuant to a scrip dividend scheme announced by the Company on 25th September 2000, the Company issued and allotted a total of 13,634,175 new ordinary shares of US\$0.01 each in the Company at value of US\$0.10 per share to certain shareholders in lieu of cash payment for the 2000 interim dividend on 28th November 2000 (note 8). These shares rank pari passu with the then existing issued shares.
- (b) During the year, the Company repurchased a total of 790,000 of its own shares through the Stock Exchange at prices ranging from US\$9.6 cents (HK\$0.75) to US\$10.4 cents (HK\$0.81) per share, for a total consideration of US\$79,923 (HK\$623,400). The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares was transferred from retained profits to share redemption reserve and the premium paid on the repurchased shares was charged against share premium account (note 25).

25. Reserves

Group								
	Exchange reserves US\$'000	Reserve fund US\$'000	Capital reserve US\$'000	Share redemption reserve US\$'000	Share premium US\$'000	Merger difference US\$'000	Retained profits US\$'000	Total US\$'000
At 1st January 1999	(6,554)	3,441	4,166	-	-	10,001	22,566	33,620
Issue of new shares (note 24)	-	-	-	-	28,513	-	-	28,513
Share issue expenses	-	-	-	-	(2,138)	-	-	(2,138)
Profit for the year retained	-	-	-	-	-	-	19,849	19,849
Transfer from retained profits	-	2,306	-	-	-	-	(2,306)	-
Exchange difference	9	-	-	-	-	-	-	9
At 31st December 1999	(6,545)	5,747	4,166	-	26,375	10,001	40,109	79,853
Profits/(losses) retained by:								
Company and subsidiaries	(6,517)	5,747	4,166	-	26,375	10,001	40,163	79,935
Associated company and a jointly controlled entity	(28)	-	-	-	-	-	(54)	(82)
At 31st December 1999	(6,545)	5,747	4,166	-	26,375	10,001	40,109	79,853
At 1st January 2000	(6,545)	5,747	4,166	-	26,375	10,001	40,109	79,853
Issue of new shares under a scrip dividend scheme (note 24)	-	-	-	-	1,280	-	-	1,280
Repurchase of shares (note 24)	-	-	-	8	(72)	-	(8)	(72)
Profit for the year retained	-	-	-	-	-	-	25,411	25,411
Transfer from retained profits	-	2,882	-	-	-	-	(2,882)	-
Exchange difference	(403)	-	-	-	-	-	-	(403)
At 31st December 2000	(6,948)	8,629	4,166	8	27,583	10,001	62,630	106,069
Profits/(losses) retained by:								
Company and subsidiaries	(6,920)	8,629	4,166	8	27,583	10,001	61,267	104,734
Associated company and a jointly controlled entity	(28)	-	-	-	-	-	1,363	1,335
At 31st December 2000	(6,948)	8,629	4,166	8	27,583	10,001	62,630	106,069

> NOTES TO THE ACCOUNTS

25. Reserves (continued)

	Company				
	Share premium	Share redemption reserve	Contributed surplus	Retained profits	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Arising on acquisition of Top Victory International Limited	-	-	49,079	-	49,079
Applied in payment of 1,200,000 shares allotted nil paid on incorporation	-	-	(12)	-	(12)
Issue of new shares	28,513	-	-	-	28,513
Share issue expenses	(2,138)	-	-	-	(2,138)
Profit for the year	-	-	-	2,313	2,313
Dividends (note 8)	-	-	(2,280)	-	(2,280)
At 31st December 1999	26,375	-	46,787	2,313	75,475
At 1st January 2000	26,375	-	46,787	2,313	75,475
Issue of new shares under a scrip dividend scheme (note 24)	1,280	-	-	-	1,280
Repurchase of shares (note 24)	(72)	8	-	(8)	(72)
Profit for the year	-	-	-	7,066	7,066
Dividends (note 8)	-	-	-	(7,857)	(7,857)
At 31st December 2000	27,583	8	46,787	1,514	75,892

25. Reserves (continued)

- (a) In accordance with the relevant PRC regulations applicable to wholly foreign-owned enterprises, the PRC subsidiary is required to appropriate to reserve fund an amount of not less than 10% of the amount of profit after taxation. Should the accumulated total of this reserve fund reach 50% of the registered capital of the PRC subsidiary, the enterprise will not be required to make any further appropriation.
- (b) The merger difference of the Group represents the difference between the nominal value of the share capital of the subsidiary acquired pursuant to a corporate reorganisation (the "Reorganisation"), which was completed on 21st September 1999, in preparation for a listing of the shares of the Company on the Stock Exchange, over the nominal value of the share capital of the Company issued in exchange thereof.
- (c) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the share capital of the subsidiary acquired pursuant to the Reorganisation and the value of the consolidated net assets of the subsidiary acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders provided that the Company will be able to pay its liabilities as they fall due and subsequent to the distribution, the aggregate amount of its total liabilities, as well as the issued share capital and premium is less than the realisable value of its assets.

> NOTES TO THE ACCOUNTS

26. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2000 US\$'000	1999 US\$'000
Operating profit	42,844	25,220
VAT refund	–	3,087
Depreciation charge	9,798	6,555
Amortisation of intangible assets	295	127
Loss on disposal of fixed assets	56	86
Provision for permanent diminution in value of other investments	383	–
Increase in inventories	(69,560)	(49,863)
Increase in trade receivables, other receivables and prepayments	(74,713)	(16,114)
Decrease/(increase) in amounts due from/to a jointly controlled entity, an associated company and related companies	26,903	(8,558)
Decrease/(increase) in long-term receivables	6,688	(6,688)
Decrease in amount due from an investee company	–	116
Increase in trade payables, other payables and accruals	57,093	85,989
Interest income	(1,774)	(1,079)
Net cash (outflow)/inflow from operating activities	(1,987)	38,878

26. Notes to the Consolidated Cash Flow Statement (continued)

(b) Analysis of changes in financing during the year

	Share capital including premium and share redemption reserve		Bank loans		Pledged bank balances and cash	
	2000 US\$'000	1999 US\$'000	2000 US\$'000	1999 US\$'000	2000 US\$'000	1999 US\$'000
At 1st January	38,375	10,000	40,635	44,474	(34,610)	(14,626)
Issue of new shares (note 24)	1,416	30,513	-	-	-	-
Share issue expenses	-	(2,138)	-	-	-	-
Repurchase of shares (note 24)	(72)	-	-	-	-	-
Net drawdown/ (repayment) of short term loans	-	-	39,734	(3,839)	-	-
Short-term bank loan of a subsidiary acquired	-	-	596	-	-	-
Decrease/(increase) in pledged balances and cash	-	-	-	-	2,743	(19,984)
At 31st December	39,719	38,375	80,965	40,635	(31,867)	(34,610)

(c) Major non-cash transaction

During the year, pursuant to the scrip dividend scheme as set out in note 8 to the accounts, the Company issued and allotted a total of 13,364,175 new ordinary shares of US\$0.01 each as scrip dividend in lieu of cash amounted to US\$1,416,412 to certain shareholders.

> NOTES TO THE ACCOUNTS

26. Notes to the Consolidated Cash Flow Statement (continued)

(d) (i) Purchase of a subsidiary

	2000 US\$'000
Net assets acquired	
Fixed assets	148
Inventories	427
Accounts receivable	3,551
Other receivables and prepayments	860
Tax recoverable	137
Bank balances and cash	386
Accounts payable	(7,189)
Other payables and accruals	(998)
Short-term bank loan	(596)
	(3,274)
Goodwill	5,803
Satisfied by cash	2,529

The subsidiary acquired during the year contributed US\$164,000 to the Group's net operating cash outflow and utilised US\$420,000 for investing activities.

(ii) Analysis of the net cash outflow in respect of the purchase of a subsidiary

	2000 US\$'000
Cash consideration	2,529
Bank balances and cash acquired	(386)
Net cash outflow in respect of the purchase of a subsidiary	2,143

27. Contingent Liabilities

- (a) At 31st December 2000, the Group had provided guarantees for bank facilities on behalf of a jointly controlled entity amounting to approximately US\$59.0 million (1999: US\$6.5 million). The jointly controlled entity has in return provided guarantees for credit facilities on behalf of the Group amounting to approximately US\$20.3 million (1999: US\$6.5 million).

- (b) On 14th February 2001, two third party companies commenced legal actions in the United States of America against Envision Peripherals, Inc., an associated company and distributor of the Company. On 29th March 2001, these plaintiffs commenced further legal actions against Top Victory Electronics (Taiwan) Company Limited, a subsidiary of the Company. These actions claim damages related to alleged infringement of certain patents titled "Low-Power-Consumption Monitor Standby System" (the "Patents in Suit") by virtue of the defendants' making, using, offering for sale and/or selling computer monitors in the United States of America.

It is alleged in the claim that:

- (i) the Patents in Suit describe a method and apparatus for reducing the power consumption of a monitor by shutting power-consuming circuits in the monitor if the computer has not been in use for a period of time; and

- (ii) the defendants infringed the Patents in Suit when they utilized in the monitors the Display Power Management Signaling standard promulgated by the Video Electronics Standards Association.

The directors are of the opinion that the claim is without merit and that an unfavorable outcome of the litigation is not probable. Even if the outcome of the litigation turns out to be unfavorable, the Directors consider that its future settlement will not have any material financial impact on the Group as a whole.

> NOTES TO THE ACCOUNTS

28. Commitments

(a) Capital commitments for plant and equipment

	Group	
	2000 US\$'000	1999 US\$'000
Contracted but not provided for	3,266	11,692

(b) Commitments under operating leases

At 31st December 2000, the Group had commitments to make payments in the next twelve months under operating leases which expire as follows:

	Land and buildings		Others	
	2000 US\$'000	1999 US\$'000	2000 US\$'000	1999 US\$'000
Within one year	208	-	-	-
In the second to fifth year inclusive	365	1,037	14	12
	573	1,037	14	12

29. Related Party Transactions

In addition to the related party transactions disclosed in notes 20, 22 and 27(a) to the accounts, the following is a summary of other material related party transactions which were carried out during the year with related companies. In the opinion of the directors of the Company, these transactions were carried out in the ordinary course of the Group's business and were conducted on normal commercial terms.

	Notes	2000 US\$'000	1999 US\$'000
Sale of finished goods	(a)	119,377	167,215
Sale of finished goods from the jointly controlled entity to the associated company	(b)	184,312	28,934
Purchase of raw materials, fixed assets and low value consumables	(c)	(327)	(176)
Commission paid to the associated company	(d)	(6,692)	(3,373)
Management fee paid to the associated company	(e)	(500)	-
Transfer of accounts receivable from a related company	(f)	-	(10,036)
Acquisition of business from a related company by an associated company	(g)	-	(29,700)
Acquisition of a subsidiary from a related company	(h)	-	(1,600)

Notes:

- (a) Sales of finished goods to a jointly controlled entity and an associated company were conducted in the normal course of business at prices and terms determined by the transacting parties.
- (b) Sales of finished goods from the jointly controlled entity to the associated company was conducted in the normal course of business at prices and terms determined by the transacting parties.
- (c) The purchases of raw materials, fixed assets and low value consumables from a jointly controlled entity and an associated company were conducted in the normal course of business at prices and terms determined by the transacting parties.
- (d) The amount of the commission paid to the associated company were agreed between the transacting parties.

> NOTES TO THE ACCOUNTS

29. Related Party Transactions (continued)

- (e) Management fee paid for management services provided by an associated company was at terms agreed by the transacting parties.
- (f) Pursuant to a purchase and sale agreement dated 1st March 1999 between a subsidiary of the Company and a subsidiary of AOC International, AOC International (USA), Limited, AOC International (USA), Limited, sold all of its interest in certain accounts receivable and promissory notes in a total sum of US\$12,716,440, which included the accounts receivable due by AOC do Brasil Monitores Ltda ("AOC Brasil") to the subsidiary for a consideration of US\$10,036,440 representing a discount of US\$2,680,000. The discount was agreed between the two parties after taking into account various factors such as the estimated time of collection and credit risk. The outstanding balance as at 31st December 1999, net of the discount, was US\$6,688,000. The discount, to the extent that it is not used to offset any unrecoverable amount will be credited to the profit and loss account on full settlement of the balance. AOC Brasil was subsequently acquired by the Group during the current financial year (note 14).
- (g) In May 1999, the associated company of the Company acquired the operations together with certain assets from AOC International (USA), Limited for a consideration of approximately US\$29.7 million which included goodwill of approximately US\$5.2 million. The goodwill was valued by an independent third party appraiser and the final value was agreed between the two parties.
- (h) Pursuant to an agreement entered into by a subsidiary of the Company and AOC International (USA), Limited on 31st January 1999, the subsidiary purchased the entire interest in AOC International (Europe) GmbH from AOC International (USA), Limited at a consideration of US\$1.6 million. The consideration was based on a valuation performed by an independent third party.
- (i) Prior to the listing of the Company, a subsidiary of the Company, Top Victory Electronics (Fujian) Company Limited ("TV Fujian") entered into a counter guarantee arrangement (the "Arrangement") with Orient (Xiamen) Golf Country Club Recreation Co. Limited ("Orient Xiamen"), a company which has a common shareholder with the Company and is a connected person within the meaning of the Listing Rules. Pursuant to the Arrangement, TV Fujian provided a corporate guarantee to a bank for a loan facility of US\$6.5 million granted to Orient Xiamen. In return, Orient Xiamen provided a guarantee to the same bank for credit facilities of US\$25.0 million granted to TV Fujian. Details of the Arrangement were disclosed in the prospectus of the Company dated 27th September 1999. TV Fujian was released from the corporate guarantee during the year.

30. Subsequent Events

- (a) On 26th February 2001, the Company granted 64,140,000 options (the "Options") under the share option scheme adopted on 21st September 1999 to certain employees.

The Options are exercisable at US\$0.09 (HK\$0.67) per share at any time prior to 26th February 2006. The maximum percentage of Options exercisable after the first, second and third anniversary from 26th February 2001 are 20 per cent., 50 per cent. and 100 per cent. respectively.

- (b) In January 2001, the Company repurchased 318,000 of its ordinary shares of US\$0.01 each through the Stock Exchange at prices ranging from US\$9.5 cents (HK\$0.74) to US\$9.7 cents (HK\$0.76) per share, for a total consideration of US\$30,792 (HK\$240,180).

31. Ultimate Holding Company

The directors regard Fields Pacific Limited, a company incorporated in the British Virgin Islands with limited liability, as being the ultimate holding company.

32. Approval of Accounts

The accounts were approved by the board of directors on 19th April 2001.