

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 Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The 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. A summary of the significant accounting policies adopted by the Group is set out below.

(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(h) 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.

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

(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(g)).

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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(g)); 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(g)).

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(g)).

(ii) Land and buildings

No amortisation is provided on freehold land. Leasehold land is amortised on a straight line basis over the unexpired terms of the leases or 50 years, whichever is the lesser. Buildings are depreciated on a straight line basis over their anticipated useful lives of 40 years.

(iii) Other fixed assets

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

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

(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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) 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:

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

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(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 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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.

(i) 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.

(j) 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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) 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 Company's right to receive such income is established.

(l) Employee benefit

- (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.

(m) 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.

(n) Deferred taxation

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies 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.

(p) 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.

(q) 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 (Continued)

(Expressed in Hong Kong dollars)

2. CHANGE IN ACCOUNTING POLICY

With effect from 1 January 2002, in order to comply with Statement of Standard Accounting Practice 34 "Employee benefits" issued by the Hong Kong Society of Accountants, it was necessary to change the Group's accounting policy in respect of long service payments.

As a result of the new accounting policy, the Group's profit for the year is unchanged (2001: decreased by \$1,356,000) and the net assets as at the year end have been decreased by \$6,421,000 (2001: \$6,421,000). The effect of adopting the new accounting policy relating to prior periods has been adjusted to the opening balances of retained profits and the comparative information has been restated as disclosed in the consolidated statement of changes in equity.

3. 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.

4. INCOME

	2002 \$'000	2001 \$'000
Other revenue		
Dividend income from listed equity securities	546	206
Interest income from listed debt securities	11,856	11,268
Interest income from unlisted debt securities	360	273
Income from listed investment funds	807	43
Interest income from unlisted investment funds	440	1,033
Other interest income	6,278	7,674
Rental under operating leases	3,248	1,493
Other income	2,053	1,449
	<u>25,588</u>	<u>23,439</u>
Other net income		
Profit/(loss) on disposal of fixed assets	2,106	(48)
Loss on liquidation of non-trading mutual fund	(10,471)	-
Realised gains/(losses) on disposal of other non-trading securities	2,216	(693)
Realised and unrealised losses on trading securities	(2,680)	(5,784)
Exchange gain	10,573	14,051
	<u>1,744</u>	<u>7,526</u>

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

5. WRITE OFF OF INVENTORIES

During the year ended 31 December 2001 the Group fully wrote off work in progress and finished goods inventories amounting to \$42,774,000.

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2002 \$'000	2001 \$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	1,263	1,030
Interest on convertible notes	1,871	1,871
	<u>3,134</u>	<u>2,901</u>
(b) Other items:		
Cost of inventories	746,595	737,181
Auditors' remuneration	1,234	1,339
Research and development costs	24,518	38,142
Rental charges under operating leases	2,917	3,120
Exchange loss	3,410	3,137
Contributions to defined contribution plan	5,879	6,188
Other retirement scheme costs	1,877	2,193
	<u>788,305</u>	<u>828,371</u>

7. DIRECTORS' REMUNERATION

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

	2002 \$'000	2001 \$'000
Fees	600	400
Salaries and allowances	6,105	8,318
Retirement scheme contributions	222	224
Discretionary and performance related bonuses	6,905	3,257
	<u>13,832</u>	<u>12,199</u>

Fees in respect of independent non-executive directors for the year ended 31 December 2002 amounted to \$400,000 (2001: \$400,000).

Certain directors were granted share options in prior years 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 (Continued)

(Expressed in Hong Kong dollars)

7. DIRECTORS' REMUNERATION (Continued)

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

	Number of Directors	
	2002	2001
\$0 – \$1,000,000	4	3
\$1,500,001 – \$2,000,000	–	2
\$2,000,001 – \$2,500,000	–	2
\$3,000,001 – \$3,500,000	3	1
\$4,000,001 – \$4,500,000	1	–
	<u>1</u>	<u>–</u>

8. TAXATION

(a) Taxation in the consolidated income statement represents:

	2002 \$'000	2001 \$'000
Provision for Hong Kong Profits Tax for the year	14,049	5,248
(Over)/under provision in respect of prior years	(1,115)	2,688
	<u>12,934</u>	<u>7,936</u>
Overseas tax	4,770	5,813
	<u>17,704</u>	<u>13,749</u>

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year ended 31 December 2002. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Taxation in the balance sheet represents:

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Provision for Hong Kong Profits Tax for the year	14,049	5,248	–	–
Provisional Profits Tax paid	(1,145)	(243)	–	(49)
Balance of Profits Tax provision relating to prior years	7,607	21,552	42	41
Overseas tax	834	(828)	–	–
	<u>21,345</u>	<u>25,729</u>	<u>42</u>	<u>(8)</u>

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

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of \$33,345,000 (2001: \$51,448,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

(a) Dividends attributable to the year

	2002 \$'000	2001 \$'000
Interim dividend declared and paid of 4.4 cents (2001: 6.5 cents) per share	13,341	19,138
Special dividend proposed after the balance sheet date of 4.0 cents (2001: 4.0 cents) per share	12,164	12,106
Final dividend proposed after the balance sheet date of 18.0 cents (2001: 2.5 cents) per share	<u>54,736</u>	<u>7,567</u>
	<u><u>80,241</u></u>	<u><u>38,811</u></u>

The dividends in respect of the years ended 31 December 2001 and 31 December 2002 are scrip dividends with a cash option.

The special and final dividends proposed after the balance sheet date have 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

	2002 \$'000	2001 \$'000
Special dividend in respect of the previous financial year, approved and paid during the year, of 4.0 cents (2001: Nil) per share	12,106	–
Final dividend in respect of the previous financial year, approved and paid during the year, of 2.5 cents (2001: 18 cents) per share	<u>7,567</u>	<u>52,589</u>
	<u><u>19,673</u></u>	<u><u>52,589</u></u>

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$111,378,000 (2001 (restated): \$43,281,000) and on the weighted average of 302,943,079 shares (2001: 293,623,077 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the adjusted profit attributable to shareholders of \$111,378,000 (2001 (restated): \$43,281,000) and the weighted average number of shares of 303,321,313 shares (2001: 293,761,748 shares) after adjusting for the effects of all dilutive potential shares.

(c) Reconciliations

	2002 Number of shares	2001 Number of shares
Weighted average number of shares used in calculating basic earnings per share	302,943,079	293,623,077
Deemed issue of shares for no consideration arising from share options	<u>378,234</u>	<u>138,671</u>
Weighted average number of shares used in calculating diluted earnings per share	<u><u>303,321,313</u></u>	<u><u>293,761,748</u></u>

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

12. FIXED ASSETS

The Group

	Land and buildings \$'000	Plant, machinery, tools and equipment \$'000	Others \$'000	Total \$'000
Cost:				
At 1 January 2002	300,500	398,310	162,123	860,933
Exchange adjustment	305	435	267	1,007
Additions	24,154	54,805	20,186	99,145
Disposals	(16,109)	(1,565)	(965)	(18,639)
At 31 December 2002	<u>308,850</u>	<u>451,985</u>	<u>181,611</u>	<u>942,446</u>
Aggregate depreciation:				
At 1 January 2002	45,911	300,130	121,234	467,275
Exchange adjustment	69	265	215	549
Charge for the year	5,911	55,175	19,466	80,552
Written back on disposals	(2,014)	(1,040)	(956)	(4,010)
At 31 December 2002	<u>49,877</u>	<u>354,530</u>	<u>139,959</u>	<u>544,366</u>
Net book value:				
At 31 December 2002	<u>258,973</u>	<u>97,455</u>	<u>41,652</u>	<u>398,080</u>
At 31 December 2001	<u>254,589</u>	<u>98,180</u>	<u>40,889</u>	<u>393,658</u>

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

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

12. FIXED ASSETS (Continued)

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

	2002 \$'000	2001 \$'000
In Hong Kong		
– under medium term leases	149,959	168,532
Outside Hong Kong		
– freehold	556	557
– under long term leases	53,236	70,486
– under medium term leases	44,579	4,070
– no specified lease term	10,643	10,944
	<u>109,014</u>	<u>86,057</u>
	<u>258,973</u>	<u>254,589</u>

The gross amount of fixed assets of the Group held for use in operating leases was \$31,418,000 (2001: \$20,573,000), the related accumulated depreciation was \$7,561,000 (2001: \$1,608,000) at 31 December 2002 and the depreciation charge for the year was \$492,000 (2001: \$166,000).

13. GOODWILL

	\$'000
Cost:	
At 1 January 2002 and 31 December 2002	33,640
Accumulated amortisation:	
At 1 January 2002	(254)
Amortisation for the year	(1,682)
At 31 December 2002	<u>(1,936)</u>
Carrying amount:	
At 31 December 2002	<u>31,704</u>
At 31 December 2001	<u>33,386</u>

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

14. INTEREST IN SUBSIDIARIES

(a) The Company

	2002 \$'000	2001 \$'000
Unlisted shares, at cost	101,453	101,453
Amounts due from subsidiaries	<u>768,669</u>	<u>757,612</u>
	<u><u>870,122</u></u>	<u><u>859,065</u></u>

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

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	Rmb62,010,789	–	80%	Manufacture of liquid crystal displays and related products

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(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 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 (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 ITL 1,000 each	–	100%	Marketing and sales consultants
* Varitronix GmbH	Germany	100,000 shares of DM 1 each	–	60%	Marketing and sales consultants
Varitronix (France) SAS	France	2,500 ordinary shares of FF 100 each	–	100%	Marketing and sales consultants
# * Varitronix Pengyuan Limited	The People's Republic of China	Rmb8,000,000	–	51%	Marketing and sales consultants
Link Score Investment Limited	Hong Kong	100 ordinary shares of \$1 each	–	100%	Property investment and investment holding

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(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	
Polysources Properties Limited	Hong Kong	2 ordinary shares of \$100 each 154 non-voting deferred ordinary shares of \$100 each	–	100%	Property investment
* Starel Trading Limited	Republic of Cyprus/United Kingdom	1,000 shares of Cyprus £1 each	–	100%	Property investment
* Quest Industries Limited	British Virgin Islands/The People's Republic of China	100 ordinary shares of US\$1 each	–	100%	Property investment
Cadac Electronic (M) Sdn. Bhd.	Malaysia	276,002 ordinary shares of Myr\$1 each	–	100%	Property investment
Varitronix 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 Agencies Limited	British Virgin Islands/ Hong Kong	50,000 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

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(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 Company	Subsidiaries	Principal activities
* 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 Optech Limited	Hong Kong	100,000 ordinary shares of \$1 each	–	100%	Dormant
** Varitronix Display Technology (Shenzhen) Limited	The People's Republic of China	Rmb18,675,415	–	100%	Dormant
** Varitronix (Heyuan) Display Technology Limited	The People's Republic of China	Rmb56,102,551	–	80%	Not yet commenced business

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total assets and total turnover constituting approximately 17% (2001: 26%) and 26% (2001: 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 Display Technology (Shenzhen) Limited	Wholly foreign owned enterprise
	Varitronix (Heyuan) Display Technology Limited	Sino-foreign co-operative joint venture

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

15. INTEREST IN ASSOCIATE

	The Group	
	2002	2001
	\$'000	\$'000
Share of net assets	16,197	17,850
Amount due from associate	57	1,426
	<u>16,254</u>	<u>19,276</u>

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

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

16. NON-TRADING SECURITIES

	The Group	
	2002	2001
	\$'000	\$'000
Debt securities		
Listed		
– in Hong Kong	26,343	26,121
– outside Hong Kong	147,777	150,481
	<u>174,120</u>	176,602
Unlisted	31,223	6,750
	<u>205,343</u>	<u>183,352</u>
Equity securities		
Listed in Hong Kong	3,373	2,899
Unlisted	8,526	8,526
Investment funds listed outside Hong Kong	4,324	27,864
Unlisted investment funds	5,199	5,220
	<u>21,422</u>	<u>44,509</u>
Total	<u>226,765</u>	<u>227,861</u>

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

17. TRADING SECURITIES

	The Group	
	2002 \$'000	2001 \$'000
Debt securities		
Listed outside Hong Kong	<u>58,034</u>	<u>36,008</u>
Equity securities		
Listed		
– in Hong Kong	2,747	2,112
– outside Hong Kong	<u>16,182</u>	<u>16,683</u>
	18,929	18,795
Unlisted investment funds	<u>7,599</u>	<u>26,217</u>
	<u>26,528</u>	<u>45,012</u>
Total	<u><u>84,562</u></u>	<u><u>81,020</u></u>

18. INVENTORIES

	The Group	
	2002 \$'000	2001 \$'000
Raw materials	91,845	118,098
Work in progress	46,898	43,037
Finished goods	<u>59,331</u>	<u>52,100</u>
	<u><u>198,074</u></u>	<u><u>213,235</u></u>

Raw materials and work in progress are stated after deducting a general provision. Included in finished goods are inventories of \$2,444,000 (2001: \$4,276,000) stated at estimated net realisable value.

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

19. TRADE AND OTHER RECEIVABLES

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

	The Group	
	2002 \$'000	2001 \$'000
Within 60 days of the invoice issue date	139,769	136,600
61 to 90 days after the invoice issue date	44,985	36,019
91 to 120 days after the invoice issue date	16,900	9,591
More than 120 days but less than 12 months after the invoice issue date	35,183	43,659
	<u>236,837</u>	<u>225,869</u>

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

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Deposits with banks and other financial institutions	402,055	291,994	–	–
Cash at bank and in hand	<u>64,018</u>	<u>76,584</u>	<u>596</u>	<u>687</u>
Cash and cash equivalents in the balance sheet	466,073	368,578	<u>596</u>	<u>687</u>
Bank overdrafts	<u>(5,198)</u>	<u>(7,907)</u>		
Cash and cash equivalents in the cash flow statement	<u>460,875</u>	<u>360,671</u>		

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

21. BANK LOANS AND OVERDRAFTS

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

	The Group	
	2002	2001
	\$'000	\$'000
Within 1 year or on demand	<u>61,706</u>	<u>39,924</u>
After 1 year but within 2 years	–	6,150
After 2 years but within 5 years	–	15,174
	<u>–</u>	<u>21,324</u>
	<u><u>61,706</u></u>	<u><u>61,248</u></u>

22. TRADE AND OTHER PAYABLES

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

	The Group	
	2002	2001
	\$'000	\$'000
Within 60 days of supplier invoice date	75,951	58,032
61 to 120 days after supplier invoice date	15,715	8,886
More than 120 days but within 12 months after supplier invoice date	<u>3,098</u>	<u>4,646</u>
	<u><u>94,764</u></u>	<u><u>71,564</u></u>

23. CONVERTIBLE NOTES

	Principal amount and carrying value \$'000
2001	
Balance at 1 January and 31 December 2001	<u><u>31,200</u></u>
2002	
Balance at 1 January and 31 December 2002	<u><u>31,200</u></u>

The notes in issue at 31 December 2002 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 per cent per annum until conversion of any portion of the notes, and thereafter at 2 per cent per annum. In event of conversion, the noteholders are required to return to the Group the amount of interest in excess of the rate of 2 percent per annum previously received.

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

24. SHARE CAPITAL

	2002		2001	
	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>
Issued and fully paid:				
At 1 January	302,477	75,619	292,160	73,040
Shares issued under share option scheme	233	59	153	38
Allotment of shares from scrip dividends	1,381	345	3,152	788
Shares issued as purchase consideration for shares in subsidiaries	–	–	7,112	1,778
Shares repurchased	<u>–</u>	<u>–</u>	<u>(100)</u>	<u>(25)</u>
At 31 December	<u>304,091</u>	<u>76,023</u>	<u>302,477</u>	<u>75,619</u>

Share Option Scheme

The Company had a Share Option Scheme ("Old 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 are exercisable for a period of ten years following the date of grant.

A new Share Option Scheme of the Company was adopted on 22 June 2001 as an incentive to the Group's employees. The directors of the Company are authorised, at their discretion, to invite any employee or director, including executive and non-executive directors of any company in the Group, to take up options to subscribe for shares at a price determined by the board and notified to each grantee and which will not be less than 80 percent of the average of the closing prices of the shares on the Stock Exchange of Hong Kong Limited 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 entitlement of each employee is 25% of the aggregate of all shares subject to the Scheme. The options are exercisable for a period of up to ten years following the date of grant.

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

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

24. SHARE CAPITAL (Continued)

(i) Movements in share options

	2002 Number	2001 Number
At 1 January	3,792,250	3,992,250
Issued	4,724,500	1,033,000
Exercised	(232,500)	(153,000)
Lapsed	(1,496,500)	(883,500)
Cancelled	(130,000)	(196,500)
	<u>6,657,750</u>	<u>3,792,250</u>
At 31 December	<u>6,657,750</u>	<u>3,792,250</u>

(ii) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise period	Exercise price	2002 Number	2001 Number
1 January 1998	1 January 2000 to 31 December 2002	HK\$10.55	–	1,539,500
9 June 1999	9 July 1999 to 8 July 2009	HK\$10.90	596,750	622,750
1 June 2000	1 July 2000 to 30 June 2010	HK\$11.30	733,000	780,000
30 August 2001	30 August 2001 to 29 August 2011	HK\$3.06	616,500	850,000
13 September 2002	13 September 2002 to 12 September 2012	HK\$3.905	711,500	–
30 October 2002	31 October 2002 to 30 October 2012	HK\$4.605	4,000,000	–
			<u>6,657,750</u>	<u>3,792,250</u>

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

24. SHARE CAPITAL (Continued)

(iii) Share options granted

Exercise period	Exercise price	2002 Number	2001 Number
30 August 2001 to 29 August 2011	HK\$3.06	–	1,033,000
13 September 2002 to 12 September 2012	HK\$3.905	724,500	–
31 October 2002 to 30 October 2012	HK\$4.605	4,000,000	–
		<u>4,724,500</u>	<u>1,033,000</u>

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

(iv) Share options exercised

Exercise date	Exercise price	Market value per share at exercise date	Number	Proceeds received HK\$
2002				
7 January-26 November	HK\$3.06	HK\$3.90- HK\$6.95	226,500	693,090
26 November	HK\$3.906	HK\$4.65	<u>6,000</u>	<u>23,430</u>
			<u>232,500</u>	<u>716,520</u>
2001				
16 October-13 December	HK\$3.06	HK\$3.275- HK\$5.35	<u>153,000</u>	<u>468,180</u>

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

25. RESERVES

(a) The Group

	Share premium	Exchange fluctuation reserve	Investment revaluation reserve	Other reserves <i>(note)</i>	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2001						
At 1 January 2001						
– as previously reported	537,164	(24,887)	(4,889)	–	714,388	1,221,776
– prior period adjustment in respect of employee benefits <i>(note 2)</i>	–	–	–	–	(5,065)	(5,065)
– as restated	537,164	(24,887)	(4,889)	–	709,323	1,216,711
Final dividends approved in respect of the previous year	–	–	–	–	(52,589)	(52,589)
Share premium arising from issue of shares	36,255	–	–	–	–	36,255
Premium paid on purchase of own shares	(346)	–	–	–	–	(346)
Revaluation deficit	–	–	(11,552)	–	–	(11,552)
Revaluation deficit transferred to the income statement on disposal of securities	–	–	700	–	–	700
Profit for the year (as restated)	–	–	–	–	43,281	43,281
Interim dividends declared in respect of the current year	–	–	–	–	(19,138)	(19,138)
Transfer to other reserves	–	–	–	455	(455)	–
Exchange differences	–	(155)	–	–	–	(155)
At 31 December 2001	<u>573,073</u>	<u>(25,042)</u>	<u>(15,741)</u>	<u>455</u>	<u>680,422</u>	<u>1,213,167</u>

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

25. RESERVES (Continued)

(a) The Group (Continued)

	Share premium	Exchange fluctuation reserve	Investment revaluation reserve	Other reserves (note)	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2002						
At 1 January 2002						
– as previously reported	573,073	(25,042)	(15,741)	455	686,843	1,219,588
– prior period adjustment in respect of employee benefits (note 2)	–	–	–	–	(6,421)	(6,421)
– as restated	573,073	(25,042)	(15,741)	455	680,422	1,213,167
Special and final dividends approved in respect of the previous year	–	–	–	–	(19,673)	(19,673)
Share premium arising from issue of shares	6,099	–	–	–	–	6,099
Revaluation surplus	–	–	14,090	–	–	14,090
Revaluation deficit transferred to the income statement on disposal/liquidation of securities	–	–	8,255	–	–	8,255
Profit for the year	–	–	–	–	111,378	111,378
Interim dividends declared in respect of the current year	–	–	–	–	(13,341)	(13,341)
Transfer to other reserves	–	–	–	849	(849)	–
Exchange differences	–	3,847	–	–	–	3,847
At 31 December 2002	579,172	(21,195)	6,604	1,304	757,937	1,323,822

Profits are retained as follows:

	2002	2001 (restated)
By the Company and its subsidiaries	760,850	681,681
By associate	(2,913)	(1,259)
	757,937	680,422

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

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

25. RESERVES (Continued)

(b) The Company

	Share premium <i>(note a)</i> \$'000	Contributed surplus <i>(note b)</i> \$'000	Retained profit \$'000	Total \$'000
2001				
At 1 January 2001	537,164	51,636	175,026	763,826
Final dividends approved in respect of the previous year	–	–	(52,589)	(52,589)
Shares premium arising from issue of shares	36,255	–	–	36,255
Premium paid on purchase of own shares	(346)	–	–	(346)
Profit for the year	–	–	51,448	51,448
Interim dividends declared in respect of the current year	–	–	(19,138)	(19,138)
	<u>573,073</u>	<u>51,636</u>	<u>154,747</u>	<u>779,456</u>
At 31 December 2001	<u><u>573,073</u></u>	<u><u>51,636</u></u>	<u><u>154,747</u></u>	<u><u>779,456</u></u>
2002				
At 1 January 2002	573,073	51,636	154,747	779,456
Special and final dividends approved in respect of the previous year	–	–	(19,673)	(19,673)
Shares premium arising from issue of shares	6,099	–	–	6,099
Profit for the year	–	–	33,345	33,345
Interim dividends declared in respect of the current year	–	–	(13,341)	(13,341)
	<u>579,172</u>	<u>51,636</u>	<u>155,078</u>	<u>785,886</u>
At 31 December 2002	<u><u>579,172</u></u>	<u><u>51,636</u></u>	<u><u>155,078</u></u>	<u><u>785,886</u></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 2002 amounted to \$206,714,000 (2001: \$206,383,000).

NOTES ON THE FINANCIAL STATEMENTS (Continued)

(Expressed in Hong Kong dollars)

26. 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	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Revenue from external customers	<u>282,684</u>	<u>121,973</u>	<u>113,201</u>	<u>122,460</u>	<u>548,795</u>	<u>566,346</u>	<u>122,470</u>	<u>221,823</u>	<u>18,408</u>	<u>9,402</u>
Segment assets	<u>1,394,855</u>	<u>1,237,046</u>	<u>152,687</u>	<u>190,133</u>	<u>86,056</u>	<u>87,184</u>	<u>24,669</u>	<u>22,987</u>		
Capital expenditure incurred during the year	<u>87,511</u>	<u>65,772</u>	<u>9,941</u>	<u>32,357</u>	<u>1,667</u>	<u>415</u>	<u>26</u>	<u>49</u>		

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

	2002 \$'000	2001 \$'000
France	<u>151,288</u>	<u>150,175</u>
United Kingdom	<u>104,754</u>	<u>111,756</u>
Germany	<u>94,290</u>	<u>82,420</u>
Other European countries	<u>198,463</u>	<u>221,995</u>
	<u>548,795</u>	<u>566,346</u>

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 (Continued)

(Expressed in Hong Kong dollars)

27. CAPITAL AND OTHER COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2002 not provided for in the financial statements were as follows:

	The Group	
	2002	2001
	\$'000	\$'000
Contracted for	<u>29,022</u>	<u>25,703</u>

- (b) At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases for properties are payable as follows:

	2002	2001
	\$'000	\$'000
Within 1 year	1,144	1,762
After 1 year but within 5 years	<u>–</u>	<u>3,633</u>
	<u>1,144</u>	<u>5,395</u>

- (c) At 31 December 2002, the Group had commitments in respect of forward foreign exchange contracts in the next year as follows:

	2002	2001
	\$'000	\$'000
Within 1 year	<u>11,704</u>	<u>–</u>

28. CONTINGENT LIABILITIES

At 31 December 2002, 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 \$57,086,000 (2001: \$12,895,000).

29. MATERIAL RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year (2001: Nil).

30. COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, certain advances from banks have been excluded from the definition of cash equivalents, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.