

# Notes on the Financial Statements

(Expressed in Hong Kong dollars)

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong 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 ("Stock Exchange"). 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(i) below.

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

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

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

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e) and impairment losses (see note 1(h)).

#### (e) Goodwill

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

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

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

#### (f) Fixed assets

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

(ii) Land and buildings

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

(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

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Fixed assets *(Continued)*

#### (iv) Disposal of fixed assets

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

### (g) Intangible assets (other than goodwill)

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

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

### (h) Impairment of assets

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

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

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

#### (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).

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) Impairment of assets (Continued)

##### (ii) Reversals of impairment losses

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

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

#### (i) Investments in securities

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

- (i) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the income statement.

Transfers from the investment revaluation reserve to the income statement as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

- (ii) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.
- (iii) Profits or losses on disposal of investments in securities are accounted for in the income statement as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

#### (j) Inventories

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

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

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

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Inventories *(Continued)*

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

### (k) Cash and cash equivalents

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

### (l) Revenue recognition

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

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

### (m) Employee benefits

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

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) Operating leases

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

#### (o) Income tax

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

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

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

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

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
  - in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
  - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (p) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the income statement. Foreign currency assets, being equity investments or other long-term non-monetary assets, the holding or the use or the subsequent disposal of which will generate receipts in a foreign currency, hedged by foreign currency borrowings, are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

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

#### (q) Related parties

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

#### (r) Segment reporting

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

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

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

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

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

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 2. CHANGE IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 1(o). As a result of the adoption of this accounting policy, the Group's profit for the year has been decreased by \$356,000 (2002: increased by \$6,841,000) and the net assets as at the year end have been decreased by \$10,499,000 (2002: \$10,143,000).

The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and reserves and the comparative information adjusted for the amounts relating to prior periods 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

	2003 \$'000	2002 \$'000
<b>Other revenue</b>		
Dividend income from listed equity securities	377	546
Interest income from listed debt securities	11,498	11,856
Interest income from unlisted debt securities	187	360
Income from listed investment funds	1,394	807
Interest income from unlisted investment funds	201	440
Other interest income	5,542	6,278
Rental under operating leases	3,174	3,248
Other income	4,322	2,053
	<u>26,695</u>	<u>25,588</u>
<b>Other net income</b>		
Profit on disposal of fixed assets	43	2,106
Loss on liquidation of non-trading mutual fund	–	(10,471)
Realised gains on disposal of other non-trading securities	4,884	2,216
Realised and unrealised gains/(losses) on trading securities	5,202	(2,680)
Exchange gain	14,873	10,573
	<u>25,002</u>	<u>1,744</u>



## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003 \$'000	2002 \$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	1,042	1,263
Interest on convertible notes	1,871	1,871
	<u>2,913</u>	<u>3,134</u>
(b) Other items:		
Cost of inventories	879,321	746,595
Auditors' remuneration	1,074	1,234
Research and development costs	21,236	24,518
Rental charges under operating leases	3,220	2,917
Exchange loss	3,658	3,410
Contributions to defined contribution retirement plan	6,580	5,879
Other retirement scheme costs	2,136	1,877
	<u>2,136</u>	<u>1,877</u>

### 6. DIRECTORS' REMUNERATION

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

	2003 \$'000	2002 \$'000
Fees	600	600
Salaries and allowances	6,218	6,105
Retirement scheme contributions	222	222
Discretionary and performance related bonuses	8,400	6,905
	<u>15,440</u>	<u>13,832</u>

Fees in respect of independent non-executive directors for the year ended 31 December 2003 amounted to \$400,000 (2002: \$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)

### 6. DIRECTORS' REMUNERATION (Continued)

The Directors' remuneration fell within the following ranges:

	Number of Directors	
	2003	2002
\$0 – \$1,000,000	3	4
\$3,000,001 – \$3,500,000	3	3
\$4,000,001 – \$4,500,000	1	1
	3	8

### 7. FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

The five highest paid individuals in the Group includes four (2002: five) Directors, whose emoluments are disclosed in note 6, and one other (2002: Nil) whose emoluments are as follows:

	2003 \$'000
Salaries and allowances	1,094
Retirement scheme contributions	188
	1,282

### 8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2003 \$'000	2002 \$'000 (restated)
<b>Current tax – Provision for Hong Kong Profits Tax</b>		
Provision for Hong Kong Profits Tax for the year	9,239	14,049
Over-provision in respect of prior years	(18)	(1,115)
	9,221	12,934
<b>Current tax – Overseas</b>		
Tax for the year	4,863	4,770
<b>Deferred tax</b>		
Reversal of temporary differences	(594)	(6,841)
Effect of increase in tax rate on deferred tax balances at 1 January	950	–
	356	(6,841)
	14,440	10,863

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

#### (a) Taxation in the consolidated income statement represents: (Continued)

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

A subsidiary has received from the Hong Kong Inland Revenue Department additional assessments relating to prior years for taxation totalling \$118 million. These additional assessments relate to a dispute over the deductibility of certain sub-contracting charges for tax assessment purposes. The directors of the subsidiary consider that there are grounds to contest the additional assessments and have indicated that they will pursue this case vigorously. The subsidiary has formally objected to the additional assessments and has purchased Tax Reserve Certificates totalling \$40 million pending the outcome of the objection.

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

	2003 \$'000	2002 \$'000
Profit before tax	<u>182,676</u>	<u>136,050</u>
Notional tax on profit before tax calculated at the rates applicable to profits in the countries concerned	32,502	17,983
Tax effect of non-deductible expenses	4,745	9,995
Tax effect of non-taxable revenue	(27,069)	(19,502)
Tax effect of unused tax losses not recognised	3,115	5,766
Tax effect of prior year's tax losses utilised this year	–	(2,465)
Over-provision in prior years	(18)	(1,115)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	950	–
Others	<u>215</u>	<u>201</u>
Actual tax expense	<u>14,440</u>	<u>10,863</u>

### 9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of \$155,292,000 (2002: \$33,345,000) which has been dealt with in the financial statements of the Company.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 10. DIVIDENDS

#### (a) Dividends attributable to the year

	2003 \$'000	2002 \$'000
Interim dividend declared and paid of 7.0 cents (2002: 4.4 cents) per share	21,525	13,341
Special interim dividend declared and paid of 21.0 cents (2002: Nil) per share	64,575	–
Special dividend proposed after the balance sheet date of 6.0 cents (2002: 4.0 cents) per share	18,622	12,164
Final dividend proposed after the balance sheet date of 22.0 cents (2002: 18.0 cents) per share	68,281	54,736
	<u>173,003</u>	<u>80,241</u>

The dividends attributable to the years ended 31 December 2002 and 2003 are scrip dividends with a cash option.

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

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

	2003 \$'000	2002 \$'000
Special dividend in respect of the previous financial year, approved and paid during the year, of 4.0 cents (2002: 4.0 cents) per share	12,164	12,106
Final dividend in respect of the previous financial year, approved and paid during the year, of 18.0 cents (2002: 2.5 cents) per share	54,736	7,567
	<u>66,900</u>	<u>19,673</u>

### 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 \$151,241,000 (2002 (restated): \$118,219,000) and on the weighted average of 306,195,391 shares (2002: 302,943,079 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 \$151,241,000 (2002 (restated): \$118,219,000) and the weighted average number of shares of 307,636,259 shares (2002: 303,321,313 shares) after adjusting for the effects of all dilutive potential shares.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 11. EARNINGS PER SHARE (continued)

#### (c) Reconciliation

	2003 Number of shares	2002 Number of shares
Weighted average number of shares used in calculating basic earnings per share	306,195,391	302,943,079
Deemed issue of shares for no consideration arising from share options	<u>1,440,868</u>	<u>378,234</u>
Weighted average number of shares used in calculating diluted earnings per share	<u><u>307,636,259</u></u>	<u><u>303,321,313</u></u>

### 12. FIXED ASSETS

#### The Group

	Land and buildings \$'000	Plant, machinery, tools and equipment \$'000	Others \$'000	Total \$'000
<b>Cost:</b>				
At 1 January 2003	308,850	451,985	181,611	942,446
Exchange adjustment	191	451	278	920
Additions	14,878	64,719	19,250	98,847
Disposals	–	(2,780)	(544)	(3,324)
<b>At 31 December 2003</b>	<u><u>323,919</u></u>	<u><u>514,375</u></u>	<u><u>200,595</u></u>	<u><u>1,038,889</u></u>
<b>Aggregate depreciation:</b>				
At 1 January 2003	49,877	354,530	139,959	544,366
Exchange adjustment	69	312	175	556
Charge for the year	6,838	53,496	21,352	81,686
Written back on disposals	–	(1,888)	(493)	(2,381)
<b>At 31 December 2003</b>	<u><u>56,784</u></u>	<u><u>406,450</u></u>	<u><u>160,993</u></u>	<u><u>624,227</u></u>
<b>Net book value:</b>				
<b>At 31 December 2003</b>	<u><u>267,135</u></u>	<u><u>107,925</u></u>	<u><u>39,602</u></u>	<u><u>414,662</u></u>
At 31 December 2002	<u>258,973</u>	<u>97,455</u>	<u>41,652</u>	<u>398,080</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:

	2003 \$'000	2002 \$'000
In Hong Kong		
– under medium term leases	145,447	149,959
Outside Hong Kong		
– freehold	543	556
– under long term leases	52,615	53,236
– under medium term leases	58,187	44,579
– no specified lease term	10,343	10,643
	<u>121,688</u>	<u>109,014</u>
	<u>267,135</u>	<u>258,973</u>

The gross amount of fixed assets of the Group held for use in operating leases was \$31,584,000 (2002: \$31,418,000), the related accumulated depreciation was \$8,055,000 (2002: \$7,561,000) at 31 December 2003 and the depreciation charge for the year was \$494,000 (2002: \$492,000).

### 13. INTANGIBLE ASSETS

	Patent rights \$'000
<b>Cost:</b>	
At 1 January 2003	–
Addition	30,845
<b>At 31 December 2003</b>	<u>30,845</u>
<b>Accumulated amortisation:</b>	
At 1 January 2003	–
Charge for the year	(2,173)
<b>At 31 December 2003</b>	<u>(2,173)</u>
<b>Net book value:</b>	
<b>At 31 December 2003</b>	<u>28,672</u>
At 31 December 2002	–

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

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 14. GOODWILL

	\$'000
<b>Cost:</b>	
At 1 January 2003 and 31 December 2003	33,640
<b>Accumulated amortisation:</b>	
At 1 January 2003	(1,936)
Amortisation for the year	(1,682)
<b>At 31 December 2003</b>	<b>(3,618)</b>
<b>Carrying amount:</b>	
<b>At 31 December 2003</b>	<b>30,022</b>
At 31 December 2002	31,704

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

### 15. INTEREST IN SUBSIDIARIES

#### (a) The Company

	2003 \$'000	2002 \$'000
Unlisted shares, at cost	101,453	101,453
Amounts due from subsidiaries	809,898	768,669
	<b>911,351</b>	<b>870,122</b>

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

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 15. INTEREST IN SUBSIDIARIES (Continued)

#### (a) The Company (Continued)

Details of these subsidiaries are as follows:

Name of company	Place of incorporation/ operation	Particulars of issued/ registered capital	Percentage of equity held by		Principal activities
			Company	Subsidiaries	
Varitronix (B.V.I.) Limited	British Virgin Islands/ Hong Kong	18,480 ordinary shares of US\$1 each	100%	–	Investment holding
Varintelligent (BVI) Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1 each	100%	–	Holding and licensing of trademarks
Vogue Industries Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US\$1 each	100%	–	Investment holding
Varitronix Limited	Hong Kong	2 ordinary shares of \$1,000 each 1,848 non-voting deferred ordinary shares of \$1,000 each	–	100%	Design, manufacture and sale of liquid crystal displays and related products
Varitronix (Malaysia) Sdn. Bhd.	Malaysia	38,000,000 Ordinary shares of Myr\$1 each	–	100%	Design, manufacture and sale of liquid crystal displays and related products
#* Varitronix (Heyuan) Co. Ltd.	The People's Republic of China	Rmb56,096,000	–	80%	Manufacture of liquid crystal displays and related products
#* Varitronix (Heyuan) Display Technology Limited	The People's Republic of China	Rmb110,000,823	–	80%	Manufacture of liquid crystal displays and related products
* Varitronix Manufacturing (BVI) Limited	British Virgin Islands/The People's Republic of China	100 ordinary shares of US\$1 each	–	100%	Subcontract and operate production plant in the People's Republic of China
#* Varitronix Pengyuan Limited	The People's Republic of China	Rmb8,000,000	–	51%	Liquid crystal displays business



## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 15. INTEREST IN SUBSIDIARIES (Continued)

#### (a) The Company (Continued)

Name of company	Place of incorporation/ operation	Particulars of issued/ registered capital	Percentage of equity held by		Principal activities
			Company	Subsidiaries	
* Varitronix (Singapore) Pte Ltd.	Singapore	200,000 ordinary shares of SGD 1 each	–	100%	Research development centre
* Varitronix (U.K.) Limited	United Kingdom	100 ordinary shares of £10 each	–	100%	Marketing and sales consultants
* VL Electronics, Inc.	United States	5,000 common stock of US\$10 each	–	100%	Marketing and sales consultants
* Varitronix (Canada) Limited	Canada	100 ordinary shares of C\$1 each	–	100%	Marketing and sales consultants
* Varitronix Italia, s.r.l.	Italy	25,000 ordinary shares of €0.52 each	–	100%	Marketing and sales consultants
* Varitronix GmbH	Germany	100,000 shares of €0.51 each	–	60%	Marketing and sales consultants
Varitronix (France) SAS	France	2,500 ordinary shares of €15.25 each	–	100%	Marketing and sales consultants
Link Score Investment Limited	Hong Kong	100 ordinary shares of \$1 each	–	100%	Property investment and investment holding
Polysources Properties Limited	Hong Kong	2 ordinary shares of \$100 each 154 non-voting deferred ordinary shares of \$100 each	–	100%	Property investment
* Starel Trading Limited	Republic of Cyprus/United Kingdom	1,000 shares of Cyprus £1 each	–	100%	Property investment

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 15. 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	
* 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 Agencies Limited	British Virgin Islands/ Hong Kong	50,000 shares of US\$1 each	–	100%	Investment holding
Varitronix Investment Limited	British Virgin Islands/ Hong Kong	5,000 ordinary shares of US\$1 each	–	100%	Investment holding
* Varitronix Marketing Limited	British Virgin Islands/ United Kingdom	1,000 shares of US\$1 each	–	100%	Investment holding
* Mcalpine Management Limited	British Virgin Islands/ United Kingdom	1,000 shares of US\$1 each	–	100%	Investment holding
* Varitronix Marketing (China) Limited	British Virgin Island/ The People's Republic of China	1 share of US\$1	–	100%	Investment holding
* Varitronix (Shenzhen) Limited	British Virgin Island/ The People's Republic of China	1 share of US\$1	–	100%	Investment holding
Varitronix Optech Limited	Hong Kong	100,000 ordinary shares of \$1 each	–	100%	Dormant

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 15. INTEREST IN SUBSIDIARIES (Continued)

#### (a) The Company (Continued)

\* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total assets and total turnover constituting approximately 22% (2002: 17%) and 32% (2002: 26%) respectively of the related consolidated totals.

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

### 16. INTEREST IN ASSOCIATE

	2003	2002
	\$'000	\$'000
Share of net assets	4,490	16,197
Amount due from associate	799	57
	<b>5,289</b>	<b>16,254</b>

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.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 17. NON-TRADING SECURITIES

	The Group	
	2003 \$'000	2002 \$'000
<b>Debt securities</b>		
Listed		
– in Hong Kong	–	26,343
– outside Hong Kong	<u>138,976</u>	<u>147,777</u>
	<b>138,976</b>	174,120
Unlisted	<u>3,306</u>	<u>31,223</u>
	<u><b>142,282</b></u>	<u>205,343</u>
<b>Equity securities</b>		
Listed in Hong Kong	3,957	3,373
Unlisted	7,751	8,526
Investment funds listed outside Hong Kong	4,259	4,324
Unlisted investment funds	<u>13,361</u>	<u>5,199</u>
	<u><b>29,328</b></u>	<u>21,422</u>
Total	<u><b>171,610</b></u>	<u>226,765</u>

### 18. TRADING SECURITIES

	The Group	
	2003 \$'000	2002 \$'000
<b>Debt securities</b>		
Listed outside Hong Kong	<u>36,322</u>	<u>58,034</u>
<b>Equity securities</b>		
Listed		
– in Hong Kong	3,659	2,747
– outside Hong Kong	<u>33,701</u>	<u>16,182</u>
	<b>37,360</b>	18,929
Unlisted investment funds	<u>24,958</u>	<u>7,599</u>
	<u><b>62,318</b></u>	<u>26,528</u>
Total	<u><b>98,640</b></u>	<u>84,562</u>

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 19. INVENTORIES

	The Group	
	2003 \$'000	2002 \$'000
Raw materials	141,780	91,845
Work in progress	38,177	46,898
Finished goods	57,282	59,331
	<b>237,239</b>	<b>198,074</b>

Raw materials and work in progress are stated after deducting a general provision. Included in finished goods are inventories of \$3,567,000 (2002: \$2,444,000) stated at estimated net realisable value.

### 20. TRADE AND OTHER RECEIVABLES

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

	The Group	
	2003 \$'000	2002 \$'000
Within 60 days of the invoice issue date	161,410	139,769
61 to 90 days after the invoice issue date	60,927	44,985
91 to 120 days after the invoice issue date	11,715	16,900
More than 120 days but less than 12 months after the invoice issue date	15,311	35,183
	<b>249,363</b>	<b>236,837</b>

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

### 21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Deposits with banks and other financial institutions	495,574	402,055	–	–
Cash at bank and in hand	53,585	64,018	704	596
Cash and cash equivalents in the balance sheet	<b>549,159</b>	466,073	<b>704</b>	<b>596</b>
Bank overdrafts	(14,275)	(5,198)		
Cash and cash equivalents in the cash flow statement	<b>534,884</b>	460,875		

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 22. BANK LOANS AND OVERDRAFTS

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

	The Group	
	2003	2002
	\$'000	\$'000
Within 1 year or on demand	<u>86,298</u>	<u>61,706</u>

### 23. 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	
	2003	2002
	\$'000	\$'000
Within 60 days of supplier invoice date	121,423	75,951
61 to 120 days after supplier invoice date	15,498	15,715
More than 120 days but within 12 months after supplier invoice date	<u>3,880</u>	<u>3,098</u>
	<u>140,801</u>	<u>94,764</u>

### 24. CONVERTIBLE NOTES

	Principal amount and carrying value \$'000
<b>2002</b>	
Balance at 1 January and 31 December 2002	<u>31,200</u>
<b>2003</b>	
Balance at 1 January and 31 December 2003	<u>31,200</u>

The notes in issue at 31 December 2003 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 per cent per annum previously received.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 25. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Provision for Hong Kong Profits				
Tax for the year	9,239	14,049	–	–
Provisional Profits Tax paid	(324)	(1,145)	–	–
Balance of Profits Tax provision relating to prior years	(13,510)	7,607	–	42
Overseas tax	74	834	–	–
	<u>(4,521)</u>	<u>21,345</u>	<u>–</u>	<u>42</u>
Tax recoverable	(6,006)	–	–	–
Tax payable	1,485	21,345	–	42
	<u>(4,521)</u>	<u>21,345</u>	<u>–</u>	<u>42</u>

(b) Deferred tax liabilities recognised:

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

	Depreciation allowances in excess of depreciation \$'000	Tax allowances for intangible assets in excess of amortisation \$'000	Provisions \$'000	Total \$'000
At 1 January 2002				
– as previously reported	–	–	–	–
– prior period adjustments	18,659	193	(1,868)	16,984
	<u>18,659</u>	<u>193</u>	<u>(1,868)</u>	<u>16,984</u>
– as restated	18,659	193	(1,868)	16,984
Credit to income statement	(5,495)	(26)	(1,320)	(6,841)
	<u>(5,495)</u>	<u>(26)</u>	<u>(1,320)</u>	<u>(6,841)</u>
At 31 December 2002 (restated)	<u>13,164</u>	<u>167</u>	<u>(3,188)</u>	<u>10,143</u>
At 1 January 2003				
– as previously reported	–	–	–	–
– prior period adjustments	13,164	167	(3,188)	10,143
	<u>13,164</u>	<u>167</u>	<u>(3,188)</u>	<u>10,143</u>
– as restated	13,164	167	(3,188)	10,143
Charge/(credit) to income statement	(4,498)	4,850	4	356
	<u>(4,498)</u>	<u>4,850</u>	<u>4</u>	<u>356</u>
At 31 December 2003	<u>8,666</u>	<u>5,017</u>	<u>(3,184)</u>	<u>10,499</u>

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 26. SHARE CAPITAL

	2003		2002	
	No. of shares '000	Amount \$'000	No. of shares '000	Amount \$'000
<b>Authorised:</b>				
Ordinary shares of \$0.25 each	<u>400,000</u>	<u>100,000</u>	<u>400,000</u>	<u>100,000</u>
<b>Issued and fully paid:</b>				
At 1 January	304,091	76,023	302,477	75,619
Shares issued under share option scheme	769	192	233	59
Allotment of shares from scrip dividends	<u>5,435</u>	<u>1,359</u>	<u>1,381</u>	<u>345</u>
At 31 December	<u>310,295</u>	<u>77,574</u>	<u>304,091</u>	<u>76,023</u>

#### Share Option Schemes

The Company had a Share Option Scheme for the employees of the Group which was adopted on 6 June 1991, subsequently amended on 8 June 1999 and expired on 5 June 2001. The options under the first Share Option Scheme are exercisable for a period of ten years following the date of grant. A second Share Option Scheme of the Company for the employees of the Group was adopted on 22 June 2001 and terminated on 12 May 2003. The options under the second Share Option Scheme are exercisable for a period of ten years following the date of grant.

A third Share Option Scheme of the Company was adopted on 12 May 2003 as an incentive to the Group's employees and business associates. The directors of the Company are authorised, at their discretion, to invite any employee, director, including executive and non-executive directors, or business associate of any company in the Group, to take up options to subscribe for shares at a price determined by the board and notified to each grantee and which will not be less than the closing price of the shares on the Stock Exchange on the date of offer of the option granted to such grantee or the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option granted to such grantee or the nominal value of the shares, whichever is higher.

The maximum number of shares in respect of which options may be granted under the third Share Option Scheme and any other Share Option Schemes of the Company may not exceed 10 percent of the issued share capital of the Company at the date of approval of the third Share Option Scheme. The options under the third Share Option Scheme are exercisable for a period of ten years from the date of grant.



## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 26. SHARE CAPITAL (Continued)

#### (i) Movements in share options

	<b>2003</b>	2002
	<b>Number</b>	Number
At 1 January	<b>6,657,750</b>	3,792,250
Issued	<b>532,500</b>	4,724,500
Exercised	<b>(769,000)</b>	(232,500)
Lapsed	–	(1,496,500)
Cancelled	<b>(27,500)</b>	(130,000)
	<b>6,393,750</b>	6,657,750
At 31 December	<b>6,393,750</b>	6,657,750

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

			2003	2002
<b>Date granted</b>	<b>Exercise period</b>	<b>Exercise price</b>	<b>Number</b>	Number
9 June 1999	9 July 1999 to 8 July 2009	\$10.90	<b>592,250</b>	596,750
1 June 2000	1 July 2000 to 30 June 2010	\$11.30	<b>712,000</b>	733,000
30 August 2001	30 August 2001 to 29 August 2011	\$3.06	<b>283,500</b>	616,500
13 September 2002	13 September 2002 to 12 September 2012	\$3.905	<b>280,500</b>	711,500
30 October 2002	31 October 2002 to 30 October 2012	\$4.605	<b>4,000,000</b>	4,000,000
6 October 2003	6 October 2003 to 5 October 2013	\$7.35	<b>525,500</b>	–
			<b>6,393,750</b>	6,657,750
			<b>6,393,750</b>	6,657,750

At 31 December 2003 all share options were held by employees of the Group and were fully vested.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 26. SHARE CAPITAL (Continued)

#### (iii) Share options granted

Exercise period	Exercise price	2003 Number	2002 Number
13 September 2002 to 12 September 2012	\$3.905	–	724,500
31 October 2002 to 30 October 2012	\$4.605	–	4,000,000
6 October 2003 to 5 October 2013	\$7.35	<b>532,500</b>	–
		<b>532,500</b>	<b>4,724,500</b>

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

#### (iv) Share options exercised

Exercise date	Exercise price	Market value per share at exercise date	Number	Proceeds received HK\$
<b>2003</b>				
19 May – 17 December	\$3.06	\$5.20 – \$8.80	333,000	1,018,980
16 April – 30 December	\$3.905	\$4.65 – \$8.80	429,000	1,675,245
3 November – 17 November	\$7.35	\$8.25 – \$8.80	7,000	51,450
			<b>769,000</b>	<b>2,745,675</b>
<b>2002</b>				
7 January – 26 November	\$3.06	\$3.90 – \$6.95	226,500	693,090
26 November	\$3.905	\$4.65	6,000	23,430
			<b>232,500</b>	<b>716,520</b>

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 27. 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
<b>2002</b>						
At 1 January 2002						
– as previously reported	573,073	(25,042)	(15,741)	455	686,843	1,219,588
– prior period adjustments in respect of:						
– employee benefits	–	–	–	–	(6,421)	(6,421)
– deferred taxation <i>(note 2)</i>	–	–	–	–	(16,984)	(16,984)
	<u>573,073</u>	<u>(25,042)</u>	<u>(15,741)</u>	<u>455</u>	<u>663,438</u>	<u>1,196,183</u>
– as restated	573,073	(25,042)	(15,741)	455	663,438	1,196,183
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 (restated)	–	–	–	–	118,219	118,219
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
	<u>579,172</u>	<u>(21,195)</u>	<u>6,604</u>	<u>1,304</u>	<u>747,794</u>	<u>1,313,679</u>
At 31 December 2002	<u>579,172</u>	<u>(21,195)</u>	<u>6,604</u>	<u>1,304</u>	<u>747,794</u>	<u>1,313,679</u>

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 27. RESERVES (Continued)

#### (a) The Group (Continued)

	Share premium	Exchange fluctuation reserve	Investment revaluation reserve	Other reserves <i>(note)</i>	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2003</b>						
At 1 January 2003						
– as previously reported	579,172	(21,195)	6,604	1,304	757,937	1,323,822
– prior period adjustment in respect of deferred taxation <i>(note 2)</i>	–	–	–	–	(10,143)	(10,143)
– as restated	579,172	(21,195)	6,604	1,304	747,794	1,313,679
Special and final dividends approved in respect of the previous year	–	–	–	–	(66,900)	(66,900)
Share premium arising from issue of shares	37,114	–	–	–	–	37,114
Revaluation surplus	–	–	772	–	–	772
Revaluation surplus transferred to the income statement on disposal of securities	–	–	(4,884)	–	–	(4,884)
Profit for the year	–	–	–	–	151,241	151,241
Interim and special interim dividends declared in respect of the current year	–	–	–	–	(86,100)	(86,100)
Transfer to other reserves	–	–	–	629	(629)	–
Exchange differences	–	4,722	–	–	–	4,722
<b>At 31 December 2003</b>	<b>616,286</b>	<b>(16,473)</b>	<b>2,492</b>	<b>1,933</b>	<b>745,406</b>	<b>1,349,644</b>

Profits are retained as follows:

	2003	2002 (restated)
By the Company and its subsidiaries	760,025	750,707
By associate	(14,619)	(2,913)
	<b>745,406</b>	<b>747,794</b>

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)

### 27. RESERVES (Continued)

#### (b) The Company

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

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 2003 amounted to \$209,006,000 (2002: \$206,714,000).

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 28. 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	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Revenue from external customers	<u>421,431</u>	<u>282,684</u>	<u>163,154</u>	<u>113,201</u>	<u>583,784</u>	<u>548,795</u>	<u>94,072</u>	<u>122,470</u>	<u>12,347</u>	<u>18,408</u>
Segment assets	<u>1,549,279</u>	<u>1,394,855</u>	<u>136,194</u>	<u>152,687</u>	<u>75,150</u>	<u>86,056</u>	<u>29,633</u>	<u>24,669</u>		
Capital expenditure incurred during the year	<u>113,352</u>	<u>87,511</u>	<u>14,978</u>	<u>9,941</u>	<u>1,316</u>	<u>1,667</u>	<u>46</u>	<u>26</u>		

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

	2003 \$'000	2002 \$'000
France	<u>120,521</u>	<u>151,288</u>
United Kingdom	<u>95,934</u>	<u>104,754</u>
Germany	<u>126,545</u>	<u>94,290</u>
Other European countries	<u>240,784</u>	<u>198,463</u>
	<u>583,784</u>	<u>548,795</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)

### 29. CAPITAL AND OTHER COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2003 not provided for in the financial statements were as follows:

	The Group	
	2003	2002
	\$'000	\$'000
Contracted for	<u>15,117</u>	<u>29,022</u>

- (b) At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases for properties are payable as follows:

	2003	2002
	\$'000	\$'000
Within 1 year	1,470	1,144
After 1 year but within 5 years	<u>1,167</u>	<u>–</u>
	<u>2,637</u>	<u>1,144</u>

### 30. CONTINGENT LIABILITIES

At 31 December 2003, 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 \$72,023,000 (2002: \$57,086,000).

### 31. POST BALANCE SHEET EVENTS

- (i) In March 2004, a wholly-owned subsidiary of the Company entered into a non-legally binding memorandum of understanding to sell the Group's interest in Varitronix (Malaysia) Sdn. Bhd. in exchange for new shares to be issued by the purchaser. The merger proposals are subject to a number of conditions precedent including satisfactory legal and accounting due diligence and the listing of the shares in the purchaser on the Malaysian Exchange for Securities and Automatic Quotation. As no definitive agreement in respect of the merger has been signed, the Directors are unable to quantify the financial effect of these proposals.
- (ii) In March 2004, a wholly-owned subsidiary of the Company entered into an agreement to dispose of the Group's interest in its associate. The Directors expect to at least recover the carrying value of the investment.

### 32. MATERIAL RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year (2002: Nil).

### 33. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in accounting policy for deferred taxation, details of which are set out in note 2.