

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)).

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(g)).

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Fixed assets (continued)

(iii) Other fixed assets

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

Plant and machinery	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.

(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:

- property, plant and equipment;
- 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).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) 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 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.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Retirement scheme costs

The Group operates defined contribution retirement schemes in Hong Kong. Subsidiaries outside Hong Kong contribute to appropriate local retirement arrangements for their staff. The cost of providing retirement benefits is charged to income statement as incurred.

(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.

(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 and the financial statements of overseas subsidiaries 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, except for those arising from the translation at closing rates of the net investment in foreign subsidiaries and associates, which are taken directly to exchange fluctuation reserve.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

2 CHANGE IN ACCOUNTING POLICIES

(i) Dividends

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) "Events after the balance sheet date", issued by the Hong Kong Society of Accountants, the Group recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the Directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends). Consequently, dividend income from subsidiaries is recognised as income in the Company's income statement in the accounting period in which they are declared (in the case of interim dividends) or approved by the shareholders (in the case of final dividends).

2 CHANGE IN ACCOUNTING POLICIES *(continued)*

(i) Dividends (continued)

As a result of the new accounting policy, the Group's net assets as at the year end have been increased by \$19,673,000 (2000: \$52,589,000). There is no impact on the Group's profit attributable to shareholders for the periods presented. The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and the comparative information adjusted for the amounts relating to prior periods.

(ii) Goodwill

In prior years, positive or negative goodwill arising on acquisition of subsidiaries was eliminated against reserves or was credited to a capital reserve respectively. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 30 ("SSAP 30") "Business combinations", issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for goodwill as set out in note 1(e).

As a result of the new accounting policy, the Group's profit for the year has been decreased by \$254,000 (2000: \$Nil) and the net assets as at the year end have been increased by \$33,386,000 (2000: \$Nil).

The Group has taken advantage of the transitional provisions set out in paragraph 88 of SSAP 30 with the effect that the new accounting policy has been adopted prospectively and no adjustments have been made to the opening balance of retained profits and reserves and comparative information.

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

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

	2001 \$'000	2000 \$'000
<i>Other revenue</i>		
Dividend income from listed equity securities	206	295
Interest income from listed debt securities	11,268	17,617
Interest income from unlisted debt securities	273	1,300
Income from listed investment funds	43	191
Interest income from unlisted investment funds	1,033	525
Other interest income	7,674	17,804
Rental under operating leases	1,493	772
Other income	1,449	4,056
	<u>23,439</u>	<u>42,560</u>
<i>Other net income</i>		
(Loss)/profit on disposal of fixed assets	(48)	122
Realised (losses)/gains on disposal of non-trading securities	(693)	3,941
Realised and unrealised losses on trading securities	(5,784)	(5,446)
Exchange gain	14,051	13,066
	<u>7,526</u>	<u>11,683</u>

5 WRITE OFF OF INVENTORIES

During the year the Group has fully written off work in progress and finished goods inventories amounting to \$42,774,000.

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2001	2000
	\$'000	\$'000
(a) Finance cost:		
Interest on bank advances and other borrowings		
repayable within five years	1,030	890
Interest on convertible notes	1,871	487
Amortisation of finance costs	–	5
	<u>2,901</u>	<u>1,382</u>
(b) Other items:		
Cost of inventories	737,181	855,539
Retirement scheme costs	8,381	7,045
Auditors' remuneration	1,339	1,230
Research and development costs	38,142	42,642
Rental charges under operating leases	3,120	1,387
Exchange loss	3,137	5,548
	<u>3,187,100</u>	<u>3,230,391</u>

7 DIRECTORS' REMUNERATION

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

	2001	2000
	\$'000	\$'000
Fees	400	140
Salaries and other emoluments	8,318	9,083
Retirement scheme contributions	224	177
Discretionary and performance related bonuses	3,257	14,223
	<u>12,199</u>	<u>23,623</u>

Fees in respect of independent non-executive directors for the year ended 31 December 2001 amounted to \$400,000 (2000: \$140,000).

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION *(continued)*

Certain directors were granted share options in 1999 and 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.

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

	Number of Directors	
	2001	2000
\$0 - \$1,000,000	3	2
\$1,500,001 - \$2,000,000	2	–
\$2,000,001 - \$2,500,000	2	–
\$3,000,001 - \$3,500,000	1	3
\$3,500,001 - \$4,000,000	–	1
\$4,000,001 - \$4,500,000	–	1
\$5,000,001 - \$5,500,000	–	1
	<u> </u>	<u> </u>

8 TAXATION

(a) Taxation in the consolidated income statement represents:

	2001	2000
	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	5,248	4,678
Under/(over) provision in respect of prior years	2,688	(1,368)
	<u> </u>	<u> </u>
	7,936	3,310
Overseas tax	5,813	6,577
	<u> </u>	<u> </u>
	13,749	9,887
	<u> </u>	<u> </u>

The provision for Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year ended 31 December 2001. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

8 TAXATION (continued)

(b) Taxation in the balance sheet represents:

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Provision for Hong Kong Profits				
Tax for the year	5,248	4,678	–	91
Provisional Profits Tax paid	(243)	(11,582)	(49)	(12)
Balance of Profits Tax provision				
relating to prior years	21,552	25,591	41	–
Overseas tax	(828)	3,119	–	–
	<u>25,729</u>	<u>21,806</u>	<u>(8)</u>	<u>79</u>

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

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of \$51,448,000 (2000 (restated): \$332,403,000) which has been dealt with in the financial statements of the Company.

10 DIVIDENDS

(a) Dividends attributable to the year

	2001 \$'000	2000 \$'000
Additional special and final dividend of last year on exercised share options and converted convertible notes	–	1,099
Interim dividend declared and paid of 6.5 cents (2000: 15 cents) per share	19,138	43,823
Special dividend proposed after the balance sheet date of 4.0 cents (2000: Nil) per share	12,106	–
Final dividend proposed after the balance sheet date of 2.5 cents (2000: 18 cents) per share	7,567	52,589
	<u>38,811</u>	<u>97,511</u>

The final dividend in respect of the year ended 31 December 2000 and dividends in respect of the year ended 31 December 2001 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.

Notes on the Financial Statements (continued)

(Expressed in Hong Kong dollars)

10 DIVIDENDS (continued)

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

	2001 \$'000	2000 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 18 cents (2000: 45 cents per share)	52,589	129,995
Special dividend in respect of the previous financial year, approved and paid during the year, of nil cent (2000: 55 cents per share)	–	158,883
	<u>52,589</u>	<u>288,878</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 \$44,637,000 (2000: \$200,343,000) and on the weighted average of 293,623,077 shares (2000: 290,290,205 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 \$44,637,000 (2000: \$200,801,000) and the weighted average number of shares of 293,761,748 shares (2000: 292,174,290 shares) after adjusting for the effects of all dilutive potential shares.

(c) Reconciliations

	2001 Number of shares	2000 Number of shares
Weighted average number of shares used in calculating basic earnings per share	293,623,077	290,290,205
Deemed issue of shares for no consideration arising from share options	138,671	1,092,908
Deemed issue of shares from convertible notes	–	791,177
	<u>293,761,748</u>	<u>292,174,290</u>
	2001 Earnings \$'000	2000 Earnings \$'000
Net profit attributable to shareholders	44,637	200,343
Interest saved as the convertible notes converted	–	458
	<u>44,637</u>	<u>200,801</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 2001	271,825	341,955	149,274	763,054
Exchange adjustment	114	12	169	295
Additions	22,095	56,537	19,961	98,593
Transfer	6,466	–	(6,466)	–
Disposals	–	(194)	(815)	(1,009)
	<u>300,500</u>	<u>398,310</u>	<u>162,123</u>	<u>860,933</u>
At 31 December 2001	300,500	398,310	162,123	860,933
Aggregate depreciation:				
At 1 January 2001	34,561	241,925	101,280	377,766
Exchange adjustment	7	25	142	174
Charge for the year	11,343	58,374	20,230	89,947
Written back on disposals	–	(194)	(418)	(612)
	<u>45,911</u>	<u>300,130</u>	<u>121,234</u>	<u>467,275</u>
At 31 December 2001	45,911	300,130	121,234	467,275
Net book value:				
At 31 December 2001	<u>254,589</u>	<u>98,180</u>	<u>40,889</u>	<u>393,658</u>
At 31 December 2000	<u>237,264</u>	<u>100,030</u>	<u>47,994</u>	<u>385,288</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:

	2001	2000
	\$'000	\$'000
In Hong Kong		
- under medium term leases	168,532	178,572
Outside Hong Kong		
- freehold	557	567
- under long term leases	70,486	42,709
- under medium term leases	4,070	4,172
- no specified lease term	10,944	11,244
	86,057	58,692
	254,589	237,264

The gross amount of fixed assets of the Group held for use in operating leases was \$20,573,000 (2000: \$5,837,000), the related accumulated depreciation was \$1,608,000 (2000: \$658,000) at 31 December 2001 and the depreciation charge for the year was \$166,000 (2000: \$10,000).

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

13 GOODWILL

	\$'000
Cost:	
At 1 January 2001	–
Addition through acquisition of interest in subsidiary	33,640
	<u>33,640</u>
At 31 December 2001	33,640

Accumulated amortisation:	
At 1 January 2001	–
Amortisation for the year	(254)
	<u>(254)</u>
At 31 December 2001	(254)

Carrying amount:	
At 31 December 2001	33,386
	<u><u>33,386</u></u>
At 31 December 2000	–
	<u><u>–</u></u>

14 INTEREST IN SUBSIDIARIES

	2001	2000
	\$'000	\$'000
Unlisted shares, at cost	101,453	101,453
Amounts due from subsidiaries	757,612	737,741
	<u>859,065</u>	<u>839,194</u>
	<u><u>859,065</u></u>	<u><u>839,194</u></u>

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)

14 INTEREST IN SUBSIDIARIES *(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	Rmb43,470,000	–	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

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

14 INTEREST IN SUBSIDIARIES *(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 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)*

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 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

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

14 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ operation	Particulars of issued/registered capital	Percentage of equity held by		Principal activities
			Company	Subsidiaries	
* Mcalpine Management Limited	British Virgin Islands/ United Kingdom	1,000 shares of US\$1 each	–	100%	Investment holding
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 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 Video 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%	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 26% (2000: 27%) and 32% (2000: 40%) respectively of the related consolidated totals.

Name of company

Type of legal entity

Varitronix (Heyuan) Co. Ltd.
Varitronix Pengyuan Limited
Varitronix Display Technology (Shenzhen) Limited

Sino – foreign co-operative joint venture
Sino – foreign equity joint venture
Wholly foreign owned enterprise

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

15 INTEREST IN ASSOCIATE

	<i>The Group</i>	
	2001 \$'000	2000 \$'000
Share of net assets	17,850	12,018
Amount due from associate	1,426	9,223
	<u>19,276</u>	<u>21,241</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., which is owned by Varitronix (Malaysia) Sdn. Bhd.

16 NON-TRADING SECURITIES

	<i>The Group</i>	
	2001 \$'000	2000 \$'000
<i>Debt securities</i>		
Listed		
– in Hong Kong	26,121	25,245
– outside Hong Kong	150,481	166,717
	<u>176,602</u>	191,962
Unlisted	6,750	10,026
	<u>183,352</u>	201,988
<i>Equity securities</i>		
Listed in Hong Kong	2,899	3,160
Unlisted	8,526	8,526
Investment funds listed outside Hong Kong	27,864	29,724
Unlisted investment funds	5,220	7,088
	<u>44,509</u>	48,498
Total	<u>227,861</u>	<u>250,486</u>

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

17 TRADING SECURITIES

	The Group	
	2001	2000
	\$'000	\$'000
<i>Debt securities</i>		
Listed		
– in Hong Kong	–	3,870
– outside Hong Kong	36,008	24,982
	<u>36,008</u>	<u>24,982</u>
	36,008	28,852
	-----	-----
<i>Equity securities</i>		
Listed		
– in Hong Kong	2,112	5,548
– outside Hong Kong	16,683	16,552
	<u>18,795</u>	<u>22,100</u>
Unlisted investment funds	26,217	15,473
	<u>45,012</u>	<u>37,573</u>
	-----	-----
Total	81,020	66,425
	<u>81,020</u>	<u>66,425</u>

18 INVENTORIES

	The Group	
	2001	2000
	\$'000	\$'000
Raw materials	118,098	214,173
Work in progress	43,037	74,765
Finished goods	52,100	71,882
	<u>213,235</u>	<u>360,820</u>
	213,235	360,820
	<u>213,235</u>	<u>360,820</u>

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

18 INVENTORIES (continued)

Raw materials and work in progress are stated after deducting a general provision. Included in finished goods are inventories of \$4,276,000 (2000: Nil), stated at estimated net realisable value.

The Group has fully written off work in progress and finished goods amounting to \$42,774,000 during the year (2000: \$28,995,000).

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	
	2001	2000
	\$'000	\$'000
Within 60 days of the invoice issue date	136,600	212,237
61 to 90 days after the invoice issue date	36,019	48,336
91 to 120 days after the invoice issue date	9,591	16,948
More than 120 days but less than 12 months after the invoice issue date	43,659	59,387
	<u>225,869</u>	<u>336,908</u>

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

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Deposits with banks and other financial institutions	291,994	95,168	–	–
Cash at bank and in hand	76,584	97,129	687	159
	<u>368,578</u>	<u>192,297</u>	<u>687</u>	<u>159</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	
	2001 \$'000	2000 \$'000
Within 1 year or on demand	39,924	21,412
After 1 year but within 2 years	6,150	–
After 2 years but within 5 years	15,174	–
	21,324	–
	<u>61,248</u>	<u>21,412</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	
	2001 \$'000	2000 \$'000
Within 60 days of supplier invoice date	58,032	103,890
61 to 120 days after supplier invoice date	8,886	38,955
More than 120 days but within 12 months after supplier invoice date	4,646	9,666
	<u>71,564</u>	<u>152,511</u>

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

23 CONVERTIBLE NOTES

	Principal amount \$'000	Finance costs \$'000	Carrying value \$'000
2000			
Balance at 1 January 2000	5,538	5	5,533
Conversion of notes	(5,538)	–	(5,538)
Issue of convertible notes	31,200	–	31,200
Amortisation of finance costs	–	(5)	5
	<u>31,200</u>	<u>–</u>	<u>31,200</u>
Balance at 31 December 2000	<u>31,200</u>	<u>–</u>	<u>31,200</u>
2001			
Balance at 1 January and 31 December 2001	<u>31,200</u>	<u>–</u>	<u>31,200</u>

The notes in issue at 31 December 2001 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.

24 SHARE CAPITAL

	2001		2000	
	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	292,160	73,040	288,681	72,170
Shares issued under share option scheme	153	38	1,466	367
Shares issued as purchase consideration for shares in subsidiaries	7,112	1,778	1,897	474
Allotment of shares from scrip dividends	3,152	788	–	–
Shares issued on exercise of conversion rights attached to the convertible notes	–	–	486	121
Shares repurchased	(100)	(25)	(370)	(92)
At 31 December	<u>302,477</u>	<u>75,619</u>	<u>292,160</u>	<u>73,040</u>

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

24 SHARE CAPITAL (continued)

(a) Share Option Scheme

The Company had a Share Option Scheme which was adopted on 6 June 1991, subsequently amended on 8 June 1999 and expired on 5 June 2001. A new Share Option Scheme of the Company was adopted on 22 June 2001.

The details of options unexercised at 31 December 2001 under the Share Option Schemes are as follows:

	Number of shares attached to options unexercised at 31 December 2001	Exercise price \$	Exercisable period
Old Share Option Scheme	2,942,250	10.55 to 11.30	Up to 30 June 2010
New Share Option Scheme	850,000	3.06	Up to 29 August 2011

During the year, share options in respect of 1,033,000 shares exercisable at \$3.06 were granted for consideration of \$129. Options to subscribe for 153,000 shares were exercised and options to subscribe for 1,080,000 shares were cancelled or lapsed during the year.

(b) Shares repurchased

During the year, the Company repurchased its own shares on the Stock Exchange of Hong Kong Limited as follows:

Month	Number of shares repurchased	Highest price paid per share \$	Lowest price paid per share \$	Aggregate price paid \$'000
July	100,000	3.675	3.625	365

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of \$346,000 was charged to share premium (note 25).

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

25 RESERVES

(a) *The Group*

	Share premium \$'000	Exchange fluctuation reserve \$'000	Investment revaluation reserve \$'000	Retained profits \$'000	Total \$'000
2000 (restated)					
At 1 January 2000					
– as previously reported	494,185	(23,687)	7,659	607,435	1,085,592
Dividends proposed (note 2)	–	–	–	288,878	288,878
– as restated	494,185	(23,687)	7,659	896,313	1,374,470
Special and final dividends approved in respect of the previous year	–	–	–	(288,878)	(288,878)
Additional special and final dividends of previous year on exercised share options and converted convertible notes	–	–		(1,099)	(1,099)
Share premium arising from issue of shares	46,656	–	–	–	46,656
Premium paid on purchase of own shares	(3,677)	–	–	–	(3,677)
Goodwill on acquisition of shares in subsidiaries	–	–	–	(48,468)	(48,468)
Revaluation deficit	–	–	(8,677)	–	(8,677)
Revaluation surplus transferred to the income statement on disposal of securities	–	–	(3,871)	–	(3,871)
Profit for the year	–	–	–	200,343	200,343
Interim dividends declared in respect of the current year	–	–	–	(43,823)	(43,823)
Exchange differences	–	(1,200)	–	–	(1,200)
At 31 December 2000	<u>537,164</u>	<u>(24,887)</u>	<u>(4,889)</u>	<u>714,388</u>	<u>1,221,776</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 <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)	–	661,799	1,169,187
Dividends proposed (note 2)	–	–	–	–	52,589	52,589
– as restated	537,164	(24,887)	(4,889)	–	714,388	1,221,776
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	–	–	–	–	44,637	44,637
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>686,843</u>	<u>1,219,588</u>

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)

(a) *The Group* (continued)

Profits are retained as follows:

	2001	2000
	\$'000	\$'000
By the Company and its subsidiaries	688,102	721,382
By associate	(1,259)	(6,994)
	<u>686,843</u>	<u>714,388</u>

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

25 RESERVES (continued)

(b) The Company

	Share premium (note a) \$'000	Contributed surplus (note b) \$'000	Retained profit \$'000	Total \$'000
2000 (restated)				
At 1 January 2000				
– as previously reported	494,185	51,636	176,423	722,244
Dividend income (note 2)	–	–	(288,878)	(288,878)
Dividends proposed (note 2)	–	–	288,878	288,878
	<hr/>	<hr/>	<hr/>	<hr/>
– as restated	494,185	51,636	176,423	722,244
Special and final dividends approved in respect of the previous year	–	–	(288,878)	(288,878)
Additional special and final dividends of previous year on exercised share options and converted convertible notes	–	–	(1,099)	(1,099)
Shares premium arising from issue of shares	46,656	–	–	46,656
Premium paid on purchase of own shares	(3,677)	–	–	(3,677)
Profit for the year	–	–	332,403	332,403
Interim dividends declared in respect of the current year	–	–	(43,823)	(43,823)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	<u>537,164</u>	<u>51,636</u>	<u>175,026</u>	<u>763,826</u>
2001				
At 1 January 2001	537,164	51,636	175,026	763,826
– as previously reported	–	–	(52,589)	(52,589)
Dividend income (note 2)	–	–	52,589	52,589
Dividends proposed (note 2)	–	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
– as restated	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)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	<u>573,073</u>	<u>51,636</u>	<u>154,747</u>	<u>779,456</u>

25 RESERVES (continued)

(b) The Company (continued)

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 2001 amounted to \$206,383,000 (2000: \$226,662,000).

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.

Notes on the Financial Statements *(continued)*

(Expressed in Hong Kong dollars)

26 SEGMENT REPORTING (continued)

	Hong Kong and PRC		Rest of Asia		Europe		North America		Others	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	<u>121,973</u>	<u>99,573</u>	<u>122,460</u>	<u>134,469</u>	<u>566,346</u>	<u>661,433</u>	<u>221,823</u>	<u>336,857</u>	<u>9,402</u>	<u>22,297</u>
Segment assets	<u>1,237,046</u>	<u>1,220,943</u>	<u>190,133</u>	<u>269,005</u>	<u>87,184</u>	<u>93,017</u>	<u>22,987</u>	<u>39,767</u>		
Capital expenditure incurred during the year	<u>65,772</u>	<u>100,043</u>	<u>32,357</u>	<u>26,928</u>	<u>415</u>	<u>1,289</u>	<u>49</u>	<u>81</u>		

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

	2001	2000
	\$'000	\$'000
France	150,175	165,445
United Kingdom	111,756	151,919
Germany	82,420	100,708
Other European countries	221,995	243,361
	<u>566,346</u>	<u>661,433</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 2001 not provided for in the financial statements were as follows:

	The Group	
	2001	2000
	\$'000	\$'000
Contracted for	<u>25,703</u>	<u>23,973</u>

- (b) At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases for properties are payable as follows:

	2001	2000
	Properties	Properties
	\$'000	\$'000
Within 1 year	1,762	1,976
After 1 year but within 5 years	<u>3,633</u>	<u>6,116</u>
	<u>5,395</u>	<u>8,092</u>

28 CONTINGENT LIABILITIES

At 31 December 2001, 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 \$12,895,000 (2000: \$5,454,000).

29 MATERIAL RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year (2000: Nil).

30 COMPARATIVE FIGURES

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