VARITRONIX

# A Green Varitronix For Sustainable Development

Annual Report 2008

STOCK CODE 710

VARITRONIX INTERNATIONAL LIMITED

# CONTENTS



# CHAIRMAN'S STATEMENT

Although our performance was adversely impacted by the effects of the global financial crisis, we believe that we are otherwise on track to deliver continued growth.

## FINANCIAL HIGHLIGHTS

- Turnover: HK$2,412 million (2007: HK$2,618 million)
- Profit attributable to shareholders: HK$15 million (2007: HK$260 million)
- Total dividend per share for 2008: 13 HK cents (2007: 38 HK cents)
- The following initiatives have been implemented to face the challenges presented by the global economic downturn:
  - Enhanced risk management
  - Commitment to established corporate strategies
  - Focus on emerging markets

| (HK$'million) | 2008 | 2007 |
|---|---|---|
| Turnover | **2,412** | 2,618 |
| Profit attributable to shareholders | **15** | 260 |
| Basic earnings per share | **4.7 HK cents** | 80.5 HK cents |
| Total dividend per share | **13 HK cents** | 38 HK cents |

On behalf of Varitronix International Limited (the "Company") and its subsidiaries ("Varitronix" or the "Group"), I present the Group's results for the year ended 31 December 2008.

During the period under review, turnover of HK$2,412 million was recorded, a decrease of 8% as compared to HK$2,618 million last year. Profit from operations was HK$25 million and profit attributable to shareholders was HK$15 million, declining by 91% and 94% respectively as compared to 2007.

The Board of Directors (the "Board") has recommended a final dividend of 1 HK cent (2007: 26 HK cents) per share. Combined with the interim dividend of 12 HK cents (2007: 12 HK cents) per share, the total dividend for 2008 amounts to 13 HK cents (2007: 38 HK cents) per share.

## BUSINESS REVIEW

The profit margins for manufacturers operating production facilities in Mainland China have continued to be put under significant pressure by rising labour and raw materials costs, rampant inflation, and RMB appreciation.

Despite the challenging market conditions, the Group maintained steady growth in the first three quarters of 2008 and this is testament to our strategy of diversification, both in terms of product range and market distribution network.

Our products range from high-end automotive and industrial displays to consumer grade mobile phone displays, while our reach extends from Europe to Asia, which includes the market of Mainland China showing great growth potential.

In reward of our concentrated efforts over the years, we have established Varitronix as one of the leading suppliers of automotive and high-end industrial displays globally. Although customers from these market segments can be very demanding, with long product delivery time and limited quantities, they do provide a steady flow of orders. In contrast, consumer products customers tend to be less demanding, with short delivery time and large orders that result in quick cash turnover. However, the consumer sector offers narrower profit margins amidst a more volatile operating environment. By focusing equally on the high and the lower end markets, we believe the Group can benefit from the complementary nature of both segments.

# CHAIRMAN'S STATEMENT

In the first half of 2008, a satisfactory performance was achieved by our automotive and high-end industrial businesses, with a substantial proportion of orders coming from Europe. However, demand for mobile phone displays in Mainland China softened as the market went through a period of adjustment following years of rapid growth, which resulted in a drop in turnover in this segment when compared with 2007. Despite difficult market conditions, the Group as a whole was able to record increased profitability in the first half, as compared to the same period last year.

However, the widespread effects of the global financial turmoil did impact the Group's performance in the fourth quarter of 2008. By this point, the economic downturn was in full force, with Europe and America being the worst hit. Automobile sales ground to a near halt and many automobile production plants have closed down or suspended operations. As a key supplier of automotive displays, this has had a significant impact on the Group's overall 2008 results.

The economic turmoil has further aggravated the challenges already being faced by manufacturing companies. To overcome these difficulties, the Group has implemented the following measures:

1. Enhanced risk management – The Group will exercise tight controls over product and materials inventory in order to preserve cash.

2. Commitment to established corporate strategies – The Group's diversified product mix has proved to be resilient, even in adverse market conditions. The Group will continue to maintain the product mix with enhanced emphasis on customer service and research and development so as to increase the competitiveness of our high-end products. Amidst the current crisis, we see opportunities. While other players may contract their operations at this time, we will leverage on our strengths to aggressively enlarge our market share in the high-end display sector.

3. Focus on emerging markets – The Group has made satisfactory progress in the emerging markets of Mainland China, South Korea and India. These markets have been relatively less affected by the financial crisis and are expected to make a quicker recovery. The Group will focus our expansion efforts in these markets, capitalising on business opportunities in automotive displays, mobile handsets and other consumer products.

## CORPORATE DEVELOPMENT

During the period under review, the Group finalised the acquisition of an 11% share in Hydis Technology Co., Ltd. ("Hydis"), a South Korean TFT (Thin Film Transistor) panel manufacturer, thereby securing a stable supply source of TFT panels, especially those high quality TFT panels that fit into the Group's targeted automotive and high-end display sectors. The restructuring of Hydis has now been completed, and TFT demand is gradually increasing after market adjustment. The business is in a good position to benefit from increased market opportunities for TFT panels in 2009.

The Group also acquired a 20% stake in Data Modul Aktiengesellschaft ("Data Modul"), a long-term customer, to become its single largest shareholder. Data Modul has been producing complete liquid crystal display ("LCD") and plasma flat display monitors for the past 30 years and is principally engaged in the development, production and sale of display components for ship navigation, medical and rugged industrial applications. Data Modul is one of the distributors of the Group's products in Europe. The acquisition has not only strengthened our relationship with Data Modul, but also expanded the Group's distribution capacity in the European market.

## EXPANSION OF PRODUCTION IN HEYUAN

With the aim of enhancing production capacity and the technological content of our products, the Group has invested in the expansion of the LCD production line and strengthened existing assembly facilities in our Heyuan plant in 2008. The line is capable of producing more advanced products, thereby improving the competitiveness of our products, as well as securing a higher profit margin under current costing pressures. To our knowledge, not many LCD manufacturers have increased production capacity in the past year. The Group believes that continued investment in our production facilities during the economic downturn would better prepare us to take advantage of any business opportunities that arise.

The Group has started to integrate and rationalise the various production facilities in different locations in the fourth quarter of 2008 so as to achieve greater production efficiency, with facilities in Heyuan as our base for production and development. This process will continue in 2009 and is viewed as a major strategic move in strengthening our position for long-term development.

## PROSPECTS

Although our performance was adversely impacted by the effects of the global financial crisis, we believe that we are otherwise on track to deliver continued growth. Our business strategies have proven to be effective and we will not waver from our commitment to continue to develop the business.

### TWO-PRONGED PRODUCT STRATEGY

The Group will continue to focus efforts in the automotive and high-end industrial display sector. We believe that the potential of the Asian automotive market will make up for sluggish sales in Europe and America. Resources will be dedicated to R&D in order to improve the design and performance of our high-end displays. To facilitate the implementation of this strategy, the new production line purchased in 2008 is now in operation.

Another key area of development is displays in mobile handsets and consumer products. The non-branded handset display segment in the Mainland China market has shown signs of recovery towards the end of 2008, with new orders coming in. The consumer trend for fashionable and innovative mobile handsets has shown no sign of abating in Mainland China. This, together with the demand from consumer products in South Korea and other consumer products exported to developing countries from Mainland China, will continue to drive growth in our business.

### COMMITMENT TO DEVELOPING EMERGING MARKETS

We are starting to see positive progress in our targeted Asian markets, such as Mainland China, South Korea and India. Aside from the mobile phone and consumer product markets in Mainland China, the Group has made strides in the automotive display market. Our initial targets were to develop the business via branch offices set up by foreign automobile clients, and we have now started to forge business relations with local Chinese automobile manufacturers.

In India, automotive and industrial instruments are the key target sectors. We have concentrated our efforts in expanding our sales network and providing our customers with timely technological assistance.

The Group is a main display supplier to the South Korean automobile manufacturers. The South Korean automotive industry is vibrant with a vast local market and it is also gaining increasing popularity in the world stage. The Group stands to benefit from the sound business prospects of this sector.

Apart from further developing the three Asian markets mentioned above, the Group plans expand into the new markets of Russia and Brazil in 2009.

## SUMMARY AND ACKNOWLEDGEMENT

The market downturn has continued into the beginning of 2009. While orders are now on the increase, the outlook remains uncertain. We will endeavour to develop better relations with our customers and continue to implement our established business strategies. With an ongoing recession in Europe and America, the Group will focus on developing emerging markets. We will also address internal weaknesses in order to enhance the Group's flexibility to respond to the ever-changing market conditions. By capitalising on our financial strength, the Group is well positioned to emerge from this current financial crisis as a stronger organisation.

I am grateful to all our directors, shareholders, colleagues and business partners for their loyal support.

**Ko Chun Shun, Johnson**
*Chairman*

Hong Kong, 22 April 2009

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVENUE

The Group revenue for the year ended 31 December 2008 decreased by 8% to HK$2,412 million as compared to the previous financial year.

## PROFIT FROM OPERATIONS

The profit from operations for the year ended 31 December 2008 was HK$25 million, a decrease of HK$260 million or 91% as compared to the previous financial year.

During the financial year 2008, the Group spent HK$72 million on research and development ("R&D") activities, which represented around 3% of Group revenue.

## NET PROFIT AND DIVIDENDS

The profit attributable to shareholders for the year ended 31 December 2008 was HK$15 million, a decrease of HK$245 million as compared to the previous financial year.

Basic earnings per share for the year ended 31 December 2008 were 4.7 HK cents as compared to 80.5 HK cents in the previous financial year. During the year, the Group declared and paid the interim dividend of 12 HK cents per share, which aggregated to HK$39 million. The directors have recommended a final dividend of 1 HK cent per share, which will aggregate to HK$3 million. The total dividend for the year amounts to 13 HK cents per share.

## STRUCTURE OF ASSETS

As at 31 December 2008, the total assets of the Group amounted to HK$2,345 million (2007: HK$2,337 million). At year end, inventories decreased by 45% to 300 million (2007: 545 million) while available-for-sale securities increased by 68% to HK$176 million (2007: HK$105 million).

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the total equity of the Group was HK$1,409 million (2007: HK$1,523 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 1.84 as at 31 December 2008 (2007: 2.16).

At the year end, the Group held a liquid portfolio of HK$652 million (2007: HK$777 million) of which HK$514 million (2007: HK$545 million) was in cash and cash equivalents and HK$138 million (2007: HK$232 million) in securities. The unsecured interest-bearing bank loans and overdrafts amounted to HK$361 million (2007: HK$149 million). The gearing ratio (bank loans and overdrafts over net assets) was 26% (2007: 10%).

The Group's inventory turnover ratio for the year was 5.7 times (2007: 5.9 times). Debtor turnover for the year was 49.2 days (2007: 46.9 days).

## CASH FLOWS

In the year under review, the Group's cash generated from operations amounted to HK$389 million (2007: HK$159 million), representing an increase of 145% over last year. The decreases in inventories and trade and other receivables raised cash flow by HK$255 million and HK$22 million respectively but the increase was partly offset by the decrease in trade and other payables which reduced cash flow by HK$86 million.

Net cash used in investing activities amounted to HK$437 million (2007: HK$68 million). There was an increase in payment for purchase of fixed assets to HK$195 million (2007: HK$148 million) and acquisition of an 11% stake in Hydis of HK$213 million (2007: HK$12 million).

## FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases, loan receivables and bank loans that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Euros, United States dollars, Japanese Yen, Renminbi and Korean Won.

## CONTINGENT LIABILITIES

As at 31 December 2008, 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 HK$364 million (2007: HK$155 million).

## CAPITAL COMMITMENTS

As at 31 December 2008, the Group had capital commitments of HK$48 million (2007: HK$125,000), representing purchase of property, plant and equipment not provided for in the financial statements. The total future minimum lease payments under non-cancellable operating leases for properties payable within one year amounted to HK$8 million (2007: HK$7 million).

## STAFF

As at 31 December 2008, the Group employed 4,464 staff around the world, of whom 192 were in Hong Kong, 4,227 in the People's Republic of China ("PRC") and 45 in overseas. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group operates an employee share option scheme and provides rent-free quarters to certain of its employees in Hong Kong and the PRC.

## STAFF RETIREMENT SCHEMES

The Group principally participates in defined contribution retirement plans. In Hong Kong, the Group participates in the Mandatory Provident Fund Scheme operated by independent trustees. Contribution at a fixed rate of 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$20,000 per employee, are made to the scheme and are vested immediately.

In addition, the Group also operates a Top-Up ORSO scheme, approved by the Inland Revenue Department under Section 87A of the Inland Revenue Ordinance, and both the employer and the employee are required to contribute 5% of the excess of the employee's relevant income to the scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in central pension schemes operated by the local municipal government. The subsidiaries are required to contribute certain percentage of the payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

During the year, the total retirement scheme cost charged to the Consolidated Income Statement for the year ended 31 December 2008 was HK$5 million (2007: HK$6 million). Charges to administer the scheme are deducted from the employer's contributions. Forfeited contributions are used by the employer to offset against future contributions. The amount so utilised during the year ended 31 December 2008 was HK$147,000 (2007: HK$202,000) and at 31 December 2008, the balance available to reduce the level of contributions in future amounted to HK$281,000 (2007: HK$454,000).

# REVIEW OF OPERATIONS

electronica 2008 Trade Fair in Germany

## EUROPE


The Group's business in Europe focuses on automotive and industrial display applications. During the period under review, sales revenue generated in Europe amounted to HK$754 million, representing a decrease of 2% over the previous year and accounting for 31% of the Group's turnover. The drop in sales revenue was mainly attributable to the downward sales trend experienced by the European automobile market in the fourth quarter of 2008.

### AUTOMOTIVE DISPLAY BUSINESS

Europe is the focal sales market for the Group's automotive display units. A number of famous automobile brands in Europe use our displays. In addition to high contrast mono-colour displays, some of these automobile manufacturers have started to install bigger sized TFT displays for infotainment purposes.

Despite the fact that automotive display sales in Europe have been adversely impacted since the fourth quarter last year, the Group will continue to secure new customers in Europe and will also introduce more new high-end display applications to existing customers. Our strategy is to widen our customer base by providing a diversified product range and to explore opportunities regarding colour displays to take advantage of the trend toward infotainment development inside car cabins.

### INDUSTRIAL DISPLAY BUSINESS

Industrial customers in Europe are divided into three main categories: high-end industrial equipment, general industrial applications and white goods. For high-end applications, a growing number of customers require products for displaying complicated patterns of images. Increased enquiries for TFT applications were also received.

In the first three quarters of 2008, orders from European industrial customers were stable. From the fourth quarter onwards, cases of delayed orders increased and this had a certain impact on the turnover in the European market.

In fact, sales for the industrial displays sector in Europe were badly affected immediately after the financial tsunami with customers tending to be more reserved in placing orders. By the end of the first quarter of 2009, some of the orders from the European industrial sector were resumed, but they are characterised by shorter delivery lead times. Customers also tend to be more persistent in price bargaining. Facing this situation, the Group will find ways to reduce costs in areas like raw materials and production yield, in order to counter the downward price pressure from customers.

In 2008 the Group acquired a 20% stake in Data Modul, a major distributor in Europe. Data Modul's key customers come from the industrial and white goods sector and involve high-end applications. The acquisition will definitely tighten our relationship with Data Modul, and will be beneficial for the Group's development in the European industrial and white goods market sectors.

## HONG KONG AND MAINLAND CHINA


The business in Mainland China and Hong Kong focuses on mobile handsets and consumer products. During the period under review, sales revenue generated in these markets amounted to HK$1,002 million, representing a decline of 27% compared to the previous year and accounting for 42% of the Group's turnover. The decline in sales revenue was due to the consolidation of mobile handset markets.

## HANDSET DISPLAY BUSINESS

During the period under review, the handset market in Mainland China underwent a period of consolidation, weakening the demand for handset displays and dragging down prices.

In 2009, the development of third-generation (3G) telecommunications technology will emerge as another positive factor. In the third quarter, when most handsets have to be configured, a new generation of handsets will go into mass production. This should noticeably stimulate demand for handset LCD components. The Group will take advantage of this situation to actively pursue business opportunities.

Apart from 3G, the general technology of Chinese handsets is developing rapidly and handset design is flourishing in many respects. In 2009, the Group is providing displays in larger panel size and higher resolution, aiming to cater for this diversification in handset designs.

## CONSUMER ELECTRONICS DISPLAY BUSINESS

During the year under review, orders for consumer electronics displays remained stable. In addition to the applications for MP3/MP4 and digital photo frames, the Group has begun to explore the electronic learning products market where products such as intelligent recorders and electronic dictionaries are big sellers. The Group will work hard on developing new business in this sector.

## AUTOMOTIVE & INDUSTRIAL DISPLAY BUSINESS

The migration of the automobile industry to low-cost countries has become a prevailing trend. In this scenario, China and India are the rising stars of automobile manufacturing. As an auto parts supplier, the Group is also following this trend in order to develop its automotive display business in China and India.

In China, in the early years of the Group's involvement, the automotive display business mainly served the Chinese branches of European automakers. Today, however, this business involves established partnerships with a number of local Chinese automakers. As the local automobile industry blossoms and local automakers explore international markets, high-grade LCD products of the type supplied by the Group will see increasing demand.

In the industrial sector, the Group has received orders for LCDs specifically designed for electronic meters. The Group will invest in developing the industrial business in China, starting with a focus on highly industrialised regions such as Shanghai, Jiangsu, Hunan and Shenzhen, and on marketing mono-LCD products with larger panels and capabilities to display larger amounts of data.

## REST OF ASIA


The Group's business in Asia excluding Mainland China and Hong Kong (Rest of Asia), mainly serves the automotive sector and certain consumer electronics customers. During the period under review, sales revenue generated in this market segment amounted to HK$450 million, representing an increase of 42% from the previous period and accounting for 19% of the Group's turnover. Growth in sales revenue was due to the thriving development of the automobile industry in South Korea.

### AUTOMOTIVE DISPLAYS

The Group is a key supplier for South Korean automakers. Automotive displays contributed a large portion of sales in the Rest of Asia. During the first

Automotive Workshop in India

three quarters of the period under review, the smooth advances of domestic sales and exports of South Korean automobiles boosted the Group's display sales. In the fourth quarter, sales dropped slightly but the situation has improved in the first quarter of 2009. South Korea remains an important market for the Group's automotive displays.

Despite lagging behind China in terms of the automotive industry, India has potential in its domestic market for the industry to grow rapidly. Although the Group's LCDs were initially applied mainly for motorcycles, the application range is widening. In this emerging market, it is particularly important for the group to provide its customers with technical knowledge and training throughout the selling process. The clear understanding of LCD by customers helps strengthen business cooperation and hence establish long-term partnerships.

For the coming year, the Group has set its next target as Japan. Faced with the current lag in sales of automobiles, Japanese automakers have to cut costs. They need to source LCD products with assured quality, yet at reasonable prices. This will create business opportunities for the Group. It is common for Japanese customers to set extremely strict requirements for their suppliers in many aspects, from documentation to operations and production. The Group will work hard to comply with the precision required. The Group hopes to win orders from Japanese customers within 2009.

## CONSUMER ELECTRONICS DISPLAY BUSINESS

In the Rest of Asia, orders for consumer electronic LCDs come from multimedia product manufacturers, such as those making MP3 and MP4 players, and electronic dictionaries. The LCDs required are mainly mid-sized colour TFTs.

This business segment delivered satisfactory results in 2008. Sales performance in the last quarter remained stable. However, this segment accounted for a tiny proportion in the region, and hence didn't have a significant impact on the overall results for the Group.

## NORTH AMERICA

During the period under review, sales generated in North America amounted to HK$161 million, representing growth of 26% over the previous period and accounting for 7% of the Group's turnover.


American customers were from different industries, from automotive to industrial and medical. Since the industry mix was diversified, results of different industries compensated for one another, so the combined results did not fare as badly as they might otherwise have done.

In 2008 the Group actively developed business for medical applications, and achieved encouraging results. In addition, orders from different industries have remained stable, leading to a steady advance of sales revenue.

## INDUSTRIAL DISPLAY BUSINESS

Sales of industrial LCDs accounted for half of the sales in North America. There was a wide range of industrial applications, including metering and navigation, which together comprise a stable volume business.


## MEDICAL DISPLAY BUSINESS

The Group has worked hard on medical applications in recent years, and has established close relationships with customers. It has developed applications for metering equipment used by medical staff as well as general products such as blood glucose meters used by the public.

Since the emergence of the financial tsunami, orders for industrial and medical products have been sustained although delivery times have had to be shortened and price negotiations have taken longer than before. Still, the Group remains optimistic about the overall situation and in 2009 will make additional efforts to develop the medical display business. At the same time, medical policy reforms and improvement of medical services have taken centre stage in US politics. This will create further business opportunities for the Group. Therefore, even though the automobile industry has tumbled since the fourth quarter of last year, the Group remains confident that the medical display business can recover the ground lost in the automotive LCD business.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

Green Varitronix

## EMPLOYEES AFFAIRS

### BASIC STATISTICS

The number of employees of the Group as at 31 December 2008 was 4,464, a decrease of 21% from 5,664 as compared to 2007. This was the result of manpower consolidation efforts and the process will continue as the Group integrates its manufacturing plants in 2009.


A series of Leadership Forums was held in 2008 with the aim of inspiring the next generation of leaders of the Company.

Staff costs for the year under review were approximately HK$263 million, compared with approximately HK$294 million in the previous year.

### REMUNERATION POLICY

The Group adopts a performance-based remuneration policy. Salary review and performance bonus are based on the evaluation of job performance. The aim is to create an atmosphere that encourages top performers and provides incentives for general employees to improve and excel.

### 30TH ANNIVERSARY LEADERSHIP FORUM

To celebrate our 30th Anniversary, the Group organised a series of "Varitronix 30th Anniversary Leadership Forums" in 2008. The Forums invited outstanding leaders from the community to share their views and beliefs with our employees, so as to broaden the horizons of our general staff. Apart from technical and soft skills training, the series of Leadership Forums offered an interaction experience in which staff could engage in open discussions with these leaders. The Forums received an enthusiastic response from colleagues.


An internship program was launched in the PRC plant.

### FOSTERING GROWTH OF OUR NEXT GENERATION

To commemorate our 30th Anniversary, the Group established the "Varitronix 30th Anniversary Scholarship" at The Hong Kong University of Science and Technology and at the South China University of Technology in Guangzhou, PRC. The Scholarship, which is now underway, is expected to enhance the academic development of students and help attract young potential engineers in Hong Kong and Mainland China to our Group.

In the year under review, the Group established an Internship Program with Heyuan Polytechnic University. A total of 12 outstanding students majoring in Business English were offered a four-month internship in our PRC office. During their placement, specific operation-related training will be provided to this group of students, and each of them will have a mentor to guide him or her in their daily work. All of the students are enthusiastic about this internship experience. We expect to see their development and growth throughout the intensive programme.

## ENVIRONMENTAL PROTECTION

### ENVIRONMENTAL CERTIFICATIONS

Varitronix regards environmental protection as an obligation and a duty in our daily operations. The Group's manufacturing plants are accredited with ISO14001, an environmental management system certification, and QC080000, a system to guarantee the removal and ensure the proper disposal of hazardous substances through Process Management.

Tree-planting activities held at the manufacturing plant were enjoyed by all.

### GREEN MANUFACTURING

In implementing "green manufacturing", we treat industrial wastewater and exhaust air before they are discharged. In 2008, in a successful move towards green manufacturing, we installed a system to collect heat energy produced by air conditioners. The heat energy collected is fit for use in the water heaters in the plant dormitories. Hot water for bathing is now generated by the recycled heat energy, thus reducing the consumption of diesel.

We created a relaxation area for our staff in our manufacturing plant.

### ENVIRONMENTALLY FRIENDLY WORKPLACE

Our production professionals are committed to maintaining an environmentally friendly workplace. We encourage separation of waste and reduction of paper consumption. Moreover, paper previously used in the manufacturing process such as hot press paper and polarizer sheet paper is cut into A4 and A5 sized sheets for daily use in the manufacturing plant office.

### GARDEN FACTORY

An area of lawn for tree-planting was set aside in the fourth quarter of last year in the manufacturing plant in Heyuan. A series of tree-planting activities have been conducted and competitions held to recognise those colleagues whose trees grow healthily. In order to make the outdoor environment more refreshing and comfortable for our workers and staff, some recreational facilities have been added also.

## SOCIAL SERVICE

### SOCIAL SERVICE TEAM

As well as a donation made to the Hong Kong Blind Union in 2008 to commemorate the Group's 30th Anniversary, a partnership was set up with this NGO in the year under review to provide services to its visually impaired members. The Varitronix Social Service Team members received basic training in skills to communicate with visually impaired friends, and the team participated in home visits, afternoon teas and picnic gatherings organised by the Hong Kong Blind Union for its members. In 2009, the Social Service Team is planning to co-organise a large-scale project with the Hong Kong Blind Union, and to participate in more educational activities to better serve the organisation's members.

Mr Tony Tsoi, CEO of Varitronix (left), received an acknowledgement from Mr Chong Chan Yau, President of the Hong Kong Blind Union.

### CARING COMPANY

The Group was awarded the title of "Caring Company 2007-09" for the second consecutive year by The Hong Kong Council of Social Service. The criteria that the Group had fulfilled were "Volunteering", "Employee Friendly", "Employing the Vulnerable", "Caring for the Environment" and "Giving".

Varitronix was awarded the title of "Caring Company 2007-09".


The Varitronix Social Service Team supported the activities of the Hong Kong Blind Union.

### OXFAM TRAILWALKER

The corporate office in Hong Kong participated in the Oxfam Trailwalker event for the third consecutive year. Just as in 2007, a total of three teams took the 100km MacLehose Trail challenge in 2008. Colleagues in Hong Kong and the PRC supported Varitronix Walkers either by taking care of their needs along the trail or by financial sponsorship. The three teams finished the trail in 24 hours, 25 hours and 32 hours respectively. Their efforts generated donations of approximately HK$86,000 for Oxfam.


Varitronix trailwalkers completed the challenging 100km MacLehose Trail for the third consecutive year.

## AWARD

Varitronix Limited has emerged as the winner of the Productivity and Quality Award of 2008 Hong Kong Awards for Industries. Hong Kong Awards for Industries was organised by the HKSAR Trade And Industry Department. Productivity and Quality Award forms one of the award categories and is coordinated by the Hong Kong Productivity Council. Its primary aim is to encourage and give recognition to Hong Kong enterprises that have attained improved productivity and quality on a continual basis.

What made Varitronix stand out was its proprietary Vision System technology – a technology for the inspection of LCD products. This system helps increase the inspection efficiency and accuracy, and also helps keeping our product quality performance well under control.

Mr Tony Tsoi, CEO (left), received the award from The Hon Andrew Leung, SBS, JP, Chairman of Hong Kong Productivity Council.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS – BIOGRAPHICAL INFORMATION

**Ko Chun Shun, Johnson**

aged 57, was appointed Chairman and an Executive Director of the Company in June 2005. Mr Ko is also the Chairman and Executive Director of DVN (Holdings) Limited, China WindPower Group Limited and MAE Holdings Limited. The above companies are listed on the Hong Kong Stock Exchange. Mr Ko also served as an independent board member of Sports Supply Inc from 1996 to 2003 and of The DII Group, Inc from 1999 until April 2000 when it merged with Flextronics International Limited. These two companies are listed on the New York Stock Exchange ("NYSE") and NASDAQ, respectively.

**Tsoi Tong Hoo, Tony**

aged 44, was appointed Chief Executive Officer and an Executive Director of the Company in March 2005. Mr Tsoi graduated from The University of Western Ontario, Canada with an Honours degree in Business Administration in 1986. He is Deputy Chairman of the Listing Committees of the Main Board and Growth Enterprise Market of the Hong Kong Stock Exchange. Mr Tsoi is a Non-executive Director of China WindPower Group Limited and an Independent Non-executive Director of Fairwood Holdings Limited, both of which are listed on the Hong Kong Stock Exchange.

**Ho Te Hwai, Cecil**

aged 48, was appointed Company Secretary and an Executive Director of the Company in March 2005. He is also the Qualified Accountant for the Group. Mr Ho holds a Bachelor of Commerce degree from the University of British Columbia, Canada. He is a member of the Institute of Chartered Accountants of Canada and the Hong Kong Institute of Certified Public Accountants ("the HKICPA").

**Lo Wing Yan, William**

aged 48, was appointed as an Independent Non-executive Director of the Company in July 2004. He is also Chairman of the Remuneration Committee and the Audit Committee of the Company. Dr Lo holds a Master's degree in Molecular Pharmacology & a Doctorate in Genetic Engineering, both obtained from the University of Cambridge in England. He is the Vice Chairman & Managing Director of I.T Limited, and an Independent Non-executive Director of South China Land Limited, both of which are listed on the Hong Kong Stock Exchange. He is also an Independent Non-executive Director of Nam Tai Electronics, Inc., which is listed on NYSE. Dr Lo is an Adjunct Professor of The School of Business of Hong Kong Baptist University and the Faculty of Business of Hong Kong Polytechnic University. In 1999, he was appointed as a Justice of the Peace (J.P.) by the Hong Kong Special Administrative Region Government. In 2003, he was appointed as a Committee Member of Shantou People's Political Consultative Conference.

**Yuen Kin**

aged 54, was appointed as an Independent Non-executive Director of the Company in March 2005. He is a member of the Audit Committee of the Company. Mr Yuen holds a Master of Business Administration degree from the University of Toronto, Canada. He is a Chartered Accountant in Canada and a Fellow of the HKICPA, and of the Institute of Chartered Accountants in England and Wales. He is Managing Director of Sunray Trading Company Limited, a private company engaging in trading of construction materials and furniture. Mr Yuen is also an Independent Non-executive Director of MAE Holdings Limited and Media China Corporation Limited (formerly known as Asian Union New Media (Group) Limited), both of which are listed on the Hong Kong Stock Exchange.

**Hou Ziqiang**

aged 71, was appointed as an Independent Non-executive Director of the Company in March 2005. He is a member of the Remuneration Committee and the Audit Committee of the Company. Mr Hou graduated from Peking University in 1958 with a Bachelor's degree in Physics. From 1993 to 1997, Mr Hou was a Director of the Institute of Acoustics of the Chinese Academy of Sciences. From 1988 to 1993, Mr Hou was Secretary General of the Chinese Academy of Sciences.

## SENIOR MANAGEMENT – BIOGRAPHICAL INFORMATION

**Domenico Giovanni Antico**

aged 40, is the Chief Marketing Officer of the Group overseeing marketing and purchasing affairs. He joined the Group as Managing Director of Varitronix Italia in 1995 and was appointed Chief Marketing Officer of the Group in January 2008.

**Park Soo Bin, James**

aged 38, is the General Manager – Technical Group. He holds a Bachelor of Physics degree from Sogang University in South Korea. He joined the Group in October 2006.

**Ng Siu Keung, Ricardo**

aged 46, is the General Manager – Manufacturing and the Senior Manager – Information Service of the Group. He holds a Master's degree in Business Administration from International University of America. He joined the Group in September 2006.

**Lam Cheuk Yin, Kenneth**

aged 34, is the Financial Controller of the Group. He has a Bachelor of Business Administration (Accountancy) from City University of Hong Kong, and is an Associate Member of the HKICPA. He joined the Group in July 2005.

**Suen Mo Ha, Rossetti**

aged 37, is the Senior Manager – Corporate Strategy & Production Material Control of the Group. She holds a Master's degree in Statistics from The University of Hong Kong, Master's degree in Management from The Hong Kong Polytechnic University, Master's degree in Information Technology Management from The Chinese University of Hong Kong and a Bachelor's degree in Quantitative Analysis for Business from City Polytechnic University. She joined the Group in December 2000.

**Chan Siu Wah, Susana**

aged 39, is the Senior Manager – Human Resources & Public Relations of the Group. She holds a Bachelor's degree from The Chinese University of Hong Kong. She joined the Group in November 2005.

# CORPORATE GOVERNANCE REPORT

The Company is committed to achieving and maintaining a high standard of corporate governance. The Board recognizes that such commitment is essential in upholding the accountability and transparency and to achieve a balance of interests between the shareholders, customers, creditors, employees as well as other stakeholders.

To ensure compliance with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), the Board will continue to monitor and revise the Company Code to bring our corporate governance practices in line with the changes in the environment and requirements of the Code.

In the opinion of the Directors, the Company has complied with the code provisions of the Code throughout the year ended 31 December 2008.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year under review.

## BOARD OF DIRECTORS

The Company benefits from the professional management expertise of its Directors. Brief biographies of the Directors are set out in the "Board of Directors and Senior Management" section in this Annual Report. The professional management expertise of the Directors ensures that the Board has the capabilities of sustaining the Company's continued success.

As at 31 December 2008, the Board comprised three Executive Directors and three Independent Non-executive Directors. The Independent Non-executive Directors have been appointed for a fixed term expiring on 31 December 2009. All Directors are subject to retirement by rotation at least once every three years under the Company's Bye-laws. All the Independent Non-executive Directors meet the guidelines for assessment of independence as set out in Rule 3.13 of the Listing Rules.

The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company's affairs. The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Company. It also decides on matters such as interim and annual results, major transactions, director appointments or re-appointments, and dividend and accounting policies.

The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the management.

The Board meets at least four times a year with additional meetings arranged when necessary to review the financial performance, material investments and other matters of the Group that require the resolution of the Board.

The Board held four meetings in 2008. The attendance records of individual Directors are set out below:

| Name of Director | Number of meetings held during the Director's term of office in 2008 | Number of meetings attended |
|---|---|---|
| *Executive Directors* | | |
| Mr. Ko Chun Shun, Johnson *(Chairman)* | 4 | 4 |
| Mr. Tsoi Tong Hoo, Tony *(Chief Executive Officer)* | 4 | 4 |
| Mr. Ho Te Hwai, Cecil | 4 | 4 |
| *Independent Non-executive Directors* | | |
| Dr. Lo Wing Yan, William | 4 | 4 |
| Mr. Yuen Kin | 4 | 4 |
| Mr. Hou Ziqiang | 4 | 4 |

The Directors have no financial, business, family or other material/relevant relationships among the members of the Board except that:

(1) Messrs. Ko Chun Shun, Johnson and Tsoi Tong Hoo, Tony are directors of China WindPower Group Limited (stock code: 182), a company listed on the Main Board of the Stock Exchange; and

(2) Messrs. Ko Chun Shun, Johnson and Yuen Kin are directors of MAE Holdings Limited (stock code: 851), a company listed on the Main Board of the Stock Exchange.

In the Board's opinion, these relationships do not affect the Directors' independent judgment and integrity in executing their roles and responsibilities.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman of the Board, Mr. Ko Chun Shun, Johnson and the Chief Executive Officer, Mr. Tsoi Tong Hoo, Tony are separated, with a clear division of responsibilities. The Chairman of the Board is responsible for formulating corporate strategies and overall business development planning. The Chief Executive Offer's duty is to oversee the execution of daily business activities. The division of responsibilities is to ensure a balance of power and authority.

## NOMINATION OF DIRECTORS

Since the full Board is involved in the appointment of new Directors, the Company has not established a nomination committee. New Directors are sought mainly through referrals. In evaluating whether an appointee is suitable to act as a Director of the Company, the Board will review the independence, experience and expertise of the appointee as well as personal ethics, integrity and time commitment of the appointee.

## REMUNERATION COMMITTEE

The Remuneration Committee is responsible for setting and monitoring the remuneration policy for all Directors and senior management. The Remuneration Committee comprises Dr. Lo Wing Yan, William (Chairman of the Remuneration Committee), Mr. Hou Ziqiang and Mr. Ko Chun Shun, Johnson.

The Company's remuneration policy is to link remuneration packages for Executive Directors with the achievement of annual and long-term performance goals. By providing competitive and performance-linked compensation, the Company seeks to attract, motivate and retain key executives, which is essential to its long-term success.

The Remuneration Committee held one meeting in 2008, in which the Committee reviewed the Company's remuneration policy and fixed the remuneration packages for the Executive Directors and senior management.

The attendance records of the Committee members are set out below:

| Name of Remuneration Committee member | Number of meeting held during the Remuneration Committee member's term of office in 2008 | Number of meeting attended |
|---|---|---|
| Dr. Lo Wing Yan, William *(Chairman)* | 1 | 1 |
| Mr. Hou Ziqiang | 1 | 1 |
| Mr. Ko Chun Shun, Johnson | 1 | 1 |

## AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors: Dr. Lo Wing Yan, William (Chairman of the Audit Committee), Mr. Yuen Kin and Mr. Hou Ziqiang. The Audit Committee is responsible for appointment of external auditors, review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures. It is also responsible for reviewing the interim and annual results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting and internal control matters and to this end has unrestricted access to both the Company's internal and external auditors.

The Audit Committee held two meetings in 2008, in which the Committee reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters so as to ensure that an effective control environment is maintained.

The Audit Committee also made its recommendation to the Board that the external auditors should be reappointed and approved the remuneration and the terms of engagements of the external auditors.

The internal and external auditors have unrestricted access to the Audit Committee, which ensures that their independence remains unimpaired.

The attendance records of the Committee members are set out below:

| Name of Audit Committee member | Number of meetings held during the Audit Committee member's term of office in 2008 | Number of meetings attended |
|---|---|---|
| Dr. Lo Wing Yan, William *(Chairman)* | 2 | 2 |
| Mr. Yuen Kin | 2 | 2 |
| Mr. Hou Ziqiang | 2 | 2 |

## AUDITORS' REMUNERATION

Total auditors' remuneration in relation to statutory audit work of the Group amounted to HK$4 million (2007: HK$3 million), of which a sum of HK$3 million (2007: HK$3 million) was paid to the Group's principal auditors, KPMG.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable.

The reporting responsibilities of KPMG, the Company's auditors, are set out in the Report of the Independent Auditor on page 26 of this Annual Report.

## INTERNAL CONTROL

To maintain sound and effective internal controls to safeguard shareholders' investment and the Company's assets, the Directors conducted a review of the effectiveness of the Company's system of internal control in 2008. The review covered financial, operational and compliance controls and risk management functions. To further strengthen its control system, the Company has established an Internal Audit Department to perform independent evaluations and reporting of the adequacy and effectiveness of the Company's controls, information system and operations.

## BUSINESS IMPROVEMENT TEAM MEETING

Business Improvement Team (BIT) Meeting is held once a month for the discussion about how to improve the Company's business and how to manage operational and business risks. The meetings are chaired by the Chief Executive Officer. In the meetings, department heads review the performance of their corresponding departments, alert the management about operational issues, receive comments on how to improve the performance and report the progress or results of improvement measures initiated in previous BIT meetings. Directors attend these meetings from time to time.

## COMMUNICATION WITH SHAREHOLDERS

The Company attaches great importance to communicate with shareholders and a number of means, including regular group meetings and plant tours, are used to promote greater understanding and dialogue with investment community. The Company holds press conferences to announce its interim and annual results. Key executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

The Group's website www.varitronix.com contains an "Investor & Media Relations" section which offers timely access to the Company's press releases, financial reports and major announcements.

The annual general meeting is an important opportunity for communicating with shareholders. The Company's Chairman, Executive Directors, Chairman of Audit Committee and Independent Non-executive Directors are available at the annual general meeting to answer questions from shareholders.

# REPORT OF THE DIRECTORS

The Directors have pleasure in submitting the annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are design, manufacture and sale of liquid crystal displays and related products.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 2 and 26 to the financial statements.

## SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2008 are set out in notes 12 to the financial statements.

## FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 65.

## DIVIDENDS

The Board has recommended to declare a final dividend of 1 HK cent (2007: 26 HK cents) per share as compared to interim dividend of 12 HK cents (2007: 12 HK cents) per share representing a total of 13 HK cents (2007: 38 HK cents) per share for year ended 2008.

The final dividend will be payable on or around Thursday, 9 July 2009 to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 5 June 2009.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 1 June 2009 to Friday, 5 June 2009 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the aforementioned final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, of Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 29 May 2009.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 25(a) to the financial statements.

## CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$145,766 (2007: HK$24,876).

## FIXED ASSETS

Movements in fixed assets during the year are set out in note 11 to the financial statements.

## RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 25(a) to the financial statements.

## DIRECTORS

The Directors during the financial year and up to this Annual Report were:

**Executive Directors:**
Mr. Ko Chun Shun, Johnson *(Chairman)*
Mr. Tsoi Tong Hoo, Tony
Mr. Ho Te Hwai, Cecil

**Independent Non-executive Directors:**
Dr. Lo Wing Yan, William
Mr. Yuen Kin
Mr. Hou Ziqiang

In accordance with Bye-law 99 of the Company, Mr. Ko Chun Shun, Johnson and Dr. Lo Wing Yan, William shall retire from office by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2008, the interests of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be maintained by the Company under Section 352 of the SFO or as required, pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

| Name of Director | Capacity | Number of shares in the Company held | Approx. % of the issued share capital of the Company |
|---|---|---|---|
| Ko Chun Shun, Johnson | Interest of controlled corporations | 48,579,000 (Notes) | 15.02 |

*Notes:*

(1) Rockstead Technology Limited and Omnicorp Limited, both wholly-owned by Mr. Ko Chun Shun, Johnson, held 37,879,000 shares and 10,700,000 shares of the Company respectively.

(2) The above interests represented long positions.

Other than the aforesaid and as disclosed under the section headed "Share Option Schemes and Directors' and Chief Executives' Rights to Acquire Shares or Debentures" below, as at 31 December 2008, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEMES AND DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company had a share option scheme for employees of the Group which was adopted on 6 June 1991, subsequently amended on 8 June 1999 and expired on 5 June 2001. A second share option scheme of the Company was adopted on 22 June 2001 and terminated on 12 May 2003.

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. This scheme shall be valid and effective for a period of ten years ending on 11 May 2013, after which no further options will be granted. The maximum number of shares in respect of which options may be granted under the third share option scheme and any other schemes of the Company may not exceed 10% of the issued share capital of the Company at the date of approval of the third share option scheme. The maximum entitlement of each participant in the total number of shares issued and to be issued upon exercise of options granted under the third share option scheme and any other share option schemes of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue.

The total number of shares available for issue under the share option schemes as at 31 December 2008 represents 4.96% (2007: 5.04%) of the issued share capital of the Company at that date. Further details of the share option schemes are set out in note 24 to the financial statements.

Movements in the Company's share options during the year are as follows:

| Category | Date of grant | Number of options at 1 January 2008 | Number of options granted during the year | Number of options cancelled/ lapsed during the year | Number of options exercised during the year | Number of options at 31 December 2008 | Exercisable period | Price per share to be paid on exercise of option | Market value per share at date of grant of options | Weighted average market value per share on exercise of options |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| Ko Chun Shun, Johnson | 19 December 2005 | 3,000,000 | – | – | – | 3,000,000 | 19 December 2005 to 18 December 2015 | HK$5.73 | HK$5.65 | N/A |
| Tsoi Tong Hoo, Tony | 22 July 2005 | 3,000,000 | – | – | – | 3,000,000 | 22 July 2005 to 21 July 2015 | HK$6.60 | HK$6.55 | N/A |
| Ho Te Hwai, Cecil | 19 December 2005 | 3,000,000 | – | – | – | 3,000,000 | 19 December 2005 to 18 December 2015 | HK$5.73 | HK$5.65 | N/A |
| **Others** | | | | | | | | | | |
| Chang Chu Cheng (Note) | 30 October 2002 | 1,000,000 | – | – | – | 1,000,000 | 31 October 2002 to 30 October 2012 | HK$4.605 | HK$4.35 | N/A |
| | 21 December 2004 | 300,000 | – | – | – | 300,000 | 21 December 2004 to 20 December 2014 | HK$7.45 | HK$7.45 | N/A |
| | 19 December 2005 | 3,000,000 | – | – | – | 3,000,000 | 19 December 2005 to 18 December 2015 | HK$5.73 | HK$5.65 | N/A |
| **Employees** | 9 June 1999 | 140,750 | – | (19,500) | – | 121,250 | 9 July 1999 to 8 July 2009 | HK$10.90 | HK$15.00 | N/A |
| | 1 June 2000 | 318,000 | – | (60,000) | – | 258,000 | 1 July 2000 to 30 June 2010 | HK$11.30 | HK$13.40 | N/A |
| | 30 August 2001 | 121,500 | – | (1,000) | – | 120,500 | 30 August 2001 to 29 August 2011 | HK$3.06 | HK$3,575 | N/A |
| | 13 September 2002 | 129,000 | – | (3,000) | – | 126,000 | 13 September 2002 to 12 September 2012 | HK$3.905 | HK$3.85 | N/A |
| | 6 October 2003 | 203,000 | – | (38,000) | – | 165,000 | 6 October 2003 to 5 October 2013 | HK$7.35 | HK$7.35 | N/A |
| | 20 December 2004 | 2,083,000 | – | (129,500) | – | 1,953,500 | 20 December 2004 to 19 December 2014 | HK$7.50 | HK$7.50 | N/A |
| | | 16,295,250 | – | (251,000) | – | 16,044,250 | | | | |

*Note:* Dr. Chang Chu Cheng ("Dr. Chang") retired as Director and became Honorary Chairman on 11 June 2007. The 4,300,000 share options held by Dr. Chang were retained until the end of the expiry of the respective exercisable periods of the share options, and reclassified from the category 'Directors' to 'Others'.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, other than the interests disclosed under the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" in respect of Mr. Ko Chun Shun, Johnson and Rockstead Technology Limited, so far as is known to the Directors and chief executives of the Company, the following company had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

| Name | Capacity | Number of shares in the Company held | Approx. % of the issued share capital of the Company |
|---|---|---|---|
| FMR LLC | Interest in controlled corporation | 27,157,000 (Note) | 8.40 |

*Note:* All the above interests represented long positions.

## DIRECTORS' SERVICE CONTRACTS

Messrs. Ko Chun Shun, Johnson, Tsoi Tong Hoo, Tony and Ho Te Hwai, Cecil have entered into management agreements with the Company which may be terminated by either party to the agreements at three months' notice.

Non-executive Directors are appointed for a period up to 31 December 2009 or such other date as agreed by the Non-executive Directors and the Company.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its subsidiaries was a party, in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2008, the Group had the following continuing connected transactions, details of which are set out below:

On 26 November 2008, the Company as seller entered into the master agreement with Data Modul Aktiengesellschaft ("DM", together with its associates, the "DM Group") as buyer on an arm's length basis and on normal commercial terms. Under the agreement, the Company may sell liquid crystal display ("LCD") and related products to the DM Group. DM and the Group in February 1996 established a joint venture owned as to 40% by DM and 60% by the Company. DM, being the substantial shareholder of the subsidiary of the Company, is a connected person of the Company under the Listing Rules.

As at the date of this Annual Report, the Group holds 20% of the issued share capital of DM.

The total amounts of sales of LCD and related products to the DM Group by the Company during the years 2007 and 2008 were USD11.1 million (equivalent to HK$86.6 million) and USD11 million (equivalent to HK$85.2 million) respectively.

The caps of the continuing connected transactions for the year ended and ending 31 December 2008, 2009 and 2010 are USD11.5 million (equivalent to HK$89.7 million), USD16.0 million (equivalent to HK$124.8 million) and USD23.0 million (equivalent to HK$179.4 million) respectively.

The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions and confirmed that the transactions have been (1) entered into in the ordinary and usual course of business of the Group; (2) either on normal commercial terms or terms no less favourable to the Group than terms available to or from independent third parties; and (3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests in the shareholders of the Company as a whole.

Pursuant to the Rule 14A.38 of the Listing Rules, the Company has engaged the auditors of the Company to perform certain factual finding procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board and confirmed that for the year ended 31 December 2008, the continuing connected transactions (1) have received the approval of the Board; (2) have charged for the price in accordance with the pricing terms set out in the relevant agreement governing such transactions or where the related agreement did not clearly specify a price, were consistent with the price charged for comparable transactions that were identified by management; (3) have been entered into in accordance with the relevant agreements governing the transactions; and (4) have not exceeded the aforementioned cap amounts.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the law of Bermuda.

## BANK LOANS

Particulars of bank loans of the Group at 31 December 2008 are set out in note 20 to the financial statements.

## CAPITALISATION OF INTEREST

No interest was capitalised by the Group during the year.

## PROPERTIES

Particulars of the properties held by the Group are shown on page 67 of this Annual Report.

## FIVE YEAR SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 66 of this Annual Report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors of the Company, for the year under review, the Company has maintained the prescribed public float under the Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the five largest customers of the Group accounted for 39% of the Group's total turnover while the largest customer of the Group accounted for 15% of the Group's total turnover. In addition, for the year ended 31 December 2008, the five largest suppliers of the Group accounted for 26% of the Group's total purchases while the largest supplier of the Group accounted for 7% of the Group's total purchases.

At no time during the year have the Directors or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008.

## CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

## AUDITORS

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

**Ko Chun Shun, Johnson**
*Chairman*

Hong Kong, 22 April 2009

# REPORT OF THE INDEPENDENT AUDITOR

**Independent auditor's report to the shareholders of Varitronix International Limited**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Varitronix International Limited (the "Company") set out on pages 27 to 65, which comprise the consolidated and Company balance sheets as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 April 2009

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

| | Note | 2008<br>$'000 | 2007<br>$'000 |
|---|---|---|---|
| Turnover | 2 | **2,411,894** | 2,618,199 |
| Other operating (loss)/ income | 3 | **(69,409)** | 70,915 |
| Change in inventories of finished goods and work in progress | | **(76,034)** | 54,614 |
| Raw material and consumables used | | **(1,626,605)** | (1,847,899) |
| Staff costs | | **(263,460)** | (294,434) |
| Depreciation | | **(83,892)** | (83,511) |
| Other operating expenses | | **(267,322)** | (232,631) |
| Profit from operations | | **25,172** | 285,253 |
| Finance costs | 4(a) | **(9,278)** | (3,422) |
| Negative goodwill arising on acquisition of an associate | 13 | **14,861** | – |
| Share of losses of associates | 13 | **(3,330)** | (40) |
| Profit before taxation | 4 | **27,425** | 281,791 |
| Income tax | 7(a) | **(10,716)** | (27,312) |
| **Profit for the year** | | **16,709** | 254,479 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | 8, 25(a) | **15,048** | 260,367 |
| Minority interests | 25(a) | **1,661** | (5,888) |
| **Profit for the year** | | **16,709** | 254,479 |
| **Dividends payable to equity shareholders of the Company attributable to the year:** | 9 | | |
| Interim dividend declared during the year | | **38,811** | 38,811 |
| Final dividend proposed after the balance sheet date | | **3,234** | 84,090 |
| | | **42,045** | 122,901 |
| **Earnings per share** | | | |
| **Basic** | 10(a) | **4.7 cents** | 80.5 cents |
| **Diluted** | 10(b) | **4.7 cents** | 80.5 cents |

## CONSOLIDATED BALANCE SHEET

at 31 December 2008
(Expressed in Hong Kong dollars)

| | Note | 2008<br>$'000 | 2007<br>$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 11 | | |
| – Investment properties | | **1,460** | 7,777 |
| – Other property, plant and equipment | | **455,549** | 385,781 |
| – Interest in leasehold land held for own use | | **8,696** | 19,516 |
| | | **465,705** | 413,074 |
| Interest in associates | 13 | **124,141** | 2,306 |
| Loans receivable | 14 | **132,618** | 52,048 |
| Other financial assets | 15 | **176,358** | 105,077 |
| Deferred tax assets | 23(b) | **4,898** | 3,983 |
| | | **903,720** | 576,488 |
| **Current assets** | | | |
| Trading securities | 16 | **116,758** | 127,269 |
| Inventories | 17 | **300,256** | 545,323 |
| Trade and other receivables | 18 | **507,005** | 541,126 |
| Current taxation recoverable | 23(a) | **2,840** | 1,794 |
| Cash and cash equivalents | 19 | **514,154** | 544,987 |
| | | **1,441,013** | 1,760,499 |
| **Current liabilities** | | | |
| Bank loans | 20 | **208,107** | 149,160 |
| Trade and other payables | 21 | **574,018** | 660,151 |
| Current taxation payable | 23(a) | **1,133** | 4,308 |
| | | **783,258** | 813,619 |
| **Net current assets** | | **657,755** | 946,880 |
| **Total assets less current liabilities** | | **1,561,475** | 1,523,368 |
| **Non-current liabilities** | | | |
| Bank loans | 20 | **152,666** | – |
| Deferred tax liabilities | 23(b) | **80** | 195 |
| **NET ASSETS** | | **1,408,729** | 1,523,173 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 25(a) | **80,856** | 80,856 |
| Reserves | | **1,313,241** | 1,428,622 |
| Total equity attributable to equity shareholders of the Company | 25(a) | **1,394,097** | 1,509,478 |
| Minority interests | 25(a) | **14,632** | 13,695 |
| **TOTAL EQUITY** | | **1,408,729** | 1,523,173 |

Approved and authorised for issue by the board of directors on 22 April 2009

| **Tsoi Tong Hoo, Tony**<br>*Director* | **Ko Chun Shun, Johnson**<br>*Director* |
|---|---|

The notes on pages 30 to 65 form part of these financial statements.

## BALANCE SHEET

at 31 December 2008
(Expressed in Hong Kong dollars)

| | Note | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interest in subsidiaries | 12 | **654,214** | 930,065 |
| Loan receivable | 14 | **56,849** | – |
| Other financial assets | 15 | **154,979** | – |
| | | **866,042** | 930,065 |
| **Current assets** | | | |
| Trade and other receivables | 18 | **1,010** | 12,482 |
| Cash and cash equivalents | 19 | **890** | 733 |
| | | **1,900** | 13,215 |
| **Current liabilities** | | | |
| Trade and other payables | | **10,253** | 13,196 |
| **Net current (liabilities)/ assets** | | **(8,353)** | 19 |
| **NET ASSETS** | | **857,689** | 930,084 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 25(b) | **80,856** | 80,856 |
| Reserves | 25(b) | **776,833** | 849,228 |
| **TOTAL EQUITY** | | **857,689** | 930,084 |

Approved and authorised for issue by the board of directors on 22 April 2009

**Tsoi Tong Hoo, Tony**
*Director*

**Ko Chun Shun, Johnson**
*Director*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

| | Note | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Total equity at 1 January** | | **1,523,173** | 1,342,070 |
| **Net income for the year recognised directly in equity:** | | | |
| Changes in fair value of available-for-sale securities | 25(a) | **(11,223)** | 3,124 |
| Exchange differences on translation of financial statements of foreign operations | 25(a) | **2,218** | 13,317 |
| Net (loss)/income for the year recognised directly in equity | | **(9,005)** | 16,441 |
| **Transfer from equity** | | | |
| Transfer to profit or loss on disposal of available-for-sale securities | 25(a) | **618** | 7,676 |
| Transfer to profit or loss on impairment of available-for-sale securities | 25(a) | **135** | – |
| Transfer to profit or loss on reclassification to trading securities | 25(a) | **–** | 21,391 |
| | | **753** | 29,067 |
| **Net profit for the year** | 25(a) | **16,709** | 254,479 |
| | | **17,462** | 283,546 |
| **Total recognised income for the year** | | **8,457** | 299,987 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **7,520** | 305,390 |
| Minority interests | | **937** | (5,403) |
| | | **8,457** | 299,987 |
| **Movements in equity arising from capital transactions:** | | | |
| Minority interests acquired by the Group | 25(a) | **–** | (2,452) |
| Dividends declared or approved during the year | | **(122,901)** | (116,432) |
| **Total equity at 31 December** | | **1,408,729** | 1,523,173 |

The notes on pages 30 to 65 form part of these financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

| | Note | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **27,425** | 281,791 |
| Adjustments for: | | | |
| – Depreciation | | **83,892** | 83,511 |
| – Impairment made/(written-back) of fixed assets | | **2,895** | (7,416) |
| – Impairment on available-for-sale securities | | **8,519** | – |
| – Impairment on inventories | | **(9,734)** | 15,226 |
| – Finance costs | | **9,278** | 3,422 |
| – Dividend income from investments | | **(8,798)** | (258) |
| – Interest income | | **(21,504)** | (19,156) |
| – Transfer from equity on disposal of available-for-sale securities | | **618** | 7,676 |
| – Realised and unrealised losses/(gains) on trading securities | | **59,754** | (26,797) |
| – Unrealised losses on derivative financial instruments | | **12,215** | 2,366 |
| – Realised losses on equity linked notes | | **48,767** | – |
| – Share of losses of associates | | **3,330** | 40 |
| – Negative goodwill arising on acquisition of an associate | | **(14,861)** | – |
| – Profit on disposal of fixed assets | | **(31,138)** | (4,342) |
| – Foreign exchange loss/(gain) | | **27,606** | (10,485) |
| **Operating profit before changes in working capital** | | **198,264** | 325,578 |
| Decrease/(increase) in inventories | | **254,801** | (223,412) |
| Decrease/(increase) in trade and other receivables | | **21,906** | (124,790) |
| (Decrease)/increase in trade and other payables | | **(86,133)** | 182,115 |
| **Cash generated from operations** | | **388,838** | 159,491 |
| Tax paid | | | |
| – Hong Kong Profits Tax refunded/(paid) | | **1,492** | (25,207) |
| – Overseas tax paid | | **(17,459)** | (11,989) |
| **Net cash generated from operating activities** | | **372,871** | 122,295 |

| | Note | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Proceeds from disposal of fixed assets | | **95,431** | 7,183 |
| Payment for purchase of fixed assets | | **(195,317)** | (147,611) |
| Proceeds from disposal of available-for-sale securities | | **23,162** | 2,041 |
| Payment for purchase of available-for-sale securities | | **(154,979)** | (72,519) |
| Proceeds from sale of trading securities | | **186,425** | 393,453 |
| Payment for purchase of trading securities | | **(235,668)** | (297,005) |
| Proceeds from sale of equity linked notes | | **67,483** | – |
| Payment for purchase of equity linked notes | | **(116,250)** | – |
| Payment for loans receivable | | **(93,576)** | – |
| Repayment of loans receivable | | **13,027** | – |
| Payment for purchase of an associate | | **(56,689)** | (2,346) |
| Proceeds on disposal of subsidiaries | | **–** | 29,691 |
| Dividends received | | **8,798** | 258 |
| Interest received | | **21,504** | 19,156 |
| **Net cash used in investing activities** | | **(436,649)** | (67,699) |
| **Financing activities** | | | |
| New bank loans | | **437,079** | 263,707 |
| Repayment of bank loans | | **(266,956)** | (159,691) |
| Interest paid | | **(9,278)** | (3,422) |
| Dividends paid | | **(122,900)** | (116,432) |
| **Net cash generated from/(used in) financing activities** | | **37,945** | (15,838) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(25,833)** | 38,758 |
| **Cash and cash equivalents at 1 January** | | **544,987** | 498,688 |
| **Effect of foreign exchange rates changes** | | **(5,000)** | 7,541 |
| **Cash and cash equivalents at 31 December** | 19 | **514,154** | 544,987 |

The notes on pages 30 to 65 form part of these financial statements.

# NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These 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 (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company. However, none of these developments are relevant to the Group's or the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 32).

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that available-for-sale securities, trading securities and derivative financial instruments are stated at their fair value as explained in notes 1(f) and 1(g).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 31.

### (c) Subsidiaries and minority interest

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In accessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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 represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)), unless the investment is classified as held for sale, in which case it is stated at the lower of its carrying amount and fair value less costs to sell. An investment in a subsidiary is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the investment is available for sale in its present condition.

## 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, unless it is classified as held for sale, in which case it is stated at the lower of its carrying amount and fair value less costs to sell. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of associates for the year.

When the Group's share of losses exceeds its interest in an associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in associates is the carrying amount of the investments under the equity method together with the Group's long-term interests that, in substance, form part of the Group's net investment in the associates.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

### (e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associates.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the consolidated income statement.

On disposal of a cash-generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (f) Other investments in debt and equity securities

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

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicted otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

- Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the consolidated income statement as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement does not include any dividends or interest earned on these investments as these are recognised in accordance with the accounting policies set out in notes 1(q)(iii) and 1(q)(ii) respectively.

- Investments in securities which do not fall into the above category are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Income from these investments is recognised in the consolidated income statement in accordance with the accounting policy set out in note 1(q)(iii) and, when these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in the consolidated income statement.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

### (g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives financial instruments are designated as a hedge of the variability in cash flows of a recognised liability which qualifies for cash flow hedge accounting, in which case any gain or loss on remeasurement of the effective portion of the derivative financial instruments to fair value is recognised directly in equity. Any gain or loss on remearsurement of the ineffective portion is recognised immediately in the consolidated income statement.

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Investment properties and other property, plant and equipment

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(i)) to earn rental income, or for capital appreciation or for a currently undetermined future use.

Both investment properties and other items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation/amortisation and impairment losses (see note 1(j)).

When the Group holds a property interest held under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance lease. Lease payments are accounted for as described in note 1(i).

Depreciation is calculated to write off the cost of items of investment properties and other property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

| | |
|---|---|
| – Investment properties | 33 years |
| – Leasehold land | Over the lease term |
| – Buildings | 40 years |
| – Plant and machinery | 2 to 7 years |
| – Tools and equipment | 2 to 5 years |
| – Others | 2 to 5 years |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an investment property or an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

### (i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### *(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

#### *(ii) Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the lease term except where the property is classified as an investment property (see note 1(h)).

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (j) Impairment of assets

*(i) Impairment of investments in debt and equity securities and trade and other receivables*

Investments in debt and equity securities (other than investments in subsidiaries and associates) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- a significant or prolonged decline in the fair value of an investment in an equity securities below its cost;
- For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed; and
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other current receivables and other financial assets carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. This assessment is made collectively where financial assets carried at cost or amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the consolidated income statement. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement.

  Impairment losses recognised in the consolidated income statement in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for bad and doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed.

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (j) Impairment of assets (continued)

#### *(i) Impairment of investments in debt and equity securities, and trade and other receivables (continued)*

Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the consolidated income statement.

#### *(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired:

- investments in subsidiaries; and
- investment properties and other property, plant and equipment.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- 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).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets, 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 not reversed.

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 consolidated income statement in the year in which the reversals are recognised.

#### *(iii) Interim financial reporting and impairment*

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

### (k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debt (see note 1(j)), except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

### (l) Loans receivable

Loans receivable are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less any identified impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The impairment recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### (m) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (n) 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.

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Inventories (continued)

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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (o) 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 consolidated cash flow statement.

### (p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the consolidated income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (q) 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 consolidated 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 is recognised as it accrues using the effective interest method.

(iii) Dividend income from listed securities is recognised when the share price of the security goes ex-dividend. Dividend income from unlisted investments is recognised in the accounting period in which it is declared or proposed and approved by shareholders of the investee company.

(iv) Profit on sale of listed securities is recognised on the trade date basis.

### (r) Employee benefits

#### *(i) Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave 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.

Contributions to defined contribution retirement plans and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised in the consolidated income statement as incurred.

In accordance with the rules and regulations in the PRC, the Group has arranged for its local employees to join defined contribution retirement plans organised by the PRC government. The PRC government undertakes to assume the retirement benefits obligations of all existing and future retired employees payable under the plans. The assets of those plans are held separately from those of the Group in an independent fund managed by the PRC government. The Group is required to make monthly defined contributions to these plans at rates ranging from 15% to 20% of the employees' total salary subject to a certain ceiling. The Group has no other obligations for the payment of retirement and other post-retirement benefit of employees or retirees other than the payments disclosed above.

#### *(ii) Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (s) Financial guarantees issued, provisions and contingent liabilities

#### *(i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

#### *(ii) Other provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (t) Income tax

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 profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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.

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. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences relating to investments in subsidiaries and associates to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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.

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Income tax (continued)

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 profits 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.

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 the Company or 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 Company or 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.

### (u) Research and development

Research and development expenditure is recognised as an expense in the period in which it is incurred.

### (v) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred.

### (w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

### (x) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit or employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (y) 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 system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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, tax balances, corporate and financing expenses and minority interests.

## 2 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.

## 3 OTHER OPERATING (LOSS)/INCOME

| | **2008 $'000** | 2007 $'000 |
|---|---|---|
| Dividend income from listed equity securities | **8,798** | 258 |
| Interest income from listed debt securities | **667** | 963 |
| Interest income from unlisted debt securities | **4,337** | 1,325 |
| Interest income from unlisted investment funds | **–** | 429 |
| Other interest income | **16,500** | 16,439 |
| Rental income under operating leases | **16,423** | 7,098 |
| Profit on disposal of fixed assets | **31,138** | 4,342 |
| Transfer from equity on disposal of available-for-sale securities | **(618)** | (7,676) |
| Realised and unrealised (losses)/gains on trading securities | **(59,754)** | 26,797 |
| Realised losses on equity linked notes | **(48,767)** | – |
| Unrealised losses on derivative financial assets | **(12,215)** | (2,366) |
| Exchange (loss)/gain | **(47,060)** | 10,644 |
| Net insurance compensation | **11,172** | – |
| Other income | **9,970** | 12,662 |
| | **(69,409)** | 70,915 |

## 4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

| | **2008 $'000** | 2007 $'000 |
|---|---|---|
| **(a) Finance costs:** | | |
| Interest on bank advances and other borrowings repayable within five years | **9,278** | 3,422 |
| **(b) Other items:** | | |
| Cost of inventories | **1,959,990** | 1,983,387 |
| Auditors' remuneration – audit services | **3,577** | 3,248 |
| Research and development costs | **71,558** | 74,671 |
| Rental charges under operating leases | **6,266** | 8,148 |
| Contributions to defined contribution retirement plan | **5,203** | 5,515 |
| Other retirement scheme costs | **–** | 38 |
| **(c) Impairment losses made/(written-back):** | | |
| Fixed assets | **2,895** | (7,416) |
| Trade and other receivables | **(14,419)** | 5,468 |
| Available-for-sale securities | **8,519** | – |
| Inventories | **(9,734)** | 15,226 |

## 5 DIRECTORS' REMUNERATION

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

**Year ended 31 December 2007**

| | Directors' fees $'000 | Salaries, allowances and benefits in kind $'000 | Discretionary bonuses $'000 | Retirement scheme contributions $'000 | Total $'000 |
|---|---|---|---|---|---|
| *Executive Directors* | | | | | |
| Dr Chang Chu Cheng* | – | 1,027 | – | 6 | 1,033 |
| Ko Chun Shun, Johnson | – | 2,400 | 2,000 | 120 | 4,520 |
| Tsoi Tong Hoo, Tony | – | 3,211 | 6,000 | 143 | 9,354 |
| Ho Te Hwai, Cecil | – | 260 | 700 | 12 | 972 |
| *Non-executive Directors* | | | | | |
| Dr. Lo Wing Yan, William | 200 | – | – | – | 200 |
| Yuen Kin | 200 | – | – | – | 200 |
| Hou Ziqiang | 200 | – | – | – | 200 |
| **Total** | 600 | 6,898 | 8,700 | 281 | 16,479 |

* Dr. Chang Chu Cheng retired as Director and became Honorary Chairman on 11 June 2007. The 4,300,000 share options held by Dr. Chang were retained until the end of the expiry of the respective exercisable periods of the share options.

**Year ended 31 December 2008**

| | **Directors' fees $'000** | **Salaries, allowances and benefits in kind $'000** | **Discretionary bonuses $'000** | **Retirement scheme contributions $'000** | **Total $'000** |
|---|---|---|---|---|---|
| *Executive Directors* | | | | | |
| Ko Chun Shun, Johnson | **–** | **2,590** | **–** | **120** | **2,710** |
| Tsoi Tong Hoo, Tony | **–** | **5,038** | **2,000** | **240** | **7,278** |
| Ho Te Hwai, Cecil | **–** | **964** | **250** | **12** | **1,226** |
| *Non-executive Directors* | | | | | |
| Dr. Lo Wing Yan, William | **200** | **–** | **–** | **–** | **200** |
| Yuen Kin | **200** | **–** | **–** | **–** | **200** |
| Hou Ziqiang | **200** | **–** | **–** | **–** | **200** |
| **Total** | **600** | **8,592** | **2,250** | **372** | **11,814** |

## 6 FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

The five highest paid individuals in the Group includes two (2007: two) Directors, whose emoluments are disclosed in note 5, and three (2007: three) others whose emoluments are as follows:

| | **2008 $'000** | 2007 $'000 |
|---|---|---|
| Salaries and allowances | **6,324** | 4,757 |
| Retirement scheme contributions | **263** | 75 |
| | **6,587** | 4,832 |

The emoluments of the three (2007: three) individuals with the highest emoluments are within the following bands:

| | **2008 Number of individuals** | 2007 Number of individuals |
|---|---|---|
| $1,000,001 – $1,500,000 | **1** | – |
| $1,500,001 – $2,000,000 | **1** | 2 |
| $2,000,001 – $2,500,000 | **–** | 1 |
| $3,500,001 – $4,000,000 | **1** | – |

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

**(a) Taxation in the consolidated income statement represents:**

| | **2008 $'000** | 2007 $'000 |
|---|---|---|
| **Current tax – Provision for Hong Kong Profits Tax** | | |
| Provision for Hong Kong Profits Tax for the year | **5,070** | 12,927 |
| (Over)/under-provision in respect of prior years | **(7,521)** | 4,108 |
| | **(2,451)** | 17,035 |
| **Current tax – Overseas** | | |
| Provision for the year | **14,197** | 9,381 |
| Over-provision in respect of prior years | **–** | (33) |
| | **14,197** | 9,348 |
| **Deferred tax** | | |
| Movement in temporary differences (note 23(b)) | **(1,030)** | 929 |
| | **10,716** | 27,312 |

In June 2008, the Hong Kong Government promulgated a decrease in the Hong Kong Profits Tax rate applicable to the Group's operations in Hong Kong from 17.5% to 16.5% as from the year ended 31 December 2008 and a one-off reduction of 75% of the tax payable for the year of assessment 2007/08 subject to ceiling of $25,000. This decrease is taken into account in the preparation of these financial statements. Accordingly, the provision for Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year and the opening balance of deferred tax has been re-estimated. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

As disclosed in the Group's financial statements for the year ended 31 December 2007, a subsidiary had received from the Hong Kong Inland Revenue Department ("IRD") additional assessments relating to the years of assessment 1994/95 to 2004/05 relating to a dispute over the deductibility of certain sub-contracting charges for tax assessment purposes. In 2006, the subsidiary reached an agreement with the IRD for settlement for the years of assessment 1994/95 to 2003/04. However, formal agreement in respect of subsequent years, i.e. the years of assessment 2004/05 to date is still outstanding. Tax returns for these years have been based on the settlement agreed with the IRD in 2006 and the directors consider that provisions and tax payments made for the years of assessment 2004/05 to 2008/09, which we are still subject to agreement by the IRD, are sufficient.

**(b) Reconciliation between tax expense and accounting profit at applicable tax rates:**

| | **2008 $'000** | 2007 $'000 |
|---|---|---|
| **Profit before taxation** | **27,425** | 281,791 |
| Notional tax on profit before taxation calculated at the rates applicable to profits in the countries concerned | **6,553** | 32,491 |
| Tax effect of non-deductible expenses | **43,506** | 27,662 |
| Tax effect of non-taxable revenue | **(32,308)** | (37,680) |
| Prior year's tax loss utilised this year | **(10)** | – |
| Effect of opening deferred tax balances resulting from an increase in tax rate during the year | **(215)** | – |
| Tax effect of unused tax losses not recognised | **104** | 764 |
| (Over)/under-provision in prior years | **(7,521)** | 4,075 |
| Others | **607** | – |
| **Actual tax expense** | **10,716** | 27,312 |

## 8 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $14,491,000 (2007: $128,963,000) which has been dealt with in the financial statements of the Company.

**Reconciliation of the above amount to the Company's profit for the year:**

| | **2008 $'000** | 2007 $'000 |
|---|---|---|
| Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements | **14,491** | 128,963 |
| Dividends from subsidiaries attributable to the profits of subsidiaries, approved and paid during the year | **36,015** | 39,297 |
| **Company's profit for the year (note 25(b))** | **50,506** | 168,260 |

## 9 DIVIDENDS

### (a) Dividends payable to equity shareholders of the Company attributable to the year

| | **2008 $'000** | 2007 $'000 |
|---|---|---|
| Interim dividend declared and paid of 12.0 cents (2007: 12.0 cents) per share | **38,811** | 38,811 |
| Final dividend proposed after the balance sheet date of 1.0 cent (2007: 26.0 cents) per share | **3,234** | 84,090 |
| | **42,045** | 122,901 |

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

### (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

| | **2008 $'000** | 2007 $'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of 26.0 cents (2007: 24.0 cents) per share | **84,090** | 77,621 |

## 10 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of $15,048,000 (2007: $260,367,000) and the weighted average number of shares of 323,422,204 shares (2007: 323,422,204 shares) in issue during the year.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of $15,048,000 (2007: $260,367,000) and the weighted average number of shares of 323,452,342 shares (2007: 323,608,859 shares) after adjusting for the effects of all dilutive potential shares.

### (c) Weighted average number of shares (diluted)

| | **2008 Number of shares** | 2007 Number of shares |
|---|---|---|
| Weighted average number of shares used in calculating basic earnings per share | **323,422,204** | 323,422,204 |
| Effect of deemed issue of shares for no consideration arising from the Company's share option scheme | **30,138** | 186,655 |
| Weighted average number of shares used in calculating diluted earnings per share | **323,452,342** | 323,608,859 |

## 11 FIXED ASSETS

**The Group**

| | Land and buildings held for own use $'000 | Plant, machinery, tools and equipment $'000 | Others $'000 | Sub-total $'000 | Investment properties $'000 | Interest in leasehold land held for own use under operating leases $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 January 2007 | 261,803 | 670,926 | 173,819 | 1,106,548 | 21,296 | 36,908 | 1,164,752 |
| Exchange adjustments | 7,519 | 12,610 | 3,841 | 23,970 | – | 1,020 | 24,990 |
| Additions | – | 138,714 | 8,897 | 147,611 | – | – | 147,611 |
| Disposals | – | (24,964) | (13,527) | (38,491) | (4,995) | – | (43,486) |
| At 31 December 2007 | 269,322 | 797,286 | 173,030 | 1,239,638 | 16,301 | 37,928 | 1,293,867 |
| At 1 January 2008 | **269,322** | **797,286** | **173,030** | **1,239,638** | **16,301** | **37,928** | **1,293,867** |
| Exchange adjustments | **(777)** | **14,256** | **2,046** | **15,525** | **(1)** | **14** | **15,538** |
| Additions | **–** | **175,645** | **19,672** | **195,317** | **–** | **–** | **195,317** |
| Transfer | **–** | **(4,055)** | **4,055** | **–** | **–** | **–** | **–** |
| Disposals | | | | | | | |
| – others | **(121,783)** | **(29,222)** | **(24,606)** | **(175,611)** | **(11,306)** | **(18,900)** | **(205,817)** |
| – through write off of subsidiary's assets | **–** | **(228)** | **–** | **(228)** | **–** | **–** | **(228)** |
| At 31 December 2008 | **146,762** | **953,682** | **174,197** | **1,274,641** | **4,994** | **19,042** | **1,298,677** |
| **Accumulated amortisation and depreciation and impairment losses:** | | | | | | | |
| At 1 January 2007 | 122,392 | 540,002 | 138,170 | 800,564 | 11,130 | 17,439 | 829,133 |
| Exchange adjustments | 2,825 | 6,406 | 2,879 | 12,110 | – | 412 | 12,522 |
| Charge for the year | 4,752 | 60,142 | 17,614 | 82,508 | 442 | 561 | 83,511 |
| Impairment loss | – | (7,987) | 571 | (7,416) | – | – | (7,416) |
| Written back on disposals | – | (24,129) | (9,780) | (33,909) | (3,048) | – | (36,957) |
| At 31 December 2007 | 129,969 | 574,434 | 149,454 | 853,857 | 8,524 | 18,412 | 880,793 |
| At 1 January 2008 | **129,969** | **574,434** | **149,454** | **853,857** | **8,524** | **18,412** | **880,793** |
| Exchange adjustments | **(1,803)** | **7,118** | **1,999** | **7,314** | **–** | **(210)** | **7,104** |
| Charge for the year | **3,184** | **66,910** | **13,360** | **83,454** | **106** | **332** | **83,892** |
| Transfer | **–** | **(87)** | **87** | **–** | **–** | **–** | **–** |
| Impairment loss | **2,559** | **–** | **–** | **2,559** | **–** | **336** | **2,895** |
| Written back on disposals | | | | | | | |
| – others | **(74,499)** | **(29,099)** | **(24,302)** | **(127,900)** | **(5,096)** | **(8,524)** | **(141,520)** |
| – through write off of subsidiary's assets | **–** | **(192)** | **–** | **(192)** | **–** | **–** | **(192)** |
| At 31 December 2008 | **59,410** | **619,084** | **140,598** | **819,092** | **3,534** | **10,346** | **832,972** |
| **Net book value:** | | | | | | | |
| **At 31 December 2008** | **87,352** | **334,598** | **33,599** | **455,549** | **1,460** | **8,696** | **465,705** |
| At 31 December 2007 | 139,353 | 222,852 | 23,576 | 385,781 | 7,777 | 19,516 | 413,074 |

## 11 FIXED ASSETS (continued)

**The Group (continued)**

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

**(b)** The analysis of the net book value of properties is as follows:

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| In Hong Kong | | |
| – medium-term leases | **11,090** | 75,520 |
| Outside Hong Kong | | |
| – freehold | **–** | 579 |
| – long-term leases | **24,080** | 28,247 |
| – medium-term leases | **53,496** | 53,157 |
| – no specified lease term | **8,842** | 9,143 |
| | **86,418** | 91,126 |
| | **97,508** | 166,646 |
| Representing: | | |
| Land and buildings held for own use | **87,352** | 139,353 |
| Investment properties | **1,460** | 7,777 |
| Interest in leasehold land held for own use under operating leases | **8,696** | 19,516 |
| | **97,508** | 166,646 |

**(c)** Investment properties of the Group are stated at cost less accumulated depreciation.

**(d) Fixed assets leased out under operating leases**

The Group leases out investment properties and certain items of machinery under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date at which time all terms are renegotiated.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property. The fair value of the investment properties as at 31 December 2008, as determined by the directors of the Company by reference to recent market transactions in comparable properties, amounted to $5,962,000 (2007: $27,219,000). Investment properties have not been valued by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Within 1 year | **9,223** | 16,092 |

## 12 INTEREST IN SUBSIDIARIES

| | The Company 2008 $'000 | The Company 2007 $'000 |
|---|---|---|
| Unlisted shares, at cost | **101,453** | 101,453 |
| Amounts due from subsidiaries | **552,761** | 828,612 |
| | **654,214** | 930,065 |

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

(Expressed in Hong Kong dollars unless otherwise indicated)

## 12 INTEREST IN SUBSIDIARIES (continued)

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

| | Name of company | Place of incorporation/ operation | Particulars of issued/ registered capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|---|
| * | Coway Technology Limited | British Virgin Islands/ Hong Kong | 50,000 ordinary shares of US$1 each | 100% | – | 100% | Investment holding |
| * | In Achieve Investments Limited | British Virgin Islands/ Hong Kong | 1,000 ordinary shares of US$1 each | 100% | – | 100% | Investment holding |
| | Link Score Investment Limited | Hong Kong | 100 ordinary shares of $1 each | 100% | – | 100% | Property investment and investment holding |
| * | Midsino Group Limited | British Virgin Islands/ Hong Kong | 1 ordinary share of US$1 | 100% | – | 100% | Investment holding |
| | Polysources Properties Limited | Hong Kong | 2 ordinary shares of $100 each 154 non-voting deferred ordinary shares of $100 each | 100% | – | 100% | Property investment |
| * | Smart State Group Limited | British Virgin Islands/ Hong Kong | 1 ordinary share of US$1 | 100% | – | 100% | Investment holding |
| * | Starel Trading Limited | Republic of Cyprus/United Kingdom | 1,000 shares of Cyprus £1 each | 100% | – | 100% | Property investment |
| * | Steding Limited | British Virgin Islands/ Hong Kong | 1,000 ordinary shares of US$1 each | 100% | – | 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% | – | 100% | Design, manufacture and sale of liquid crystal displays and related products |
| * | Varitronix (B.V.I.) Limited | British Virgin Islands/ Hong Kong | 18,480 ordinary shares of US$1 each | 100% | 100% | – | Investment holding |

## 12 INTEREST IN SUBSIDIARIES (continued)

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. (continued)

| | Name of company | Place of incorporation/ operation | Particulars of issued/ registered capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|---|
| #* | Varitronix Electronics (Shenzhen) Limited | The People's Republic of China | US$2,100,000 | 100% | – | 100% | Manufacture of liquid crystal displays and related products |
| | Varitronix Finance Limited | British Virgin Islands/ Hong Kong | 100 ordinary shares of US$1 each | 100% | – | 100% | Provision of financial co-ordination services for group companies and holding of trading securities |
| | Varitronix France SAS | France | 2,500 ordinary shares of €15.25 each | 100% | – | 100% | Marketing and sales consultants |
| * | Varitronix GmbH | Germany | 100,000 shares of €0.51 each | 60% | – | 60% | Marketing and sales consultants |
| #* | Varitronix (Heyuan) Co. Ltd. | The People's Republic of China | RMB78,910,000 | 90.1% | – | 90.1% | Manufacture of liquid crystal displays and related products |
| #* | Varitronix (Heyuan) Display Technology Limited | The People's Republic of China | RMB192,919,473 | 100% | – | 100% | Manufacture of liquid crystal displays and related products |
| | Varitronix Investment Limited | British Virgin Islands/ Hong Kong | 5,000 ordinary shares of US$1 each | 100% | – | 100% | Investment holding |
| * | Varitronix Italy s.r.l. | Italy | 12,000 ordinary shares of €1 each | 100% | – | 100% | Marketing and sales consultant |
| * | Varitronix (Macao Commercial Offshore) Limited | Macau | MOP100,000 | 100% | – | 100% | Trading of electronic components |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 12 INTEREST IN SUBSIDIARIES (continued)

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. (continued)

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| **Name of company** | **Place of incorporation/ operation** | **Particulars of issued/ registered capital** | **Group's effective interest** | **Held by the Company** | **Held by a subsidiary** | **Principal activities** |
| * Varitronix Manufacturing (BVI) Limited | British Virgin Islands/The People's Republic of China | 100 ordinary shares of US$1 each | 100% | – | 100% | Subcontract and operate production plant in the People's Republic of China |
| * Varitronix Marketing Limited | British Virgin Islands/ United Kingdom | 1,000 shares of US$1 each | 100% | – | 100% | Investment holding |
| # Varitronix Pengyuan Electronics Limited | The People's Republic of China | RMB15,000,000 | 100% | – | 100% | Liquid crystal display business |
| * Varitronix Shenzhen Linkscore Limited | The People's Republic of China | RMB500,000 | 100% | – | 100% | Trading of electronic components |
| * Varitronix (Switzerland) GmbH | Switzerland | CHF30,000 | 100% | – | 100% | Marketing and sales consultants |
| * Varitronix (U.K.) Limited | United Kingdom | 100 ordinary shares of GBP10 each | 100% | – | 100% | Marketing and sales consultants |
| * VL Electronics, Inc. | United States | 5,000 common stock of US$10 each | 100% | – | 100% | Marketing and sales consultants |

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total assets and total turnover constituting approximately 28% (2007: 27%) and 17% (2007: 11%) respectively of the related consolidated totals.

| # *Name of company* | *Type of legal entity* |
|---|---|
| Varitronix Electronics (Shenzhen) Limited | Wholly owned foreign enterprise |
| Varitronix (Heyuan) Co. Ltd. | Sino-foreign co-operative joint venture |
| Varitronix (Heyuan) Display Technology Limited | Wholly owned foreign enterprise |
| Varitronix Pengyuan Electronics Limited | Sino-foreign equity joint venture |

## 13 INTEREST IN ASSOCIATES

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Share of net assets | **123,041** | 804 |
| Amount due from associate | **1,100** | 1,502 |
| | **124,141** | 2,306 |

### (a) Particulars of the associates

Set out below are the particulars of the associates, which principally affected the results or assets of the Group.

| Name of associate | Place of incorporation and operation | Particulars of issued/registered capital | Attributable equity interest % indirect | Principal activity |
|---|---|---|---|---|
| New On Technology Company Limited | Korea | 40,000 ordinary shares of KRW5,000 each | 50% | Trading of electronic components |
| Data Modul Aktiengesellschaft ("Data Modul") | Germany | 3,205,620 ordinary shares of Euro 1 each | 20% | Manufacturing of complete flat display monitors in liquid crystal displays and plasma technology for the industrial and professional areas |

### (b) Summary financial information on associates

| | Assets $'000 | Liabilities $'000 | Equity $'000 | Revenues $'000 | Profits/ (losses) $'000 |
|---|---|---|---|---|---|
| **2008** | | | | | |
| 100 percent | **708,494** | **(353,012)** | **355,482** | **1,530,451** | **50,182** |
| Group's effective interest | **241,640** | **(118,599)** | **123,041** | **29,923** | **(3,330)** |
| **2007** | | | | | |
| 100 percent | 3,785 | (2,178) | 1,607 | 4,222 | (79) |
| Group's effective interest | 1,893 | (1,089) | 804 | 2,111 | (40) |

Up to 31 December 2007, the Group had acquired a 6.4% equity interest in Data Modul, a company listed on the Frankfurt Stock Exchange for a consideration of $49,119,000. This investment was classified as an available-for-sale security as at 31 December 2007.

Up to 30 November 2008, the Group had acquired a further 13.6% equity interest in Data Modul from the Frankfurt Stock Exchange for a consideration of $56,689,000. On 30 November 2008, the Group had a 20% effective interest in Data Modul.

Negative goodwill of $14,861,000 has been recognised in the consolidated income statement for the year ended 31 December 2008. This negative goodwill has arisen on the acquisition of Data Modul and represents the excess of the fair value of the Group's share of net assets acquired over the consideration paid.

## 14 LOANS RECEIVABLE

Loans receivable represent the loans which are unsecured, bear interest at rates ranging from 4% to 12% per annum and are fully repayable within three years after 2008. Management considers that these loans are recoverable in full.

The loans receivable are repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year * | **25,854** | 26,052 | **–** | – |
| After 1 year but within 5 years | **132,618** | 52,048 | **56,849** | – |
| | **158,472** | 78,100 | **56,849** | – |

* The current portion of loans receivable have been included in trade and other receivables.

## 15 OTHER NON-CURRENT FINANCIAL ASSETS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Available-for-sale debt securities** | | | | |
| Listed outside Hong Kong | **13,080** | 23,260 | **–** | – |
| Unlisted | **3,569** | 23,783 | **–** | – |
| | **16,649** | 47,043 | **–** | – |
| **Available-for-sale equity securities** | | | | |
| Listed | | | | |
| – in Hong Kong | **4,730** | 8,780 | **–** | – |
| – outside Hong Kong | **–** | 49,253 | **–** | – |
| Unlisted | **154,979** | 1 | **154,979** | – |
| | **159,709** | 58,034 | **154,979** | – |
| **Total available-for-sale securities** | **176,358** | 105,077 | **154,979** | – |

Movements in available-for-sale securities are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| At 1 January | **105,077** | 73,534 | **–** | – |
| Additions | **154,979** | 72,519 | **154,979** | – |
| Disposals | **(23,356)** | (2,041) | **–** | – |
| Revaluation (deficit)/surplus (note 25(a)) | **(11,223)** | 3,124 | **–** | – |
| Transfer to profit or loss on impairment | **(8,384)** | – | **–** | – |
| Transfer to trading securities | **–** | (42,059) | **–** | – |
| Transfer to interest in associates | **(40,735)** | – | **–** | – |
| **Total** | **176,358** | 105,077 | **154,979** | – |

## 16 TRADING SECURITIES (AT MARKET VALUE)

| | The Group 2008 $'000 | 2007 $'000 |
|---|---|---|
| **Debt securities** | | |
| Listed | | |
| – outside Hong Kong | **2,248** | 3,809 |
| **Equity securities** | | |
| Listed | | |
| – in Hong Kong | **114,510** | 123,460 |
| **Total** | **116,758** | 127,269 |

## 17 INVENTORIES

### (a) Inventories in the balance sheet comprise:

| | The Group 2008 $'000 | 2007 $'000 |
|---|---|---|
| Raw materials | **152,189** | 321,222 |
| Work in progress | **53,352** | 98,939 |
| Finished goods | **94,715** | 125,162 |
| | **300,256** | 545,323 |

### (b) The analysis of the amount of inventories recognised as an expense is as follows:

| | The Group 2008 $'000 | 2007 $'000 |
|---|---|---|
| Carrying amount of inventories sold | **1,969,724** | 1,968,161 |
| Write down of inventories | **21,263** | 15,226 |
| Reversal of write down of inventories | **(30,997)** | – |
| | **1,959,990** | 1,983,387 |

## 18 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 |
| Trade debtors and bills receivable | **333,386** | 359,282 | **–** | – |
| Less: Allowance for doubtful debts | **(8,255)** | (22,674) | **–** | – |
| | **325,131** | 336,608 | **–** | – |
| Other receivables | **141,698** | 145,399 | **367** | 2 |
| | **466,829** | 482,007 | **367** | 2 |
| Loans receivable | **25,854** | 26,052 | **–** | – |
| | **492,683** | 508,059 | **367** | 2 |
| Derivative financial instruments | **1,539** | 4,365 | **–** | – |
| Deposits and prepayments | **12,783** | 28,702 | **643** | 12,480 |
| | **507,005** | 541,126 | **1,010** | 12,482 |

All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

## 18 TRADE AND OTHER RECEIVABLES (continued)

### (a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **$'000** | $'000 |
| Within 60 days of the invoice issue date | **234,331** | 304,848 |
| 61 to 90 days after the invoice issue date | **61,500** | 19,445 |
| 91 to 120 days after the invoice issue date | **23,455** | 8,459 |
| More than 120 days but less than 12 months after the invoice issue date | **5,784** | 3,856 |
| More than 12 months after the invoice issue date | **61** | – |
| | **325,131** | 336,608 |

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

### (b) Impairment of trade debtors and bills receivables

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(j)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| At 1 January | **22,674** | 17,206 | **–** | – |
| Impairment loss (reversed)/recognised | **(14,419)** | 5,468 | **–** | – |
| At 31 December | **8,255** | 22,674 | **–** | – |

At 31 December 2008, the Group's and the Company's trade debtors and bills receivable of $10,712,000 (2007: $22,801,000) and $Nil (2007: $Nil) respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $6,820,000 (2007: $21,506,000) and $Nil (2007: $Nil) respectively were recognised. The Group does not hold any collateral over these balances.

### (c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 60 days of the invoice issue date | **233,232** | 304,766 | **–** | – |
| 61 to 90 days after the invoice issue date | **61,122** | 19,408 | **–** | – |
| 91 to 120 days after the invoice issue date | **23,439** | 8,451 | **–** | – |
| More than 120 days but less than 12 months after the invoice issue date | **4,820** | 3,856 | **–** | – |
| More than 12 months | **61** | – | **–** | – |
| | **89,442** | 31,715 | **–** | – |
| | **322,674** | 336,481 | **–** | – |

## 18 TRADE AND OTHER RECEIVABLES (continued)

Receivables that were within 60 days of the invoice issue date and not impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were over 60 days of the invoice issue date but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 19 CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Deposits with banks and other financial institutions | **211,358** | 187,508 | **–** | – |
| Cash at bank and in hand | **302,796** | 357,479 | **890** | 733 |
| **Cash and cash equivalents in the balance sheet and consolidated cash flow statement** | **514,154** | 544,987 | **890** | 733 |

## 20 BANK LOANS

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

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **$'000** | $'000 |
| Within 1 year or on demand | **208,107** | 149,160 |
| After 1 year but within 2 years | **82,333** | – |
| After 2 years but within 5 years | **70,333** | – |
| | **152,666** | – |
| | **360,773** | 149,160 |

Certain of the Group's banking facilities are subject to the fulfilment of covenants which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(b). As at 31 December 2008, the Group had breached one of the covenants relating to drawn down facilities. Such facility which amounts to $201,180,000 was utilised to the extent of $155,799,000. The Group has received a waiver from compliance with the covenant.

## 21 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade and other creditors | **438,498** | 472,718 | **–** | – |
| Accrued charges | **120,761** | 180,859 | **10,253** | 13,196 |
| Derivative financial instruments | **14,759** | 6,574 | **–** | – |
| | **574,018** | 660,151 | **10,253** | 13,196 |

All creditors and accrued charges of the Group are expected to be settled or recognised as an income within one year or are repayable on demand.

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **$'000** | $'000 |
| Within 60 days of supplier invoice date | **240,296** | 311,477 |
| 61 to 120 days after supplier invoice date | **176,991** | 153,094 |
| More than 120 days but within 12 months after supplier invoice date | **20,201** | 6,495 |
| More than 12 months after supplier invoice date | **1,010** | 1,652 |
| | **438,498** | 472,718 |

## 22 DERIVATIVE FINANCIAL INSTRUMENTS

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **$'000** | $'000 |
| Derivative financial instruments used for hedging: | | |
| Interest rate swaps | **(11,367)** | – |
| Foreign exchange forward contracts | **(1,853)** | (2,209) |
| | **(13,220)** | (2,209) |
| **Represented by:** | | |
| Derivative financial instruments assets | **1,539** | 4,365 |
| Derivative financial instruments liabilities | **(14,759)** | (6,574) |
| | **(13,220)** | (2,209) |

## 23 INCOME TAX IN THE BALANCE SHEET

### (a) Current taxation in the balance sheet represents:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **$'000** | $'000 |
| Provision for Hong Kong Profits Tax for the year | **5,070** | 12,927 |
| Provisional Hong Kong Profits Tax paid | **(5,045)** | (11,420) |
| Balance of Hong Kong Profits Tax relating to prior years | **329** | (194) |
| Overseas tax | **(2,061)** | 1,201 |
| | **(1,707)** | 2,514 |
| Current tax recoverable | **(2,840)** | (1,794) |
| Current tax payable | **1,133** | 4,308 |
| | **(1,707)** | 2,514 |

## 23 INCOME TAX IN THE BALANCE SHEET (continued)

**(b) Deferred tax assets and liabilities recognised:**

**The Group**

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

| | Depreciation allowances in excess of the related depreciation $'000 | Provisions $'000 | Others $'000 | Total $'000 |
|---|---|---|---|---|
| At 1 January 2007 | 1,425 | (5,692) | (450) | (4,717) |
| Charged to profit or loss (note 7(a)) | 479 | – | 450 | 929 |
| At 31 December 2007 | 1,904 | (5,692) | – | (3,788) |

| | **Depreciation allowances in excess of the related depreciation $'000** | **Provisions $'000** | **Total $'000** |
|---|---|---|---|
| At 1 January 2008 | **1,904** | **(5,692)** | **(3,788)** |
| Credited to profit or loss (note 7(a)) | **(205)** | **(825)** | **(1,030)** |
| At 31 December 2008 | **1,699** | **(6,517)** | **(4,818)** |

| | **The Group** | |
|---|---|---|
| | **2008 $'000** | 2007 $'000 |
| Net deferred tax assets recognised in the balance sheet | **(4,898)** | (3,983) |
| Net deferred tax liabilities recognised in the balance sheet | **80** | 195 |
| | **(4,818)** | (3,788) |

**(c) Deferred tax assets not recognised**

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $32,793,000 (2007: $32,273,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity for the foreseeable future. The tax losses do not expire under current tax legislation.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 24 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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 in the Company 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.

**(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:**

| | **Number of options** | **Vesting conditions** | **Contractual life of options** |
|---|---|---|---|
| **Options granted to directors:** | | | |
| – 22 July 2005 | 3,000,000 | Immediate from the date of grant | 10 years |
| – 19 December 2005 | 6,000,000 | Immediate from the date of grant | 10 years |
| **Options granted to employees:** | | | |
| – 9 June 1999 | 121,250 | One month from the date of grant | 10 years |
| – 1 June 2000 | 258,000 | One month from the date of grant | 10 years |
| – 30 August 2001 | 120,500 | Immediate from the date of grant | 10 years |
| – 13 September 2002 | 126,000 | Immediate from the date of grant | 10 years |
| – 6 October 2003 | 165,000 | Immediate from the date of grant | 10 years |
| – 20 December 2004 | 1,953,500 | Immediate from the date of grant | 10 years |
| **Others:** | | | |
| – 30 October 2002 | 1,000,000 | Immediate from the date of grant | 10 years |
| – 21 December 2004 | 300,000 | Immediate from the date of grant | 10 years |
| – 19 December 2005 | 3,000,000 | Immediate from the date of grant | 10 years |

**(b) The number and weighted average exercise prices of share options are as follows:**

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Weighted average exercise price** | **Number of options** | Weighted average exercise price | Number of options |
| Outstanding at the beginning of the year | **$6.218** | **16,295,250** | $6.250 | 16,501,750 |
| Forfeited during the year | **$8.589** | **(251,000)** | $8.738 | (206,500) |
| **Outstanding at the end of the year** | **$6.181** | **16,044,250** | $6.218 | 16,295,250 |
| **Exercisable at the end of the year** | | **16,044,250** | | 16,295,250 |

**(c) Fair value of share options and assumptions**

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

No new options were granted during 2008 and 2007.

## 25 CAPITAL AND RESERVES

### (a) The Group

| | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital (note c) $'000 | Share premium (note d(i)) $'000 | Exchange reserve (note d(iii)) $'000 | Fair value revaluation reserve (note d(iv)) $'000 | Capital reserve (note d(v)) $'000 | Other reserves (note d(vi)) $'000 | Retained profits $'000 | Total $'000 | Minority interests $'000 | Total equity $'000 |
| 2007 | | | | | | | | | | |
| At 1 January 2007 | 80,856 | 695,336 | 8,821 | (20,705) | 11,373 | (28,339) | 575,112 | 1,322,454 | 19,616 | 1,342,070 |
| Final dividends approved in respect of the previous year | – | – | – | – | – | – | (77,621) | (77,621) | – | (77,621) |
| Available-for-sale securities: | | | | | | | | | | |
| – changes in fair value | – | – | – | 3,124 | – | – | – | 3,124 | – | 3,124 |
| – transfer to profit or loss on disposal | – | – | – | 7,676 | – | – | – | 7,676 | – | 7,676 |
| – transfer to trading securities | – | – | – | 21,391 | – | – | – | 21,391 | – | 21,391 |
| Acquisition of minority interests | – | – | – | – | – | (1,934) | – | (1,934) | (518) | (2,452) |
| Profit for the year | – | – | – | – | – | – | 260,367 | 260,367 | (5,888) | 254,479 |
| Interim dividends declared in respect of the current year | – | – | – | – | – | – | (38,811) | (38,811) | – | (38,811) |
| Exchange differences on translation of financial statements of foreign operations | – | – | 12,832 | – | – | – | – | 12,832 | 485 | 13,317 |
| At 31 December 2007 | 80,856 | 695,336 | 21,653 | 11,486 | 11,373 | (30,273) | 719,047 | 1,509,478 | 13,695 | 1,523,173 |

## 25 CAPITAL AND RESERVES (continued)

### (a) The Group (continued)

| | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital (note c) $'000 | Share premium (note d(i)) $'000 | Exchange reserve (note d(iii)) $'000 | Fair value revaluation reserve (note d(iv)) $'000 | Capital reserve (note d(v)) $'000 | Other reserves (note d(vi)) $'000 | Retained profits $'000 | Total $'000 | Minority interests $'000 | Total equity $'000 |
| **2008** | | | | | | | | | | |
| At 1 January 2008 | 80,856 | 695,336 | 21,653 | 11,486 | 11,373 | (30,273) | 719,047 | 1,509,478 | 13,695 | 1,523,173 |
| Final dividends approved in respect of the previous year | – | – | – | – | – | – | (84,090) | (84,090) | – | (84,090) |
| Available-for-sale securities: | | | | | | | | | | |
| – changes in fair value | – | – | – | (11,223) | – | – | – | (11,223) | – | (11,223) |
| – transfer to profit or loss on disposal | – | – | – | 618 | – | – | – | 618 | – | 618 |
| – transfer to profit or loss on impairment | – | – | – | 135 | – | – | – | 135 | – | 135 |
| Profit for the year | – | – | – | – | – | – | 15,048 | 15,048 | 1,661 | 16,709 |
| Interim dividends declared in respect of the current year | – | – | – | – | – | – | (38,811) | (38,811) | – | (38,811) |
| Exchange differences on translation of financial statements of foreign operations | – | – | 2,942 | – | – | – | – | 2,942 | (724) | 2,218 |
| **At 31 December 2008** | 80,856 | 695,336 | 24,595 | 1,016 | 11,373 | (30,273) | 611,194 | 1,394,097 | 14,632 | 1,408,729 |

Included in retained earnings is an amount of $3,370,000 (2007: $40,000) being the accumulated loss attributable to associates.

## 25 CAPITAL AND RESERVES (continued)

### (b) The Company

| | Share capital (note c) $'000 | Share premium (note d(i)) $'000 | Contributed surplus (note d(ii)) $'000 | Capital reserve (note d(v)) $'000 | Retained profits $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| At 1 January 2007 | 80,856 | 695,336 | 51,636 | 11,373 | 39,055 | 878,256 |
| Final dividends approved in respect of the previous year | – | – | – | – | (77,621) | (77,621) |
| Profit for the year | – | – | – | – | 168,260 | 168,260 |
| Interim dividend declared in respect of the current year | – | – | – | – | (38,811) | (38,811) |
| At 31 December 2007 | 80,856 | 695,336 | 51,636 | 11,373 | 90,883 | 930,084 |

| | **Share capital (note c) $'000** | **Share premium (note d(i)) $'000** | **Contributed surplus (note d(ii)) $'000** | **Capital reserve (note d(v)) $'000** | **Retained profits $'000** | **Total $'000** |
|---|---|---|---|---|---|---|
| At 1 January 2008 | **80,856** | **695,336** | **51,636** | **11,373** | **90,883** | **930,084** |
| Final dividends approved in respect of the previous year | **–** | **–** | **–** | **–** | **(84,090)** | **(84,090)** |
| Profit for the year | **–** | **–** | **–** | **–** | **50,506** | **50,506** |
| Interim dividend declared in respect of the current year | **–** | **–** | **–** | **–** | **(38,811)** | **(38,811)** |
| **At 31 December 2008** | **80,856** | **695,336** | **51,636** | **11,373** | **18,488** | **857,689** |

### (c) Share capital

*(i) Authorised and issued share capital*

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **No. of shares '000** | **Amount $'000** | No. of shares '000 | Amount $'000 |
| **Authorised:** | | | | |
| Ordinary shares of $0.25 each | **400,000** | **100,000** | 400,000 | 100,000 |
| **Issued and fully paid:** | | | | |
| At 1 January and at 31 December | **323,422** | **80,856** | 323,422 | 80,856 |

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

| **Exercise period** | **Exercise price HK$** | **2008 Number** | 2007 Number |
|---|---|---|---|
| 9 July 1999 to 8 July 2009 | 10.900 | **121,250** | 140,750 |
| 1 July 2000 to 30 June 2010 | 11.300 | **258,000** | 318,000 |
| 30 August 2001 to 29 August 2011 | 3.060 | **120,500** | 121,500 |
| 13 September 2002 to 12 September 2012 | 3.905 | **126,000** | 129,000 |
| 31 October 2002 to 30 October 2012 | 4.605 | **1,000,000** | 1,000,000 |
| 6 October 2003 to 5 October 2013 | 7.350 | **165,000** | 203,000 |
| 20 December 2004 to 19 December 2014 | 7.500 | **1,953,500** | 2,083,000 |
| 21 December 2004 to 20 December 2014 | 7.450 | **300,000** | 300,000 |
| 22 July 2005 to 21 July 2015 | 6.600 | **3,000,000** | 3,000,000 |
| 19 December 2005 to 18 December 2015 | 5.730 | **9,000,000** | 9,000,000 |
| | | **16,044,250** | 16,295,250 |

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 24 to the financial statements.

## 25 CAPITAL AND RESERVES (continued)

### (d) Nature and purpose of reserves

*(i) Share premium*

The application of the share premium account is governed by sections 150 and 157 of the Company's Articles of Association and the Companies Act 1981 of Bermuda.

*(ii) Contributed surplus*

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.

*(iii) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

*(iv) Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 1(f) and (j).

*(v) Capital reserve*

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(r).

*(vi) Other reserves*

Other reserves comprise statutory reserves required in respect of the PRC incorporated subsidiaries and the premium paid for the acquisition of the minority interests of the PRC incorporated subsidiaries.

*(vii) Distributability of reserves*

At 31 December 2008, the aggregate amount of reserves available for distribution to shareholders of the Company was $70,124,000 (2007: $142,519,000).

### (e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain the net debt-to-adjusted capital ratio at the lower end of the range 10% to 30%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

## 25 CAPITAL AND RESERVES (continued)

### (e) Capital management (continued)

The net debt-to-adjusted capital ratio at 31 December 2008 and 2007 was as follows:

| | Note | The Group 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | 21 | **574,018** | 660,151 |
| Bank loans | 20 | **208,107** | 149,160 |
| | | **782,125** | 809,311 |
| **Non-current liabilities** | | | |
| Bank loans | 20 | **152,666** | – |
| Total debt | | **934,791** | 809,311 |
| Add: Proposed dividends | | **3,234** | 84,090 |
| Less: Cash and cash equivalents | 19 | **(514,154)** | (544,987) |
| **Net debt** | | **423,871** | 348,414 |
| Total equity | | **1,408,729** | 1,523,173 |
| Less: Proposed dividends | | **(3,234)** | (84,090) |
| **Adjusted capital** | | **1,405,495** | 1,439,083 |
| **Net debt-to-adjusted capital ratio** | | **30%** | 24% |

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 26 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

### Business segment

As all of the Group's turnover and profits were derived from the design, manufacture and sale of liquid crystal displays and related products, accordingly no separate business segment analysis is presented for the Group.

### Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

| | Hong Kong and PRC | | Rest of Asia | | Europe | | North America | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 |
| Revenue from external customers | **1,001,563** | 1,368,112 | **449,744** | 317,226 | **753,549** | 771,024 | **160,697** | 127,755 | **46,341** | 34,082 | **2,411,894** | 2,618,199 |
| Segment assets | **1,992,432** | 1,960,060 | **40,542** | 82,577 | **234,735** | 203,492 | **69,286** | 85,081 | | | | |
| Capital expenditure incurred during the year | **194,298** | 146,237 | **9** | – | **782** | 1,341 | **228** | 33 | | | | |

## 26 SEGMENT REPORTING (continued)

**Geographical segments (continued)**

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

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| France | **157,614** | 195,647 |
| Germany | **203,415** | 174,032 |
| United Kingdom | **75,519** | 93,578 |
| Other European countries | **317,001** | 307,767 |
| | **753,549** | 771,024 |

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.

## 27 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to cash at banks, bank deposits, trade and other receivables and loans receivable. Management has a credit policy in place and exposures to these credit risks are monitored on an on-going basis.

Cash at bank and bank deposits are placed with licensed financial institutions. Bankruptcy or insolvency of these financial institutions may cause the Group's rights with respect to these assets be delayed or limited. The Group monitors the credit rating of these financial institutions on an on-going basis. If the credit rating of these financial institutions were to deteriorate significantly, the Group would move the cash holdings to other financial institutions.

For trade and other debtors, credit evaluations are performed on all customers requiring credit over a certain amount. Customers are generally granted credit terms of 90 days. Normally, the Group does not obtain collateral from customers.

For loans receivable, the Group reviews the borrowers' management financial information periodically. Management consider the credit quality of such loans is good since they have good repayment history.

At the balance sheet date, the Group has a certain concentration of credit risk as 10% (2007: 5%) and 15% (2007: 9%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of trade and other receivables in the balance sheet.

### (b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as investment of surplus cash, raising of loans and settlement of suppliers' invoices beyond certain limits.

## 27 FINANCIAL INSTRUMENTS (continued)

### (b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, if floating, based on rates current at the balance sheet date) and the earliest date that the Group and the Company can be required to pay:

**The Group**

| | 2008 | | | | | | 2007 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount $'000 | Total contractual undiscounted cash flow $'000 | Within 1 year or on demand $'000 | More than 1 year but less than 2 years $'000 | More than 2 years but less than 5 years $'000 | More than 5 years $'000 | Carrying amount $'000 | Total contractual undiscounted cash flow $'000 | Within 1 year or on demand $'000 | More than 1 year but less than 2 years $'000 | More than 2 years but less than 5 years $'000 | More than 5 years $'000 |
| Bank loans | 360,773 | (370,370) | (214,538) | (84,732) | (71,100) | – | 149,160 | (163,605) | (42,836) | (37,748) | (81,042) | (1,979) |
| Trade and other payables | 559,259 | (559,259) | (559,259) | – | – | – | 653,577 | (653,577) | (651,116) | (2,661) | – | – |
| | 920,032 | (929,629) | (773,797) | (84,732) | (71,100) | – | 802,737 | (817,182) | (693,952) | (40,409) | (81,042) | (1,979) |

| | 2008 | | | | | 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total contractual undiscounted cash flow $'000 | Within 1 year or on demand $'000 | More than 1 year but less than 2 years $'000 | More than 2 years but less than 5 years $'000 | More than 5 years $'000 | Total contractual undiscounted cash flow $'000 | Within 1 year or on demand $'000 | More than 1 year but less than 2 years $'000 | More than 2 years but less than 5 years $'000 | More than 5 years $'000 |
| Derivatives settled gross:<br>– Forward foreign exchange contracts<br>– outflow | (14,759) | (14,759) | – | – | – | (6,574) | (3,912) | (2,662) | – | – |

**The Company**

| | 2008 | | | | | | 2007 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount $'000 | Total contractual undiscounted cash flow $'000 | Within 1 year or on demand $'000 | More than 1 year but less than 2 years $'000 | More than 2 years but less than 5 years $'000 | More than 5 years $'000 | Carrying amount $'000 | Total contractual undiscounted cash flow $'000 | Within 1 year or on demand $'000 | More than 1 year but less than 2 years $'000 | More than 2 years but less than 5 years $'000 | More than 5 years $'000 |
| Trade and other payables | 10,253 | (10,253) | (10,253) | – | – | – | 13,196 | (13,196) | (13,196) | – | – | – |

## 27 FINANCIAL INSTRUMENTS (continued)

### (c) Interest rate risk

*(i) Interest rate profile*

Bank deposits and cash and bank loans are the major types of the Group's financial instruments subject to interest rate risk.

The bank deposits and cash comprise mainly bank deposits with fixed interest rates ranging from 0.01% to 4.4% (2007: 2% to 4.5%) per annum and the maturity dates of these bank deposits are within one year.

The loans receivable bear interest at rates ranging from 4% to 12% per annum (2007: 5%) and are repayable within three years. Other details of loans receivable are set out in note 14.

The bank loans bear interest at rates ranging from 1.2% to 2.6% per annum (2007: 2.3%) and are repayable within one year. Other details of the bank loans are set out in note 20.

*(ii) Sensitivity analysis*

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the company's profit after taxation and retained profits by approximately $38,000 (2007: $900,000). Other components of equity would not have been affected (2007: $Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interests rates had been occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The analysis has been performed on the same basis for 2007.

### (d) Currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

| | 2008 | | | | | 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | United States Dollars '000 | Euros '000 | Japanese Yen '000 | Renminbi '000 | Korean Won '000 | United States Dollars '000 | Euros '000 | Japanese Yen '000 | Renminbi '000 | Korean Won '000 |
| **The Group** | | | | | | | | | | |
| Trade and other receivables | 34,746 | 1,639 | – | – | – | 31,326 | 868 | – | – | – |
| Loans receivable | 9,746 | – | – | – | 8,900,472 | – | – | – | – | – |
| Cash and cash equivalents | 43,983 | 667 | 255 | 14,685 | – | 34,724 | 553 | 3,638 | 1,196 | – |
| Trade and other payables | (24,062) | (42) | (526,968) | (17,307) | – | (31,404) | (71) | (557,830) | (18,603) | – |
| Bank loans | (9,321) | – | (838,388) | – | – | (9,723) | – | (991,016) | – | – |
| | 55,092 | 2,264 | (1,365,101) | (2,622) | 8,900,472 | 24,923 | 1,350 | (1,545,208) | (17,407) | – |
| **The Company** | | | | | | | | | | |
| Cash and cash equivalents | 92 | – | – | – | – | 58 | – | – | – | – |
| Loans receivable | – | – | – | – | 8,900,472 | – | – | – | – | – |
| | 92 | – | – | – | 8,900,472 | 58 | – | – | – | – |

## 27 FINANCIAL INSTRUMENTS (continued)

### (d) Currency risk (continued)

The following table indicates the approximate change in the Group's profit after taxation and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Effect on profit after tax and retained profits $'000** | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits $'000 |
| **The Group** | | | | |
| | **10%** | **2,473** | 10% | 1,539 |
| Euros | **(10)%** | **(2,473)** | (10)% | (1,539) |
| | **10%** | **(11,662)** | 12% | (12,964) |
| Japanese Yen | **(10)%** | **11,662** | (12)% | 12,964 |
| | **10%** | **(299)** | 9% | (1,676) |
| Renminbi | **(10)%** | **299** | (9)% | 1,676 |
| | **10%** | **5,500** | – | – |
| Korean Won | **(10)%** | **(5,500)** | – | – |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particulars interest rates, remain constant.

It is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit after taxation for the year and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis has been performed on the same basis for 2007.

### (e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities and available-for-sale securities (See notes 15 and 16).

All available-for-sale securities are held for long term strategic purposes. Their performance is reviewed regularly based on information available to the Group. Unlisted investments that do not have a quoted market price in an active market are stated at cost. Any increase/decrease in impairment losses in respect of these investments would affect the Group's net profit. As at the balance sheet date, none of these unlisted investments was considered to be impaired.

All trading securities are listed on the Hong Kong Stock Exchange. Decision to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the Hang Seng Index and other industry indicators, as well as the Group's liquidity needs.

So far as the effect on securities held as trading securities is concerned, as at 31 December 2008, it is estimated that, an increase/decrease of 30% in the Hang Seng Index of the Hong Kong Stock Exchange with all other variables held constant would have increase/decrease the Group's profit after taxation and retained profits by approximately $1,673,000 (2007: $2,544,000).

The review has been performed on the same basis as for 2007.

## 27 FINANCIAL INSTRUMENTS (continued)

### (f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007 except as follows:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Carrying amount $'000** | **Fair value $'000** | Carrying amount $'000 | Fair value $'000 |
| **The Group:** | | | | |
| Loans receivable | **158,472** | **157,434** | 78,100 | 70,701 |
| **The Company:** | | | | |
| Loans receivable | **56,849** | **57,702** | – | – |

* The Group has no intention of disposing of the loans receivable.

## 28 COMMITMENTS

(a) Capital commitments representing purchase of property, plant and equipment not provided for in the financial statements were as follows:

| | **The Group** | |
|---|---|---|
| | **2008 $'000** | 2007 $'000 |
| Contracted for | **48,240** | 125 |

(b) At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases for properties are payable as follows:

| | **The Group** | |
|---|---|---|
| | **2008 $'000** | 2007 $'000 |
| Within 1 year | **7,906** | 6,746 |
| After 1 year but within 5 years | **16,519** | 9,071 |
| | **24,425** | 15,817 |

## 29 CONTINGENT LIABILITIES

**Financial guarantees issued**

As at the balance sheet date, the Company has issued guarantees to banks in respect of banking facilities granted to certain subsidiaries.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued and the facility drawn down by the subsidiaries was $363,566,000 (2007: $154,954,000).

## 30 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

**(a) Key management personnel remuneration**

Remuneration for key management personnel, including amounts paid to the Company's directors is disclosed in note 5 and certain of the highest paid employees is disclosed in note 6.

**(b) Recurring transactions**

During the year, Varitronix Limited, a subsidiary of the Group sold goods amounting to US$11,000,000 (equivalent to HK$85,200,000) to Data Modul AG, an associate of the Group. The directors of the Company are of the opinion that this related party transaction was conducted on normal commercial terms with reference to prevailing market prices, and in the ordinary course of business.

## 31 ACCOUNTING ESTIMATES AND JUDGEMENTS

**Key sources of estimation uncertainty**

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

*(a) Impairment of assets*

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When an indication of impairment is identified, management evaluates impairment provisions in accordance with the accounting policy set out in note 1(j). A considerable level of judgement is exercised when assessing impairment provisions. Any increase or decrease in the estimated impairment provisions would affect the net profit in the current and future years.

*(b) Provision for inventories*

The Group reviews the carrying amounts of the inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value as in accordance with the accounting policy set out in note 1(n). Management estimates that net realisable value based on current markets situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net asset value and profit.

*(c) Depreciation*

Investment properties and other property, plant and equipment are depreciated on a straight line basis over their estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimations.

## 32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a restatement of the Group's or the Company's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRS 8, Operating segments | 1 January 2009 |
| HKAS 1, Presentation of financial statements | 1 January 2009 |

# FIVE YEAR SUMMARY

(Expressed in Hong Kong dollars)

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2004<br>$'000 | 2005<br>$'000 | 2006<br>$'000 | 2007<br>$'000 | **2008<br>$'000** |
| **Results:** | | | | | |
| Turnover | 2,006,331 | 1,979,807 | 1,867,075 | 2,618,199 | **2,411,894** |
| Profit/(loss) from operations | 249,169 | (166,530) | 199,999 | 285,253 | **25,172** |
| Finance costs | (5,245) | (6,785) | (3,297) | (3,422) | **(9,278)** |
| Negative goodwill arising on acquisition of an associate | – | – | – | – | **14,861** |
| Share of losses of associates | – | – | – | (40) | **(3,330)** |
| Profit/(loss) before taxation | 243,924 | (173,315) | 196,702 | 281,791 | **27,425** |
| Income tax | (28,102) | (31,004) | (33,358) | (27,312) | **(10,716)** |
| **Profit/(loss) for the year** | 215,822 | (204,319) | 163,344 | 254,479 | **16,709** |
| **Attributable to:** | | | | | |
| Equity shareholders of the Company | 192,712 | (178,976) | 173,228 | 260,367 | **15,048** |
| Minority interests | 23,110 | (25,343) | (9,884) | (5,888) | **1,661** |
| **Profit/(loss) for the year** | 215,822 | (204,319) | 163,344 | 254,479 | **16,709** |
| **Assets and liabilities:** | | | | | |
| Fixed assets | 412,077 | 369,647 | 335,619 | 413,074 | **465,705** |
| Intangible assets | 27,050 | – | – | – | **–** |
| Goodwill | 28,340 | – | – | – | **–** |
| Interest in associates | – | – | – | 2,306 | **124,141** |
| Loans receivable | – | – | – | 52,048 | **132,618** |
| Other financial assets | 60,489 | 185,325 | 73,534 | 105,077 | **176,358** |
| Deferred tax assets | 1,423 | 8,725 | 4,957 | 3,983 | **4,898** |
| Net current assets | 1,115,559 | 790,722 | 928,200 | 946,880 | **657,755** |
| Total assets less current liabilities | 1,644,938 | 1,354,419 | 1,342,310 | 1,523,368 | **1,561,475** |
| Non current bank loans | – | – | – | – | **(152,666)** |
| Convertible notes | (31,200) | (30,109) | – | – | **–** |
| Deferred tax liabilities | (6,800) | (1,373) | (240) | (195) | **(80)** |
| **NET ASSETS** | 1,606,938 | 1,322,937 | 1,342,070 | 1,523,173 | **1,408,729** |
| **Capital and reserves** | | | | | |
| Share capital | 79,059 | 80,614 | 80,856 | 80,856 | **80,856** |
| Reserves | 1,471,971 | 1,208,531 | 1,241,598 | 1,428,622 | **1,313,241** |
| Total equity attributable to equity shareholders of the Company | 1,551,030 | 1,289,145 | 1,322,454 | 1,509,478 | **1,394,097** |
| Minority interests | 55,908 | 33,792 | 19,616 | 13,695 | **14,632** |
| **Total equity** | 1,606,938 | 1,322,937 | 1,342,070 | 1,523,173 | **1,408,729** |
| **Earnings/(loss) per share (HK cents)** | | | | | |
| Basic | 61.7 | (56.2) | 53.6 | 80.5 | **4.7** |
| Diluted | 61.3 | (56.2) | 53.6 | 80.5 | **4.7** |

***Note to the five year summary***

In 2005, the Group adopted a number of new and revised HKFRSs issued by the HKICPA as part of its ongoing programme to align HKFRSs with International Financial Reporting Standards. Under the transitional arrangements, a number of the new standards were adopted prospectively, such as HKAS 32, Financial Instruments: Disclosure and Presentation and HKAS 39, Financial Instruments: Recognition and Measurement whilst Amendments to HKFRS 2, Share-based payments were adopted retrospectively but using applicable transitional provisions. In the above analysis, the figures for 2004 have only been restated to the extent that the new accounting policies were adopted retrospectively.

# PROPERTIES HELD BY THE GROUP

| | Location | Existing use | Percentage holding |
|---|---|---|---|
| 1. | 9th Floor, Liven House,<br>Nos. 61-63 King Yip Street,<br>Kwun Tong, Kowloon. | Office | 100% |
| 2. | 10th Floor, Liven House,<br>Nos. 61-63 King Yip Street,<br>Kwun Tong, Kowloon. | Office | 100% |
| 3. | Flat G, 22nd Floor, Tower 1,<br>Yue Man Centre,<br>Nos. 300 and 302 Ngau Tau Kok Road,<br>Kwun Tong, Kowloon. | Staff quarters | 100% |
| 4. | Flat B, 13th Floor, Tower 1,<br>Yue Man Centre,<br>Nos. 300 and 302 Ngau Tau Kok Road,<br>Kwun Tong, Kowloon. | Staff quarters | 100% |
| 5. | Room 1004, 10th Floor, Tower B,<br>Hunghom Commercial Centre,<br>No. 37 Ma Tau Wai Road, Kowloon | Vacant | 100% |
| 6. | Plot 40, Phase 4,<br>Bayan Lepas Free Trade Zone,<br>11900 Bayan Lepas, Penang, Malaysia. | Vacant | 100% |
| 7. | Sri Penang 6-2,<br>Lega Road,<br>Penang, Malaysia. | Vacant | 100% |
| 8. | Dongpu Town, Yuancheng District,<br>Heyuan City, Guangdong,<br>The People's Republic of China. | Industrial | 90.1% |
| 9. | Tangliaoxiacun, Xintang,<br>Administrative Region,<br>Dongpu Town, Yuancheng District,<br>Heyuan City, Guangdong,<br>The People's Republic of China. | Industrial | 100% |
| 10. | 128 Heyuan Road, Yuancheng District,<br>Heyuan City, Guangdong,<br>The People's Republic of China. | Industrial | 100% |
| 11. | Flat C601-604,<br>6th Floor, Block 10,<br>Nam Wai Centre,<br>Buket, Baoan County,<br>Guangdong Province,<br>The People's Republic of China. | Staff quarters | 100% |
| 12. | Unit 3 Milbanke Court,<br>Milbanke Way, Bracknell,<br>Berkshire,<br>United Kingdom. | Office | 100% |

Note: The above properties are either freehold, held on long or medium-term leases, or have no specified lease term.

# CORPORATE INFORMATION

## HONORARY CHAIRMAN

Chang Chu Cheng

## BOARD OF DIRECTORS

Ko Chun Shun, Johnson *(Chairman)*
Tsoi Tong Hoo, Tony
Ho Te Hwai, Cecil
Lo Wing Yan, William*
Yuen Kin*
Hou Ziqiang*

* *Independent Non-executive Directors*

## COMPANY SECRETARY

Ho Te Hwai, Cecil

## QUALIFIED ACCOUNTANT

Ho Te Hwai, Cecil

## AUDIT COMMITTEE

Lo Wing Yan, William *(Chairman)*
Yuen Kin
Hou Ziqiang

## REMUNERATION COMMITTEE

Lo Wing Yan, William *(Chairman)*
Hou Ziqiang
Ko Chun Shun, Johnson

## INDEPENDENT AUDITORS

KPMG
*Certified Public Accountants*

## PRINCIPAL BANKERS

The Bank of Tokyo-Mitsubishi UFJ Ltd
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

9/F., Liven House
61-63 King Yip Street
Kwun Tong, Kowloon
Hong Kong

## PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17/F., Hopewell Centre
183 Queen's Road East
Hong Kong

## ADR DEPOSITARY

The Bank of New York
American Depositary Receipts
101 Barclay Street, 22W
New York, NY 10286
U.S.A.

## STOCK CODE

710

## WEBSITE

http://www.varitronix.com

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www.varitronix.com

YELLOW CREATIVE (HK) LIMITED