



VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code : 0710)

2007 INTERIM RESULTS ANNOUNCEMENT

Chairman's Statement

Financial Highlights

- Turnover: HK\$1,155 million (2006: HK\$840 million), up 38%
- Profit from operations: HK\$134 million (2006: HK\$103 million), up 30%
- Profit attributable to shareholders: HK\$120 million (2006: HK\$90 million), up 33%
- Interim dividend per share: 12 HK cents (2006: 9 HK cents)

Business Review

Europe

Turnover from the European market for the six months ended 30 June 2007 reached \$405 million, representing a 17% increase over the corresponding period of 2006. Turnover from this market has scaled new heights, with a notable increase in sales orders from the automotive and industrial product sectors. This is due to a vibrant economy in the region, which has led to the growth of the automotive and other industries. At the same time, it reflects the success of the Group's strategy of targeting this region for growth and dedicating resources to the expansion of the sales network in order to further penetrate the market.

During the period under review, the Group has cooperated well with manufacturers who make high-end products with a high profit margin in Europe. The Group has a particular niche in high-end products and has assumed a leadership role in the field. This is because our technology, product quality and service all match the high standards required by such customers.

Turnover from the European automotive market continues to represent a significant share of the Group's total automotive product business. We have constantly upgraded our technology to meet the demands of our customers and have forged a strong working relationship with our European automotive customers over the years. As we move to produce increasingly more advanced display solutions for these customers, we have also been able to realize higher profit margins for the Group.

North America

In the six months ended 30 June 2007, the North American market recorded a turnover of \$60 million, representing a 21% rise over the same period in 2006.

Business from this region derives mainly from customers in the industrial, medical and automotive product sectors. The latest market trend is toward color displays, and the Group has seen an increasing number of enquiries on their applications in this region.

Mainland China and Hong Kong

Turnover from the Mainland China and Hong Kong markets was \$544 million in the first six months of 2007, a 74% increase from the corresponding period last year.

These markets concentrate on mobile handsets and other electronic consumer products, with color display applications. In the past few years, the market share of “non-major brand” mobile handsets has expanded significantly. In response to this change in market conditions, the Group has altered its strategy to concentrate its resources on the non-major brand mobile handset market sector. The performance of the Group’s mobile phone business has been successfully turned around in the first half of 2007, with business from mobile handset displays recording satisfactory progress. This is a testimony to our success in switching our marketing emphasis to non-major brand mobile handset manufacturers. The Group has also benefited from continued growth in the economy and in the electronic consumer market in this region, resulting in increased turnover for this sector when compared with last year.

The Group is also actively engaged in business discussions with automotive customers in various parts of Mainland China. The majority of these customers are joint venture companies set up by foreign automobile manufactures, with Mainland Chinese executives handling purchasing, production and sales. The Group is beginning to receive orders from this category of customers and remains in close cooperation with local automobile customers as well, an indication that our base of automobile customers in Mainland China is expanding.

Rest of Asia

Business from Rest of Asia has soared. Sales revenue of \$139 million was recorded in the first half of 2007, demonstrating a healthy increase of 24% as compared to that of the same period last year.

This business market is primarily made up of South Korea plus other countries. The majority of customers are in the consumer electronics and automotive sectors, with secondary markets in medical, telecommunications and industrial equipment. Consumer electronic products favor color displays while automotive customers are applying mono-color display solutions at the moment.

Business from automotive clients in this area has been satisfactory in the first half of the year, with significant growth in share of total business volume in this region. The Group is pleased with this growth and will endeavor to capitalize on every opportunity in the rapidly expanding Asian automotive market.

Prospects

Automotive Display Business

Automotive display units nowadays show more complex information than ever before, and automotive manufacturers require LCD displays to possess functions such as

wide viewing angle and high contrast. As the installation of multi-media equipment in automobiles becomes more and more common, Thin-Film Transistor (TFT) color displays are gaining in popularity by the day.

These market trends have presented the Group with ample opportunities for our automotive products business. We have now mapped out two directions for our business development. First, we will develop high value-added products, launch LCD modules with comprehensive electronic components to enable easy integration with different equipment and supply our customers with more high-end products with high resolution. Secondly, we will develop more color applications and promote small to medium-sized color display modules to our customers.

The Group has years of experience in the development of automotive display products, and has a clear understanding of the demands of this particular group of customers. Our display products have always passed stringent quality inspections. Building on our solid customer base, the Group is well positioned to deepen our relationships with existing customers and market high-end, color display products so as to increase revenue from this sector.

TFT Business

The Group's strategy for our TFT business is to form strategic partnerships to acquire a secure supply of TFT panels, to which we add high value-added elements based on our own expertise in LCD design to meet different customer needs.

Our strategy is based on our knowledge that there is a wide range of TFT products available on the market, and that it is more viable to cooperate with different TFT suppliers, thereby creating more business opportunities, than to compete with TFT manufacturers alone. By maintaining a long-term relationship with TFT manufacturers, the Group can supply its customers with a variety of TFT products so as to expand its business portfolio.

The Group has signed a long-term TFT panel supply agreement with the Korean-based TFT manufacturing company BOE HYDIS. The acquisition of a steady supply of high-quality TFT panels is a critical factor for success in this thriving but highly competitive market. This will give the Group a competitive edge in the expansion of our TFT business by equipping us with greater flexibility in designing a diversified range of products to meet customer demand.

Home Electrical Appliances

Manufacturers of home electrical appliances in Europe are beginning to include LCD in their designs, which allow users better control of their appliances. In keeping with this favorable trend, the Group has seen an increase in enquiries and orders from these customers.

The Group held its first workshop on home electrical appliances in Milan, Italy in January 2007. Our marketing personnel and engineers introduced our LCD displays and other technological developments to participants who included representatives from our existing customers and agents, together with other new customers who had never worked with the Group before. Such a workshop is an ideal platform to showcase the Group's capabilities and enhance customers' knowledge about our products, so they can more easily integrate our products into their designs.

Currently, the Group has established business ties with a number of famous brands of home electrical appliances in Europe. We are dedicated to further developing the

business in this sector.

Japan

The Group's business in the Japanese market has proceeded according to plan and we have made steady progress in the first six months of 2007. We have established a sales network in the country serving customers from many different business sectors including manufacturers of office automation equipment, musical equipment, security systems and automotive accessories.

Japan is a newly developed market for the Group, with unique customer traits that set them apart from customers elsewhere in the world. Japanese customers are very receptive to new technology and highly demanding of top quality. If the Group can successfully make its name in the Japanese market, it will not only boost our reputation, but we can also use the circumstance to showcase and promote the adoption of our newly developed technology to other markets. The Group will continue to work diligently towards expanding this strategically valuable market.

Summary

In the first half of 2007, the Group has experienced good business growth and sales owing partially to a thriving world economy and a flourishing consumer market, and partially to our comprehensive service and close cooperation with our customers. Armed with the number of orders at hand, the Group is confident that satisfactory business performance can be sustained in the latter half of the year.

Acknowledgement

The first half of 2007 has witnessed vibrant industrial and consumer markets, and this has benefited the LCD industry. Due to strong order flows, a considerable amount of pressure has been exerted on our front line sales staff, overseas offices and all personnel in our production and supporting departments. The Board of Directors and the management team would like to express our gratitude to all members of staff concerned for their efforts in performing their duties throughout every critical process of our operations. With these concerted efforts, we are able to strengthen the Group's position in these favorable market conditions. Each one of us in the Group hereby pledges that we will do our utmost to fully utilize every business opportunity to realize better returns for our shareholders.

Ko Chun Shun, Johnson

Chairman

Hong Kong, 20 August 2007

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007 - unaudited

		Six months ended 30 June	
		2007	2006
	Note	HK\$'000	HK\$'000
Turnover	2	1,155,000	839,520
Other revenue and other net income		48,542	33,070
Changes in inventories of finished goods and work in progress		21,202	36,120
Raw material and consumables used		(788,946)	(546,632)
Staff costs		(140,033)	(110,590)
Depreciation		(38,421)	(39,131)
Other operating expenses		(123,291)	(109,216)
Profit from operations		134,053	103,141
Finance costs	3(a)	(1,883)	(1,780)
Profit before taxation	3	132,170	101,361
Income tax	4	(13,602)	(10,648)
Profit after taxation		118,568	90,713
Attributable to:			
Minority interests		(1,514)	521
Equity shareholders of the Company		120,082	90,192
		118,568	90,713
Interim dividend		38,811	29,107
Earnings per share	5		
Basic		37.13 cents	27.97 cents
Diluted		37.12 cents	27.93 cents

CONSOLIDATED BALANCE SHEET

At 30 June 2007 - unaudited

		At 30 June 2007	At 31 December 2006
	Note	HK\$'000	HK\$'000
Non-current assets			
Fixed assets			
- Investment properties		9,942	10,166
- Other property, plant and equipment		394,559	305,984
- Interest in leasehold land held for own use		19,436	19,469
		423,937	335,619
Interest in associated company		2,353	-
Other financial assets		111,267	73,534
Deferred tax assets		5,068	4,957
		542,625	414,110
Current assets			
Trading securities		60,922	164,184
Inventories		352,672	337,137
Trade and other receivables	6	497,901	464,697
Current taxation recoverable		4,703	888
Cash and cash equivalents	7	661,562	498,688
		1,577,760	1,465,594
Current liabilities			
Bank loans and overdrafts		96,366	45,144
Trade and other payables	8	517,606	478,036
Current taxation payable		11,664	14,214
Dividends payable		77,621	-
		703,257	537,394
Net current assets		874,503	928,200
Total assets less current liabilities		1,417,128	1,342,310
Non-current liabilities			
Deferred tax liabilities		218	240
NET ASSETS		1,416,910	1,342,070
CAPITAL AND RESERVES			
Share capital		80,856	80,856
Reserves		1,317,865	1,241,598
Total equity attributable to equity shareholders of the Company		1,398,721	1,322,454
Minority interests		18,189	19,616
TOTAL EQUITY		1,416,910	1,342,070

Notes:-

1. Basis of preparation

This unaudited interim results have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The same accounting policies and basis of preparation adopted in the Group's 2006 audited annual financial statements have been applied to the 2007 interim results.

2. Segmental information

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.

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. 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.

	Segment assets		Capital expenditure	
			incurred for	
	at	at	the period	the year
	30 June 2007 HK\$'000	31 December 2006 HK\$'000	ended 30 June 2007 HK\$'000	ended 31 December 2006 HK\$'000
Europe	165,901	152,091	871	812
Hong Kong and PRC	1,718,970	1,407,648	119,761	49,753
North America	154,156	155,748	-	37
Rest of Asia	69,234	158,372	-	5

The analysis of the geographical locations of the turnover of the Group during the financial period is as follows:

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Asia (Note)	682,730	425,250
Europe	404,875	347,283
North America	60,450	50,042
Others	6,945	16,945
	1,155,000	839,520

Note: Sales to Asia for the 6 months ended 30 June 2007 included sales to Hong Kong and PRC for the same period amounting to HK\$543,985,000 (2006: HK\$313,586,000).

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.

3. Profit before taxation

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

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	1,883	1,780
(b) Other items:		
Cost of inventories	861,177	613,582
Profit on disposal of fixed assets	170	3,798
Transfer from equity on disposal of available-for-sale securities	7,680	(235)
Impairment loss on available-for-sale securities	-	8,210
Gain on disposal of trading securities	(25,168)	(408)
Gain on revaluation of trading securities	(3,280)	(5,258)
Investment income	(1,464)	(8,518)
Other interest income	(7,483)	(4,796)
Rental income under operating leases	(251)	(183)
Discount on redemption of convertible notes	-	(3,740)
Other income	(4,352)	(7,555)

4. Income tax

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Current tax		
Hong Kong taxation	7,774	5,977
Overseas taxation	5,850	4,787
	13,624	10,764
Deferred tax		
Reversal of temporary differences	(22)	(116)
	13,602	10,648

The provision for Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the six months ended 30 June 2007. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

As disclosed in the Group's audited financial statements for the year ended 31 December 2006, a subsidiary has received from the Hong Kong Inland Revenue Department ("IRD") additional assessments relating to the years of assessment 1994/95 to 2004/05 for taxation totalling HK\$163 million. These additional assessments relate to a dispute over the deductibility of certain sub-contracting charges for tax assessment purposes. The subsidiary formally objected to the additional assessments. After lengthy negotiations, meetings and discussions with the IRD, the subsidiary has reached an agreement with the IRD for settlement of the objection for the years of assessment 1994/95 to 2003/04. Based on the outcome, the directors considered that no further provision is required for the years of assessment 1994/95 to 2006/07.

5. Earnings per share

- (a) The calculation of basic earnings per share is based on the unaudited profit attributable to equity shareholders of the Company of HK\$120,082,000 (2006: HK\$90,192,000) and the weighted average number of 323,422,204 shares (2006: 322,462,821 shares) in issue during the period.
- (b) The calculation of diluted earnings per share is based on the unaudited profit attributable to equity shareholders of the Company of HK\$120,082,000 (2006: HK\$90,192,000) and the weighted average number of 323,481,449 shares (2006: 322,875,134 shares) after adjusting for the effects of all dilutive potential shares.

	Six months ended 30 June	
	2007	2006
	Number of shares	Number of shares
Weighted average number of shares for the purpose of basic earnings per share	323,422,204	322,462,821
Deemed issue of shares for no consideration arising from share options	59,245	412,313
Weighted average number of shares for the purpose of diluted earnings per share	323,481,449	322,875,134

6. Trade and other receivables

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

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Within 60 days of the invoice issue date	240,786	278,040
61 to 90 days after the invoice issue date	57,733	47,915
91 to 120 days after the invoice issue date	37,971	9,114
More than 120 days but within 12 months after the invoice issue date	25,509	12,049
More than 12 months after the invoice issue date	-	1
	361,999	347,119

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

7. Cash and cash equivalents

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Deposits with banks and other financial institutions	301,081	152,607
Cash at bank and in hand	360,481	346,081
Cash and cash equivalents in the balance sheet and the cash flow statement	661,562	498,688

8. Trade and other payables

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

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Within 60 days of supplier invoice date	251,836	275,516
61 to 120 days after supplier invoice date	78,945	36,040
More than 120 days but within 12 months after supplier invoice date	13,315	5,626
	344,096	317,182

9. Capital and other commitments

Capital and other commitments representing purchase of plant and equipment and long-term supply agreement not provided for in the Group's financial statements were as follows:

	At 31 At 30 June 2007 HK\$'000	December 2006 HK\$'000
Contracted for	85,951	9,663

10. Contingent liabilities

At 30 June 2007, 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\$97,712,000 (at 31 December 2006: HK\$50,692,000).

INTERIM DIVIDEND

The directors of the Company ("the Directors") declared an interim dividend of 12 cents per share (2006: 9 cents) for the six months ended 30 June 2007 to shareholders whose names appear on the register of members of the Company on Friday, 21 September 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 17 September 2007 to Friday, 21 September 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 14 September 2007.

STAFF

At the end of June 2007, the Group employed approximately 5,810 persons around the world, of whom approximately 210 were in Hong Kong, 5,547 in PRC and 53 overseas.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to maintain a strong financial position. At 30 June 2007, the Group had a total shareholders' equity amounting to approximately HK\$1.4 billion and a liquid portfolio of HK\$834 million (31/12/2006: HK\$737 million) of which HK\$662 million (31/12/2006: HK\$499 million) was in cash and cash equivalents and HK\$172 million (31/12/2006: HK\$238 million) in securities. The Group has low bank borrowings and has little exposure to foreign exchange fluctuations as most of its assets, receipts and payments are in HK dollars or US dollars.

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

During the period, there was no purchase, sale or redemption by the Company or any of its subsidiaries of its listed securities.

CORPORATE GOVERNANCE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2007, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors by 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 period under review.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2007 of the Company now reported on.

REMUNERATION COMMITTEE

The Remuneration Committee is headed by Dr. William Lo Wing Yan, an Independent Non-executive Director. The other members of the Remuneration Committee are Mr. Hou Ziqiang, an Independent Non-executive Director, and Mr. Johnson Ko Chun Shun, an Executive Director.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results is published on the website of Hong Kong Exchanges and Clearing Limited "HKEx" at www.hkex.com.hk under the section "Latest Listed Company Information" and on the website of the Company at www.varitronix.com. The Interim Report will be dispatched to shareholders and published on the HKEx's website and the Company's website.

DIRECTORS

As at the date of this report, the Board comprises six directors, of which Mr. Johnson Ko Chun Shun, Mr. Tony Tsoi Tong Hoo, and Mr. Cecil Ho Te Hwai are executive Directors and Dr. William Lo Wing Yan, Mr. Yuen Kin and Mr. Hou Ziqiang are independent non-executive Directors.