



VARITRONIX

## VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)  
(Stock Code: 710)

## 2006 FINAL RESULTS ANNOUNCEMENT

## Financial Highlights:

- Turnover: HK\$1,867 million (2005: 1,980 million)
- Profit from operations: HK\$200 million (2005 Loss: HK\$167 million)
- Profit attributable to shareholders: HK\$173 million (2005 Loss: HK\$179 million)
- Final dividend per share: 24 HK cents (2005: 28 HK cents)

## CHAIRMEN'S STATEMENT

On behalf of Varitronix International Limited and its subsidiaries ("Varitronix" or the "Group"), we are pleased to present the Group's annual results for the year ended 31 December 2006.

During the year under review, the Group recorded a turnover of HK\$1,867 million as compared to last year's HK\$1,980 million. Profit from operations was HK\$200 million and profit attributable to shareholders was HK\$173 million, compared to a loss in 2005 which was due to certain impairment losses, write-offs and provisions.

The Board of Directors recommended a final dividend of 24 HK cents per share (2005: 28 HK cents per share). Combined with the interim dividend of 9 HK cents per share (2005: 10 HK cents per share), total dividends for the year amounted to 33 HK cents per share (2005: 38 HK cents per share), representing a payout ratio of 61%.

2006 witnessed the use of LCD technology in a widened range of applications from automotive and industrial equipment to home electrical appliances and electronic consumer products. This trend has fuelled a strong demand in the market for the Group's products, generating stable order flows. It is apparent, however, that the development of LCD technology has reached an advanced stage and the profit margin from such products has to be adjusted in the face of stiff competition, as is expected in any normal product development cycle.

The Group has responded to the threat of such competition by implementing measures such as the development of a diversified range of high value-added products to meet the stringent and unique requirements of our customers. Efforts are made to develop certain new technologies that are rarely seen in the market, turning them into the Group's key products to create new sources of revenue and to raise profitability. At the same time, the Group is committed to the goal of keeping our production, operation and material costs under control. In so doing, the Group is able to broaden sources of income and reduce expenditure to maximize yields.

## REVIEW OF OPERATIONS

## Automotive Products Market

In the period under review, the Group has recorded satisfactory progress in its automotive LCD product business, with business in Europe accounting for 50% of the Group's total turnover from this sector, and the remaining half coming from the US, South East Asia and the PRC. A notable development in 2006 is that many European automotive manufacturers have set up production plants in the Mainland, and it is predicted that these new plants will gradually take over the responsibility of purchasing specific raw materials and components. The Group has made it an important part of our marketing strategy to strike strategic partnerships with such branch offices and opened its first sales office in Shanghai in the year to facilitate efforts to develop the automotive market in the PRC.

In Korea, the sales of automotive LCD displays in 2006 have recorded better results than in the corresponding period last year, with a rise in the number of units per order. The Group's products are mainly applied in audio equipment in automobiles.

In the American market, there is a marked trend developing as more and more automotive manufacturers switch to LCD in place of Vacuum Fluorescent Displays. This has presented the Group with a wider scope of development in this sector.

The Group has also undertaken decisive steps to penetrate the automotive manufacturing stronghold in Japan. As the Group has already formed business relationships with many Japanese production plants in Europe and America, we are capitalizing on their referrals to open up negotiations with their headquarters in Japan as our first step in tapping into the Japanese market. The Group is off to a good start and has already received our first batch of orders.

## Industrial and Consumer Markets

Our orders generated from these sectors come mainly from Europe and North America. Owing to a robust economy in Europe in 2006, there is a steady rise in demand for industrial (data readers and mileage meters) and consumer products (cordless phones and home electrical appliances). There is a strong growth in the volume of the Group's business in these sectors with particularly encouraging results in home electrical appliances.

The home electrical appliances market is a newly developed sector which has shown vast growth in 2006. The Group's display units are already used in a number of European brand names of home electrical appliances.

The Group's focus in the North American market is in the US, with steadily rising business volumes in 2006. The majority of our customers in this market come from the industrial sector, which favours mono-colour displays. There have been more enquiries about TFT recently with target users being large-scale industrial and medical equipment manufacturers.

## Mobile Phone Market

Business in this sector is concentrated in the PRC, the characteristics of which are mass production volume, short delivery and quick repeat orders. In the year under review, the Group continued to concentrate on promoting LCD to non-major brand handset manufacturers and sales from such customers have risen since the second half of the year. At the same time, the Group will make full use of opportunities to market LCD products for use in other portable electronic products in China.

## PROSPECTS

## Product Development

Building on the foundation of LCD manufacturing, the Group's Technology Team has developed an Improved Black Nematic (IBN) display with high contrast, high resolution and sharp images. The new technology has received a satisfactory initial response from our customers, who have enquired about details in regard to applications and pricing. It is hoped that the new technology would be launched in the near future after further fine-tuning and modification.

## Automotive Market

The Group is convinced that the Asian automotive market, especially that of the PRC, has immense growth potential, and will therefore inject more resources into developing the business of automotive LCD applications in this region.

The group is also actively developing new products such as IBN, which is especially suited for outdoor use due to its wide viewing angles and high display quality, and is therefore particularly compatible with the strict requirements of automotive applications. The Group plans to promote such new products to existing and new automotive customers, so as to expand our product portfolio and applications to develop new revenue sources.

## European Market

The Group occupies a firm foothold in the European market, with longstanding relationships built with automotive and industrial clients. The Group now plans to extend our business in the home electrical appliances sector. According to Datamonitor research report (June 2006), the European household appliances market is forecasted to have a value of US\$42.3 billion in 2010, representing an increase of 12.4% since 2005, thereby prompting the Group to dedicate efforts to tap into this highly lucrative market. The Group has also established a new sales office in the Netherlands, and plans to develop the Russian market and extend our business reach to Northern and Eastern Europe.

## American Market

The American market focuses mainly on industrial equipment. The Group will market more TFT display products to industrial and medical equipment customers in 2007, to increase sales from existing customers and identify new client sources.

It is envisaged that the percentage of total sales from automotive customers will increase in 2007. We are confident that revenue generated from this sector will improve commensurate with our experience in the development of automotive display units and our production of high quality products.

## Korean Market

Efforts made in the Korean market will concentrate on automotive, consumer and telecommunications products. Our business in automotive display units will benefit from the thriving development of the Korean automotive industry. High-end portable visual telecommunication products such as PMP customers and telecommunications products such as cordless phone manufacturers are also the Group's key targets. Applications of small-to-medium sized TFT displays are popular as well in Korea.

## Japanese Market

The Group has established business relationships in Japan in the year under review and such efforts have started to generate orders. Under the present market situation, we have identified three target segments with potential in Japan: automotive, industrial and consumer products. In addition, electronic price labels using Bistable Cholesteric Display (BCD) technology is becoming more widely used in Japan, and it is the Group's strategy to actively promote our BCD products in this market that values high technology.

## SUMMARY

Presently, good market sentiments prevail and our sales orders are on the increase. We foresee that such favourable conditions will continue. In 2007, our priority will be to keep our costs under control and increase productivity in an efficient manner to meet the demands of our customers.

## ACKNOWLEDGEMENT

During the year, the Group has been actively pursuing management talent and training middle management who have demonstrated good potential, providing them with ample opportunities to prove their capabilities in order to prepare them for greater responsibilities in leading the Group forward.

Management would like to express our thanks to the Board of Directors, our staff and shareholders for their support in the past year. We shall continue to act in the Varitronix spirit to continue to better ourselves, to improve on our technology and focus our efforts on production to enhance the Group's value.

Ever since the establishment of the Group in 1978, Dr C C Chang has dedicated himself to leading the company and constantly improving on the technology of LCD manufacturing, rendering Varitronix a unique LCD manufacturer in Hong Kong. Dr Chang will retire voluntarily in the forthcoming Annual General Meeting, but will become Honorary Chairman. The Board of Directors would like to thank Dr Chang for his contribution to Varitronix throughout his tenure. His vision, technological expertise, experience and resolution are direct factors contributing to Varitronix's success. The management team and every staff member of the Group pledge to strive to improve our technology and further develop our business so as to live up to the expectations of our founders.

Chang Chu Cheng  
ChairmanKo Chun Shun, Johnson  
Chairman

Hong Kong, 19 April 2007

## Consolidated income statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>Turnover</b>	2	<b>1,867,075</b>	1,979,807
Other revenue	3	48,968	20,658
Other net income	4	37,530	12,466
Change in inventories of finished goods and work in progress		55,394	(9,620)
Raw material and consumables used		(1,284,973)	(1,299,205)
Staff costs		(228,405)	(244,896)
Depreciation		(80,815)	(73,894)
Impairment loss on fixed assets		—	(81,035)
Impairment loss on intangible assets		—	(25,428)
Impairment loss on goodwill		—	(28,340)
Impairment loss on available-for-sale securities	5	(8,210)	(175,775)
Other operating expenses		(206,565)	(241,268)
<b>Profit/(loss) from operations</b>		<b>199,999</b>	(166,530)
Finance costs	6	(3,297)	(6,785)
<b>Profit/(loss) before taxation</b>	7	<b>196,702</b>	(173,315)
Income tax	8	(33,358)	(31,004)
<b>Profit/(loss) for the year</b>		<b>163,344</b>	(204,319)
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>173,228</b>	(178,976)
Minority interests		(9,884)	(25,343)
<b>Profit/(loss) for the year</b>		<b>163,344</b>	(204,319)

## Consolidated balance sheet

At 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>Non-current assets</b>			
Fixed assets			
— Investment properties		10,166	10,612
— Other property, plant and equipment		305,984	339,402
— Interest in leasehold land held for own use		19,469	19,633
		335,619	369,647
Other financial assets			
Deferred tax assets		73,534	185,325
		4,957	8,725
		414,110	563,697
<b>Current assets</b>			
Trading securities			
Inventories		164,184	193,265
Trade and other receivables	11	337,137	233,637
Current taxation recoverable		464,697	411,426
Cash and cash equivalents		888	2,483
		498,688	415,845
		1,465,594	1,256,656
<b>Current liabilities</b>			
Bank loans and overdrafts		45,144	98,549
Trade and other payables	12	478,036	337,225
Current taxation payable		14,214	23,376
Dividend payable to minority shareholder		—	6,784
		537,394	465,934
<b>Net current assets</b>		<b>928,200</b>	<b>790,722</b>
<b>Total assets less current liabilities</b>		<b>1,342,310</b>	<b>1,354,419</b>
<b>Non-current liabilities</b>			
Convertible notes		—	30,109
Deferred tax liabilities		240	1,373
		240	31,482
<b>NET ASSETS</b>		<b>1,342,070</b>	<b>1,322,937</b>
<b>CAPITAL AND RESERVES</b>			
Share capital		80,856	80,614
Reserves		1,241,598	1,208,531
<b>Total equity attributable to equity shareholders of the Company</b>		<b>1,322,454</b>	<b>1,289,145</b>
Minority interests		19,616	33,792
<b>TOTAL EQUITY</b>		<b>1,342,070</b>	<b>1,322,937</b>

Notes-

- Basis of preparation**  
The consolidated income statement and consolidated balance sheet have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the requirements of the Hong Kong Companies Ordinance and also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies used in preparation of the consolidated income statement and consolidated balance sheet are consistent with those adopted in 2005, except that Group has changed some of its accounting policies following its adoption of the new and revised HKFRS not resulted in any significant impact on the Group's operations results for the year and financial position as at 31 December 2006.

- Segmental information**

The analysis of the geographical locations of the customers of the Company and its subsidiaries during the financial year is as follows:

	2006 HK\$'000	2005 HK\$'000
France	176,939	160,775
United Kingdom	118,023	116,737
Germany	156,069	131,500
Other European countries	252,272	226,901
North America	109,667	88,387
Hong Kong and PRC	743,609	828,255
Rest of Asia	260,653	371,894
Others	49,843	55,358
	1,867,075	1,979,807

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.

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.

	2006 HK\$'000	2005 HK\$'000
3. Other revenue		
Consultancy fee income	17,246	17,246
Dividend income from listed equity securities	7,526	425
Commission income	5,667	5,667
Interest income from listed debt securities	1,648	2,367
Interest income from unlisted debt securities	287	1,119
Interest income from unlisted investment funds	852	545
Other interest income	9,362	12,426
Rental income under operating leases	429	367
Other income	5,951	3,409
	<b>48,968</b>	<b>20,658</b>
4. Other net income		
Profit on disposal of fixed assets	2,276	6,573
Transfer from equity on disposal of available-for-sale securities	28,909	7,70
Realised and unrealised (losses)/gains on trading securities	(14,508)	12,708
Discount on redemption of convertible notes	3,740	(6,885)
Exchange gain/(loss)	17,113	12,466
	<b>37,530</b>	<b>12,466</b>
5. Impairment loss on available-for-sale securities		
The above available-for-sale securities consist of certain long-term investments in companies engaging in OLED business and handset design business and other listed debt and equity securities. An impairment loss of HK\$168,025,000 was made against the carrying amount at 31 December 2005 as the directors reassessed the expected future cashflows to be generated from these investments in view of the uncertain market situation; a further impairment loss of HK\$8,210,000 was made during the year ended 31 December 2006 following a reassessment in 2006.		
6. Finance costs		
Interest on bank advances and other borrowings repayable within five years	\$'000	\$'000
Interest on convertible notes	3,146	4,723
Amortisation of convertible notes	151	1,872
	<b>3,297</b>	<b>6,785</b>
7. Profit/(loss) before taxation is arrived at after charging		
Cost of inventories	\$'000	\$'000
Amortisation of intangible assets	1,394,137	1,478,600
8. Income tax		
<b>Current tax - Provision for Hong Kong Profits Tax</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Provision for Hong Kong Profits Tax for the year	14,998	22,007
Under-provision in respect of prior years	3,967	13,503
	<b>18,965</b>	<b>35,510</b>
<b>Current tax - Overseas</b>		
Tax for the year	12,039	8,223
Over-provision in respect of prior years	(281)	-
	<b>11,758</b>	<b>8,223</b>
<b>Deferred tax</b>		
Reversal of temporary differences	2,635	(12,729)
	<b>33,358</b>	<b>31,004</b>
Taxation is calculated at the rate of 17.5% (2005: 17.5%) on Hong Kong assessable profits and at the appropriate rates on overseas assessable profits.		
9. Dividends		
Interim dividend declared and paid of 9.0 cents (2005: 10.0 cents) per share	HK\$'000	HK\$'000
Final dividend proposed after the balance sheet date of 24.0 cents (2005: 28.0 cents) per share	29,108	32,120
	<b>77,621</b>	<b>90,290</b>
	<b>106,729</b>	<b>122,410</b>
10. Earnings/(loss) per share		
(a) <i>Basic earnings/(loss) per share</i>		
The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of HK\$173,228,000 (2005: HK\$178,976,000 loss) and the weighted average of 322,928,481 shares (2005: 318,304,488 shares) in issue during the year.		
(b) <i>Diluted earnings/(loss) per share</i>		
The calculation of diluted earnings per share for the year ended 31 December 2006 was based on the profit attributable to equity shareholders of the Company of HK\$173,228,000 and the weighted average number of shares of 323,120,103 shares after adjusting for the effects of all dilutive potential shares.		
Diluted loss per share for the year ended 31 December 2005 was the same as the basic loss per share as the potential ordinary shares outstanding during the year ended 31 December 2005 were anti-dilutive.		
(c) <i>Weighted average number of share (diluted)</i>		
Weighted average number of shares used in calculating basic earnings per share	Number of shares	2006
Effect of deemed issue of shares for no consideration arising from the Company's share options scheme	322,928,481	322,928,481
Weighted average number of shares used in calculating diluted earnings per share	191,622	191,622
	<b>323,120,103</b>	<b>323,120,103</b>
11. Trade and other receivables		
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:		
Within 60 days of the invoice issue date	HK\$'000	HK\$'000
61 to 90 days after the invoice issue date	278,040	320,436
91 to 120 days after the invoice issue date	47,915	33,888
More than 120 days but within 12 months after the invoice issue date	9,114	7,350
More than 12 months after the invoice issue date	12,049	20,143
	<b>1</b>	<b>2,506</b>
	<b>347,119</b>	<b>384,323</b>
Debts are due within 90 days from the date of the invoice.		
12. Trade and other payables		
Included in trade and other payables are trade creditors and bills payable with the following ageing analysis:		
Within 60 days of supplier invoice date	HK\$'000	HK\$'000
61 to 120 days after supplier invoice date	275,516	200,217
More than 120 days but within 12 months after supplier invoice date	36,040	32,178
	<b>5,626</b>	<b>9,059</b>
	<b>317,182</b>	<b>241,454</b>
13. Capital commitments		
Capital commitments representing purchase of property, plant and equipment not provided for in the Group's financial results were as follows:		
Contracted for	HK\$'000	HK\$'000
<b>Contingent liabilities</b>		
As at the balance sheet date, the Company has issued guarantees to banks in respect of a banking facility 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 HK\$50,692,000 (2005: HK\$99,992,000).		
<b>DIVIDEND</b>		
The Directors now recommended the payment of a final dividend of 24.0 cents (2005: 28.0 cents) per share for the year ended 31 December 2006 to all registered shareholders whose names appear on the register of members of the Company on 11 June 2007. It is expected that cheques for the final dividend will be dispatched on or about 11 July 2007.		
<b>CLOSURE OF REGISTER OF MEMBERS</b>		
The register of members will be closed from Monday, 11 June 2007 to Friday, 15 June 2007 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final 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. Friday, 8 June 2007.		
<b>OTHERS</b>		
Staff		
As at 31 December 2006, the Group employed approximately 5,098 persons around the world, of whom approximately 242 were in Hong Kong, 4,551 in PRC and 305 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 its employees in the PRC.		
<b>Liquidity and Financial Resources</b>		
The Group maintains a strong financial position. As at 31 December 2006, the total shareholders' equity of the Group was HK\$1.3 billion (2005: HK\$1.3 billion). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 2.73 as at 31 December 2006 (2005: 2.70).		
At the year end, the Group held a liquid portfolio of HK\$737 million (2005: HK\$794 million) of which HK\$499 million (2005: HK\$416 million) was in cash and cash equivalents and HK\$238 million (2005: HK\$378 million) in securities. The unsecured interest-bearing bank loans and overdrafts and bills payable amounted to HK\$45 million (2005: HK\$99 million).		
<b>Foreign Currency Exposure</b>		
The Group is exposed to foreign currency risk primarily through sales and purchases 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 and Renminbi.		
<b>PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES</b>		
Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2006.		
<b>CORPORATE GOVERNANCE</b>		
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 year ended 31 December 2006, in compliance with the Code on Corporate Governance Practices (the "Corporate Governance Code") as set out in Appendix 14 of the Listing Rules.		
<b>MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS</b>		
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.		
<b>AUDIT COMMITTEE</b>		
The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the final results for the year ended 31 December 2006 of the Company now reported on.		
<b>REMUNERATION COMMITTEE</b>		
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.		
<b>RETIREMENT OF DIRECTOR</b>		
Dr. Chang Chu Cheng ("Dr. Chang"), a Chairman and Executive Director, will retire from the Company at the forthcoming Annual General Meeting due to personal reasons. Dr. Chang has confirmed that he has no disagreement with the Board and there is no matter relating to his retirement that will need to be brought to the attention of the shareholders of the Company. The forthcoming Annual General Meeting will be held on 11 June 2006, Monday. A notice of the Annual General Meeting will be issued in due course.		
<b>DIRECTORS</b>		
As at the date of this announcement, the board of Directors comprises seven Directors, of whom Dr. Chang Chu Cheng, Mr. Johnson Ko Chun Shun, Mr. Tony Tsui Tong Hoo and Mr. Cecil Ho Te Hwai are Executive Directors and Dr. William Lo Wing Yan J.P., Mr. Yuen Kin and Mr. Hou Ziqiang are Independent Non-executive Directors.		