



VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

2008 INTERIM RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

Financial Highlights

- Turnover reached HK\$1,322 million, an increase of 14% as compared to the same period in 2007.
- Profit attributable to shareholders was HK\$124 million, a 3% increase from 2007.
- Basic earnings per share was 38.38 HK cents (2007: 37.13 HK cents).
- Interim dividend per share was 12 HK cents (2007: 12 HK cents).

Business Review

Automotive Display Business

This sector recorded satisfactory growth in the six months ended 30 June 2008, compared with the corresponding period a year ago. Growth has been especially significant in Europe and Asia. The momentum for this growth comes from the Group's move towards the production of high-end displays, a strategy that matches the needs of our automotive clients for high added value products. The European automotive market is mature, with a steady demand for high quality and high performance displays. The Asian market, particularly Mainland China, India and South Korea, shows encouraging growth potential.

The Group has recently developed an Improved Black Nematic (IBN) display technology which is particularly suitable for automotive applications, offering wide viewing angles and a broad range of operating temperatures. Mass production of the product is underway.

Mobile Phone Display Business

The mobile phone display business in the Mainland experienced moderate growth in the first six months of 2008 when compared to the same period last year. In fact, consumer sentiment towards mobile phone was weakened in 2008 due to an adjustment in the market following years of rapid growth. This is reflected in lower sales of the Group's mobile phone displays in the period under review when compared with the second half of last year.

Industrial and Other Products Business

Sales of our products for high-end industrial instruments in Europe and the United States have been maintained at a steady level. Sales were lower for the electronic consumer products sector, due largely to weakened demand in the Mainland market.

Looking Forward

Automotive Market

Several new automotive display projects will enter mass production in the second half of the year. The Group remains optimistic about the performance of this market in Europe and Asia.

Amongst our automotive clients in the Mainland are branch offices of our international clients and local Chinese automobile manufacturers. The Chinese automobile market is developing at a rapid pace and Mainland China is the main focus of our business expansion for the Group's automotive business.

India is another of our focal points for expansion and we are currently working with a number of Indian automotive clients. The Group will participate in an electronic components exhibition in India in the third quarter of this year and we will further step up marketing efforts to widen our exposure in this emerging market.

Home Electrical Appliances Market

The Group maintains an important foothold in the European home electrical appliances display market. Our products are mainly used in coffee machines, room temperature controls and general white goods. There is great potential for these three product categories.

In the second quarter of 2008, sales from home electrical appliances manufacturers increased. It is predicted that the business from this sector will continue its steady growth in the second half of the year. The Group will combine our strengths in quality and marketing towards expanding our market share in the European home electrical appliances market.

Mobile Phone Market

The growth potential for the mobile phone market in the PRC remains uncertain in the short to medium term. Due to a softening of demand from the Mainland for mobile handsets, the TFT (Thin Film Transistor) panel market accumulated excess inventory in the first half of the year. This has put pressure on the price of TFT panels and has led to price cuts. Varitronix did not participate in the direct production of TFT panels, and therefore enjoyed operating flexibility under the current market conditions.

The acquisition of an 11% share in BOE Hydis, a South Korean TFT panel manufacturer, has secured a stable supply source of TFT panels for the Group in future.

Industrial and Other Product Markets

The Group's industrial display solutions are mainly sold to Europe, the United States and other markets in Asia. Our high-precision products complement the high-end

designs for sophisticated instruments developed by our clients.

In the American market, aside from industrial instruments, the Group is planning to expand the current client portfolio for health care products. Manufacturers of products such as blood glucose meters and ECG machines have very stringent demands for display units, since these products have to meet with standards set by the government before they can be released into the market. The Group will endeavor to win more orders from these clients.

Summary and Acknowledgement

The Group recorded an increase in turnover in the first six months of 2008 over the same period last year. Performance has been steady in high-end displays in the automotive, industrial and home electrical appliances sectors in Europe and Asia, resulting in a continued rise in the Group's overall results.

While there are still uncertainties shrouding the American economy and the mobile handset market in the Mainland, prospects are good for automotive and industrial equipment displays in the European and Asian emerging markets. We will dedicate more resources to developing these potential areas.

Manufacturers in the Mainland face the challenges brought on by rising costs of raw materials, the appreciation of the RMB, the increase in labor costs, taxation and other miscellaneous expenses, and Varitronix is not immune to these problems. However, the Group has a balanced product portfolio with a diverse customer base spread through all principal markets in the world. In addition, the Group has tapped into the emerging markets and extended its portfolio to include home electrical appliances customers. These factors help the Group to sustain a stable revenue stream under uncertain conditions.

The Group has maintained steady growth in production yield, and new production lines will be installed in the fourth quarter. In the meantime, the Group will integrate and rationalize our production facilities in different locations so as to achieve greater production efficiency. Although sales will be affected by general market conditions, our production quality will provide the impetus to acquire a bigger market share in the high-end market so as to maintain growth.

With the cooperation of our staff, we will exercise control over our expenses, maintain the premium quality of our products, and at the same time strive for development in the high-end market segment so as to achieve the best margins.

We are confident that Varitronix will maintain its strong momentum as we meet the challenges we face today. I would hereby like to express my gratitude to our directors, shareholders, business partners and colleagues for their unfailing support.

Ko Chun Shun, Johnson
Chairman
Hong Kong, 25 August 2008

Consolidated Income Statement

For the six months ended 30 June 2008 - unaudited

	Note	Six months ended 30 June	
		2008	2007
		HK\$'000	HK\$'000
Turnover	2	1,321,717	1,155,000
Other revenue		30,355	13,549
Other net income		23,359	34,993
Change in inventories of finished goods and work in progress		(18,606)	21,202
Raw material and consumables used		(902,178)	(788,946)
Staff costs		(137,525)	(140,033)
Depreciation		(40,848)	(38,421)
Other operating expenses		<u>(134,385)</u>	<u>(123,291)</u>
Profit from operations		141,889	134,053
Finance costs	3(a)	(4,417)	(1,883)
Share of profit of associate		<u>345</u>	<u>-</u>
Profit before taxation	3	137,817	132,170
Income tax	4	<u>(13,379)</u>	<u>(13,602)</u>
Profit for the period		124,438	118,568
		=====	=====
Attributable to:			
Equity shareholders of the Company		124,140	120,082
Minority interests		<u>298</u>	<u>(1,514)</u>
Profit for the period		124,438	118,568
		=====	=====
Interim dividend		38,811	38,811
Earnings per share	5		
Basic		38.38 cents	37.13 cents
Diluted		38.37 cents	37.12 cents

Consolidated Balance Sheet

At 30 June 2008 - unaudited

	Note	At 30 June 2008	At 31 December 2007
		HK\$'000	HK\$'000
Non-current assets			
Fixed assets			
- Investment properties		1,487	7,777
- Other property, plant and equipment		345,036	385,781
- Interest in leasehold land held for own use		<u>9,346</u>	<u>19,516</u>
		355,869	413,074
Interest in an associate		2,651	2,306
Loan receivable		51,979	52,048
Other financial assets		74,720	105,077
Prepayment	6	224,599	12,199
Deferred tax assets		<u>3,982</u>	<u>3,983</u>
		<u>713,800</u>	<u>588,687</u>
		-----	-----
Current assets			
Trading securities		174,452	127,269
Inventories		403,171	545,323
Trade and other receivables	7	579,548	528,927
Current taxation recoverable		2,969	1,794
Cash and cash equivalents		<u>662,569</u>	<u>544,987</u>
		<u>1,822,709</u>	<u>1,748,300</u>
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Current liabilities			
Bank loans		347,812	149,160
Trade and other payables	8	541,383	660,151
Current taxation payable		13,008	4,308
Dividends payable		<u>84,090</u>	<u>-</u>
		<u>986,293</u>	<u>813,619</u>
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Net current assets		<u>836,416</u>	<u>934,681</u>
Total assets less current liabilities		<u>1,550,216</u>	<u>1,523,368</u>
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Non-current liabilities			
Deferred tax liabilities		<u>56</u>	<u>195</u>
		56	195
		-----	-----
NET ASSETS		<u>1,550,160</u>	<u>1,523,173</u>
		=====	=====
CAPITAL AND RESERVES			
Share capital		80,856	80,856
Reserves		<u>1,455,371</u>	<u>1,428,622</u>
Total equity attributable to equity shareholders of the Company		<u>1,536,227</u>	<u>1,509,478</u>
Minority interests		<u>13,933</u>	<u>13,695</u>
TOTAL EQUITY		<u>1,550,160</u>	<u>1,523,173</u>
		=====	=====

Notes-

1. Basis of preparation

This unaudited interim results has 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 2007 audited annual financial statements have been applied to the 2008 interim results.

Certain comparative figures have been reclassified to confirm to the current period’s presentation.

2. Segment 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 ended	the year ended
	30 June 2008	31 December 2007	30 June 2008	31 December 2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Europe	194,155	203,492	522	1,341
Hong Kong and PRC	2,207,498	1,960,060	67,688	146,237
North America	61,946	85,081	215	33
Rest of Asia	65,959	82,577	-	-

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

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Asia (Note)	823,210	682,730
Europe	420,930	404,875
North America	70,853	60,450
Others	6,724	6,945
	<u>1,321,717</u>	<u>1,155,000</u>

Note: Sales to Asia for the 6 months ended 30 June 2008 included sales to Hong Kong and PRC for the same period amounting to HK\$637,292,000 (2007: HK\$543,985,000).

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	
	2008	2007
	HK\$'000	HK\$'000
<i>(a) Finance costs:</i>		
Interest on bank advances and other borrowings repayable within five years	4,417	1,883
<i>(b) Other items:</i>		
Cost of inventories	1,045,957	861,177
Profit on disposal of fixed assets	(35,363)	(170)
Transfer from equity on disposal of available-for-sale securities	20	7,680
Loss/ (Gain) on disposal of trading securities	1,117	(25,168)
Loss/ (Gain) on revaluation of trading securities	13,834	(3,280)
Investment income	(5,774)	(1,464)
Other interest income	(6,798)	(7,483)
Rental income under operating leases	(6,773)	(251)
Other income	(2,810)	(4,352)

4. Income tax

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Current tax		
Provision for Hong Kong Profits Tax	8,374	7,774
Overseas Taxation	5,143	5,850
	<u>13,517</u>	<u>13,624</u>
Deferred tax		
Reversal of temporary differences	(138)	(22)
	<u>13,379</u>	<u>13,602</u>

The provision for Hong Kong Profits Tax is calculated at the rate of 16.5% (2007: 17.5%) of the estimated assessable profits for the six months ended 30 June 2008. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

5. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the unaudited profit attributable to equity shareholders of the Company of HK\$124,140,000 (2007: HK\$120,082,000) and the weighted average number of 323,422,204 shares (2007: 323,422,204 shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the unaudited profit attributable to equity shareholders of the Company of HK\$124,140,000 (2007: HK\$120,082,000) and the weighted average number of 323,565,972 shares (2007: 323,481,449 shares) after adjusting for the effects of all dilutive potential shares.

(c) Weighted average number of shares (diluted)

	Six months ended 30 June	
	2008	2007
	Number of shares	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	143,768	59,245
Weighted average number of shares used in calculating diluted earnings per share	<u>323,565,972</u>	<u>323,481,449</u>

6. Prepayment

During the period, the Group paid the remaining amount of approximately HK\$212,400,000 to complete the acquisition of interest and corporate bonds of BOE Hydys. Total consideration of approximately HK\$224,599,000 represented acquisition of about 11% shares of BOE Hydys of approximately HK\$134,759,000 and 5-year corporate bonds issued by BOE Hydys of approximately HK\$89,840,000 with interest bearing 4% per annum.

7. 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:

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Within 60 days of the invoice issue date	361,723	304,848
61 to 90 days after the invoice issue date	31,686	19,445
91 to 120 days after the invoice issue date	5,255	8,459
More than 120 days but less than 12 months after the invoice issue date	19,805	3,856
	<u>418,469</u>	<u>336,608</u>

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

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 2008 HK\$'000	At 31 December 2007 HK\$'000
Within 60 days of supplier invoice date	299,437	311,477
61 to 120 days after supplier invoice date	27,089	153,094
More than 120 days but less than 12 months after supplier invoice date	18,280	6,495
More than 12 months after supplier invoice date	291	1,652
	<u>345,097</u>	<u>472,718</u>

9. Capital commitments

Capital commitments representing purchase of property, plant and equipment not provided for in the Group's financial results were as follows:

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Contracted for	<u>149,552</u>	<u>125</u>

10. Contingent liabilities

As at 30 June 2008, the Company has issued guarantees to banks in respect of a banking facility granted to certain subsidiaries.

As at 30 June 2008, 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 30 June 2008 under the guarantees issued and the facility drawn down by the subsidiaries was HK\$348,760,000 (31/12/2007 : HK\$154,954,000).

INTERIM DIVIDEND

The directors of the Company (the "Directors") now recommend the payment of an interim dividend of 12 HK cents (2007: 12 HK cents) per share for the six months ended 30 June 2008 to all registered shareholders whose names appear on the register of members of the Company on Friday, 26 September 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 22 September 2008 to Friday, 26 September 2008 (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. Friday, 19 September 2008.

OTHERS

Staff

As at 30 June 2008, the Group employed approximately 5,167 persons around the world, of whom approximately 198 were in Hong Kong, 4,914 in PRC and 55 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 the PRC.

Liquidity and Financial Resources

The Group maintains a strong financial position. As at 30 June 2008, the total shareholders' equity of the Group was HK\$1.6 billion (31/12/2007: HK\$1.5 billion). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 1.85 as at 30 June 2008 (31/12/2007: 2.15).

At the period end, the Group held a liquid portfolio of HK\$912 million (31/12/2007: HK\$777 million) of which HK\$663 million (31/12/2007: HK\$545 million) was in cash and cash equivalents and HK\$249 million (31/12/2007: HK\$232 million) in securities. The unsecured interest-bearing bank loans amounted to HK\$348 million (31/12/2007: HK\$149 million).

Foreign Currency Exposure

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.

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

In the opinion of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the period ended 30 June 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 period under review.

AUDIT COMMITTEE

The audit committee comprises the three Independent Non-executive Directors: Dr. Lo Wing Yan, William J.P. (Chairman of the Audit Committee), Mr. Yuen Kin and Mr. Hou Ziqiang. It 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 2008 of the Company now reported on.

REMUNERATION COMMITTEE

The Remuneration Committee comprises two Independent Non-executive Directors, Dr. Lo Wing Yan, William J.P. (Chairman of the Remuneration Committee), Mr. Hou Ziqiang and an Executive Director, Mr. Ko Chun Shun, Johnson. It is responsible for setting and monitoring the remuneration policy for all Directors and senior management.

By order of the Board
Ko Chun Shun, Johnson
Chairman

Hong Kong, 25 August 2008

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