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## **VARITRONIX INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 710)

### **2009 INTERIM RESULTS ANNOUNCEMENT**

#### **Financial Highlights**

- Turnover: HK\$938 million (2008: HK1,322 million)
- Profit attributable to shareholders: HK\$16 million (2008: HK\$124 million)
- Interim dividend per share: 1 HK cent (2008: 12 HK cents)
- We remain committed to high-end display products, and are well-positioned to participate in a global economic recovery.

#### **CHAIRMAN'S STATEMENT**

On behalf of Varitronix International Limited (the "Company") and its subsidiaries (collectively "Varitronix" or the "Group"), I present the Group's results for the period ended 30 June, 2009.

During the period under review, turnover was HK\$938 million, a 29% decrease as compared to HK\$1,322 million recorded in the same period last year. Profit from operations was HK\$39 million and profit attributable to shareholders was HK\$16 million, a decline of 73% and 87% respectively as compared to the corresponding period in 2008.

The Board of Directors (the "Board") has recommended an interim dividend of 1 HK cent (2008: 12 HK cents) per share.

#### **Business Review**

Market conditions during the first six months of 2009 have been more challenging than the corresponding period in 2008. As a result of the adverse effects of the global financial crisis, many of the Group's customers have scaled down production in the wake of weakening consumer demand. In turn, our performance has been negatively impacted.

Turnover in the first quarter of 2009 continued the decline posted from the fourth

quarter in 2008, particularly in the months of January and February. Business began to show signs of recovery in March and started to stabilize in the second quarter of the year. Since then, there has been a steady upward trend in monthly turnover.

The automotive and high-end industrial display businesses in Europe and America have softened in the first half of this year. As both of these sectors have always been key profit contributors for the Group, their decline has resulted in a drop in our overall profitability.

While automotive displays have always been one of our core businesses, sales in traditional automobile markets, mainly in Europe, have suffered major setbacks from the fourth quarter in 2008 onwards, and are yet to return to former levels. However, sales of automotive displays in the Asian region have remained stable, with increased business activity recorded from the second quarter of 2009.

Since the beginning of 2008, business from the Mainland mobile phone market has slowed down. Such conditions persisted in the first half of this year as demand and prices for these displays have continued to decline and operating risks are gradually increasing. The Group has adopted a conservative strategy to deal with this business.

During the period under review, many of our traditional customers in the European and North American industrial and home appliance sectors have concentrated on clearing inventory, rather than placing new orders. However, we have been able to secure orders from new customers in North America to maintain sales.

## **Prospects**

The Group has renewed confidence in the business prospects for the second half of 2009 due to the following factors:

1. There are signs of recovery in the global economic environment, with North America reporting improvements in key economic data. In the past few months, customers were halting their purchasing activities or putting off orders to transfer risks to suppliers. We now see our customers in Europe and North America resuming placement of new orders.
2. During the economic downturn, the Group has remained committed to R&D for our high-end display products. To increase competitiveness, we have actively pursued design improvements for our products. We are confident that our efforts will satisfy the needs of our customers and enhance our market positioning.
3. Amidst recent challenging times, we have seized the opportunity to reallocate resources and restructure our organization by integrating our production and design facilities in Heyuan, Guangdong Province, PRC. These initiatives have enabled us to streamline our organization and operating costs. In addition to the increased production capacity provided by the new production line, the Group is in a good position to expand our market share as business sentiments improve.
4. The Group has dedicated significant efforts to nurturing our businesses in emerging markets, including the automotive and consumer product sectors. These emerging markets have been less affected by the economic turmoil than

Europe and North America, acting as a buffer when business from the traditional markets has declined. The Group will continue to develop emerging markets, such as Mainland China and South Korea.

#### Mainland China Market – Automotive and Industrial Display Business

The Mainland China market has tremendous potential, and the Group has established a sales network for consumer products in the Southern China region. Looking forward, the Group aims to capitalize on our strengths in the high-end display products to enlarge our market share in this particular sector.

Mainland China has now become a key automobile market in the world. Despite the global financial crisis, the Central Government's stimulus measures have spurred demand, and a rise in automobile sales was recorded in the first half of 2009.

The Group's existing automotive customers in Mainland China include joint venture companies between Chinese and foreign automobile manufacturers and other local car manufacturers, with the majority of such clients located in Shanghai and other neighbouring cities. We are confident that these two major customer groups still present many business opportunities for growth and greater efforts will be dedicated to develop the Shanghai market and other markets which show great potential, such as the Northeast and Central Western regions.

#### Mainland China Market – Mobile Handset Business

The demand for the mobile handsets in Mainland China has weakened since last year, but the competition amongst manufacturers remained fierce. This led to continuous declining selling prices for the mobile handset market. Therefore, the operating environment is risky. To address this, the Group has adopted a conservative strategy and will review the overall business so as to devise a long-term strategy in due course.

#### South Korean Market

The Group's business in South Korea has always been dominated by automotive and consumer product customers. Revenue generated in these sectors has shown a steady increase over the last few years. The South Korean automobile industry has weathered the global economic crisis very well and has successfully expanded their export markets in North America, Europe and Mainland China. This sector has created new momentum for growth in our automotive display business and we will devise a comprehensive plan to meet the demand from this market.

### **Summary**

In the first half of the year, revenue from traditional customers has declined. However, orders from new customers have helped to maintain sales.

Signs of recovery in the global economy have surfaced in the beginning of the second half of the year and new orders have started to come in from our automotive customers in Europe. It is hoped that this recovery can be sustained.

Our priority is to fully prepare ourselves to ensure we can respond in a timely manner to the expected influx of orders from traditional customers and to capitalize on new opportunities that arise.

It is anticipated that overall sales revenue will gradually increase in the second half of the year. We should be able to reap the rewards of our efforts in rationalizing our production facilities and enhancing R&D of our high-end products made during the economic downturn.

### **Acknowledgement**

With effect from 1 July 2009, Mr. Yuen Kin, an independent non-executive director of the Company, has been re-designated as an executive director of the Company and appointed as the Chief Financial Officer of the Group. Mr. Chau Shing Yim, David has been appointed as an independent non-executive director of the Company and a member of the Audit Committee of the Company. Their experience and professional expertise will prove invaluable to the Group and I would like to welcome them to their new positions.

I would also like to thank our customers, shareholders, directors and colleagues for their support and dedication. We will continue to strengthen ourselves to face the challenges ahead.

**Ko Chun Shun, Johnson**  
Chairman

Hong Kong, dated 17 August 2009

## Consolidated Income Statement

For the six months ended 30 June 2009 - unaudited

	Note	Six months ended 30 June	
		2009	2008
		HK\$'000	HK\$'000
Turnover	3	938,247	1,321,717
Other operating income	4	59,090	53,714
Change in inventories of finished goods and work in progress		(13,991)	(18,606)
Raw material and consumables used		(683,244)	(902,178)
Staff costs		(121,459)	(137,525)
Depreciation		(40,503)	(40,848)
Other operating expenses		<u>(99,378)</u>	<u>(134,385)</u>
Profit from operations		38,762	141,889
Finance costs	5(a)	(2,304)	(4,417)
Amortisation of intangible assets of an associate		(14,706)	-
Share of (losses)/profits of associates		<u>(3,062)</u>	<u>345</u>
Profit before taxation	5	18,690	137,817
Income tax	6	<u>(3,122)</u>	<u>(13,379)</u>
<b>Profit for the period</b>		<b>15,568</b>	<b>124,438</b>
		=====	=====
<b>Attributable to:</b>			
Equity shareholders of the Company		15,811	124,140
Minority interests		<u>(243)</u>	<u>298</u>
<b>Profit for the period</b>		<b>15,568</b>	<b>124,438</b>
		=====	=====
<b>Interim dividend</b>	7	<b>3,234</b>	<b>38,811</b>
<b>Earnings per share</b>	8		
Basic		<b>4.89 cents</b>	38.38 cents
Diluted		<b>4.89 cents</b>	38.37 cents

## Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009 - unaudited

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
<b>Profit for the period</b>	<u>15,568</u>	<u>124,438</u>
<b>Other comprehensive income for the period</b>		
Other reserves	(207)	-
Changes in fair value of available-for-sale securities	3,147	(18,644)
Transfer to the profit or loss on disposal of available-for-sale securities	-	20
Exchange differences on translation of financial statements of foreign operations	<u>8,487</u>	<u>5,263</u>
	<u>11,427</u>	<u>(13,361)</u>
<b>Total comprehensive income for the period</b>	<u>26,995</u>	<u>111,077</u>
	=====	=====
<b>Attributable to:</b>		
Equity shareholders of the Company	27,174	110,839
Minority interests	<u>(179)</u>	<u>238</u>
<b>Total comprehensive income for the period</b>	<u>26,995</u>	<u>111,077</u>
	=====	=====

## Consolidated Balance Sheet

At 30 June 2009 - unaudited

	<i>Note</i>	At 30 June 2009	At 31 December 2008
		HK\$'000	HK\$'000
<b>Non-current assets</b>			
Fixed assets			
- Investment properties		1,433	1,460
- Other property, plant and equipment		457,627	455,549
- Interest in leasehold land held for own use		<u>8,482</u>	<u>8,696</u>
		467,542	465,705
Interest in associates		104,778	124,141
Loans receivable		125,109	132,618
Other financial assets		179,505	176,358
Deferred tax assets		<u>4,898</u>	<u>4,898</u>
		<u>881,832</u>	<u>903,720</u>
<b>Current assets</b>			
Trading securities		144,706	116,758
Inventories		305,215	300,256
Trade and other receivables	9	444,946	507,005
Current taxation recoverable		4,112	2,840
Cash and cash equivalents		<u>369,110</u>	<u>514,154</u>
		<u>1,268,089</u>	<u>1,441,013</u>
<b>Current liabilities</b>			
Bank loans		157,058	208,107
Trade and other payables	10	443,283	574,018
Current taxation payable		2,276	1,133
Dividends payable		<u>3,234</u>	<u>-</u>
		<u>605,851</u>	<u>783,258</u>
<b>Net current assets</b>		<u>662,238</u>	<u>657,755</u>
<b>Total assets less current liabilities</b>		<u>1,544,070</u>	<u>1,561,475</u>
<b>Non-current liabilities</b>			
Bank loans		111,500	152,666
Deferred tax liabilities		<u>80</u>	<u>80</u>
		<u>111,580</u>	<u>152,746</u>
<b>NET ASSETS</b>		<u>1,432,490</u>	<u>1,408,729</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		80,856	80,856
Reserves		<u>1,337,181</u>	<u>1,313,241</u>
Total equity attributable to the Company's shareholders		1,418,037	1,394,097
Minority interests		<u>14,453</u>	<u>14,632</u>
<b>TOTAL EQUITY</b>		<u>1,432,490</u>	<u>1,408,729</u>

## **Notes-**

### **1. Basis of preparation**

This unaudited condensed consolidated interim financial report for the six months ended 30 June 2009 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting”. The unaudited condensed consolidated interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2008, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

### **2. Accounting policies**

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those annual financial statements.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009 and relevant to the Group.

- HKAS 1 (revised), “Presentation of financial statements”. The revised standard prohibits the presentation of items of income and expenses (that is “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity. All “non-owner changes in equity” are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present two statements: an income statement and a statement of comprehensive income. The unaudited interim financial statements have been prepared under the revised disclosure requirements.

- HKFRS 8, “Operating segments”. HKFRS 8 replaces HKAS 14, “Segment reporting”. It requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors (the “Board”) that makes strategic decisions.

The Group is mainly engaged in design, manufacture and sale of liquid crystal displays and related products. The internal reporting provided to the chief operating decision-maker is provided on a basis of geographical segment which is the same as previously reported, accordingly, the number of reportable segments presented is the same as the previously reported.

### 3. Segment information

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocated resources. Management has determined the operating segments based on these reports.

As the Group is mainly engaged in design, manufacture and sale of liquid crystal displays and related products, the Board considers the business from a geographic perspective.

The Board assesses the performance of the operating segments based on turnover which is consistent with that in the financial statements. Other information, as noted below, is also provided to the Board.

Total assets exclude deferred tax, available-for-sale financial assets, derivative financial instruments and interest in associates, all of which are managed on a central basis.

	Segment assets		Capital expenditure incurred for	
	at 30 June 2009 HK\$'000	at 31 December 2008 HK\$'000	the period ended 30 June 2009 HK\$'000	the year ended 31 December 2008 HK\$'000
Hong Kong and PRC	1,185,142	1,390,257	45,108	194,298
Europe	125,749	123,910	91	782
Korea	63,089	49,811	-	-
North America	31,460	36,077	26	228
Others	31,023	31,600	-	9

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

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Hong Kong and PRC	<b>400,618</b>	665,899
Europe	<b>293,341</b>	420,930
Korea	<b>179,371</b>	157,311
North America	<b>46,235</b>	70,853
Others	<b>18,682</b>	6,724
	<b>938,247</b>	1,321,717

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.

#### **4. Other operating income**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Investment income	<b>10,160</b>	5,774
Other interest income	<b>4,712</b>	6,798
Rental income under operating leases	<b>7,907</b>	6,773
Unrealised gains/(losses) on derivative financial assets	<b>11,696</b>	(3,132)
(Loss)/profit on disposal of fixed assets	<b>(43)</b>	35,363
Realised and unrealised gains/(losses) on trading securities	<b>16,566</b>	(14,951)
Exchange gain	<b>7,310</b>	6,099
Other income	<b>782</b>	10,990
	<b>59,090</b>	53,714

## 5. Profit before taxation

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

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
(a) <i>Finance costs:</i>		
Interest on bank advances and other borrowings repayable within five years	<u>2,304</u>	<u>4,417</u>
(b) <i>Other items:</i>		
Cost of inventories	795,423	1,045,957
Factory relocation cost	<u>30,157</u>	<u>-</u>

## 6. Income tax

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
<b>Current tax</b>		
Provision for Hong Kong Profits Tax	838	8,374
Overseas Taxation	<u>2,284</u>	<u>5,143</u>
	3,122	13,517
<b>Deferred tax</b>		
Movement in temporary differences	<u>-</u>	<u>(138)</u>
	<u>3,122</u>	<u>13,379</u>

The provision for Hong Kong Profits Tax is calculated at the rate of 16.5% (2008: 16.5%) of the estimated assessable profits for the six months ended 30 June 2009. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

## 7. Dividends

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Interim dividends declared	<u>3,234</u>	<u>38,811</u>

## 8. 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\$15,811,000 (2008: HK\$124,140,000) and the weighted average number of 323,422,204 shares (2008: 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\$15,811,000 (2008: HK\$124,140,000) and the weighted average number of 323,422,204 shares (2008: 323,565,972 shares) after adjusting for the effects of all dilutive potential shares.

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

	Six months ended 30 June	
	2009	2008
	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
Weighted average number of shares used in calculating diluted earnings per share	<u>323,422,204</u>	<u>323,565,972</u>

## 9. 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 2009	At 31 December 2008
	HK\$'000	HK\$'000
Within 60 days of the invoice issue date	263,411	234,331
61 to 90 days after the invoice issue date	16,064	61,500
91 to 120 days after the invoice issue date	4,411	23,455
More than 120 days but less than 12 months after the invoice issue date	3,115	5,784
More than 12 months after the invoice issue date	61	61
	<u>287,062</u>	<u>325,131</u>

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

## 10. Trade and other payables

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

	<b>At 30 June 2009 HK\$'000</b>	At 31 December 2008 HK\$'000
Within 60 days of supplier invoice date	<b>315,461</b>	240,296
61 to 120 days after supplier invoice date	<b>17,680</b>	176,991
More than 120 days but less than 12 months after supplier invoice date	<b>2,399</b>	20,201
More than 12 months after supplier invoice date	<b>5,787</b>	1,010
	<b>341,327</b>	438,498

## 11. Capital commitments

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

	<b>At 30 June 2009 HK\$'000</b>	At 31 December 2008 HK\$'000
Contracted for	<b>42,464</b>	48,240
Authorised but not contracted for	<b>276</b>	-
	<b>42,740</b>	48,240

## 12. Contingent liabilities

As at 30 June 2009, the Company has issued guarantees to banks in respect of a banking facility granted to certain subsidiaries.

As at 30 June 2009, 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 2009 under the guarantees issued and the facility drawn down by the subsidiaries was HK\$276,548,000 (31/12/2008 : HK\$363,566,000).

## **INTERIM DIVIDEND**

The Board has recommended to declare an interim dividend of 1 HK cent (2008: 12 HK cents) per share for the six months ended 30 June 2009. The interim dividend will be payable on or around Friday, 2 October 2009 to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 25 September 2009.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 21 September 2009 to Friday, 25 September 2009 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the aforementioned interim 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, 18 September 2009.

## **OTHERS**

### **Staff**

As at 30 June 2009, the Group employed 4,065 persons around the world, of whom 159 were in Hong Kong, 3,860 in the People's Republic of China ("PRC") and 46 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.

### **Liquidity and Financial Resources**

The Group maintains a strong financial position. As at 30 June 2009, the total shareholders' equity of the Group was HK\$1,432 million (31/12/2008: HK\$1,409 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 2.09 as at 30 June 2009 (31/12/2008: 1.84).

At the period end, the Group held a liquid portfolio of HK\$538 million (31/12/2008: HK\$652 million) of which HK\$369 million (31/12/2008: HK\$514 million) was in cash and cash equivalents and HK\$169 million (31/12/2008: HK\$138 million) in securities. The unsecured interest-bearing bank loans amounted to HK\$269 million (31/12/2008: HK\$361 million). The gearing ratio (bank loans and overdrafts over net assets) was 19% (31/12/2008: 26%).

### **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.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2009.

### **CORPORATE GOVERNANCE**

In the opinion of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the period ended 30 June 2009.

All other information on the CGP Code has been disclosed in the corporate governance report contained in the 2008 annual report of the Company issued in April 2009.

### **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**

As at the date of this report, the Audit Committee comprises the three Independent Non-executive Directors, Dr. Lo Wing Yan, William J.P. (Chairman of the Audit Committee), Mr. Chau Shing Yim, David and Mr. Hou Ziqiang. It 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 unaudited interim results for the six months ended 30 June 2009 of the Company now reported on.

## **REMUNERATION COMMITTEE**

The Remuneration Committee is responsible for setting and monitoring the remuneration policy for all Directors and senior management. It is headed by Dr. Lo Wing Yan, William J.P., an Independent Non-executive Director of the Company. The other members of the Remuneration Committee are Mr. Hou Ziqiang, an Independent Non-executive Director of the Company, and Mr. Ko Chun Shun, Johnson, an Executive Director of the Company.

By order of the Board  
**Varitronix International Limited**  
**Ko Chun Shun, Johnson**  
Chairman

Hong Kong, dated 17 August 2009

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