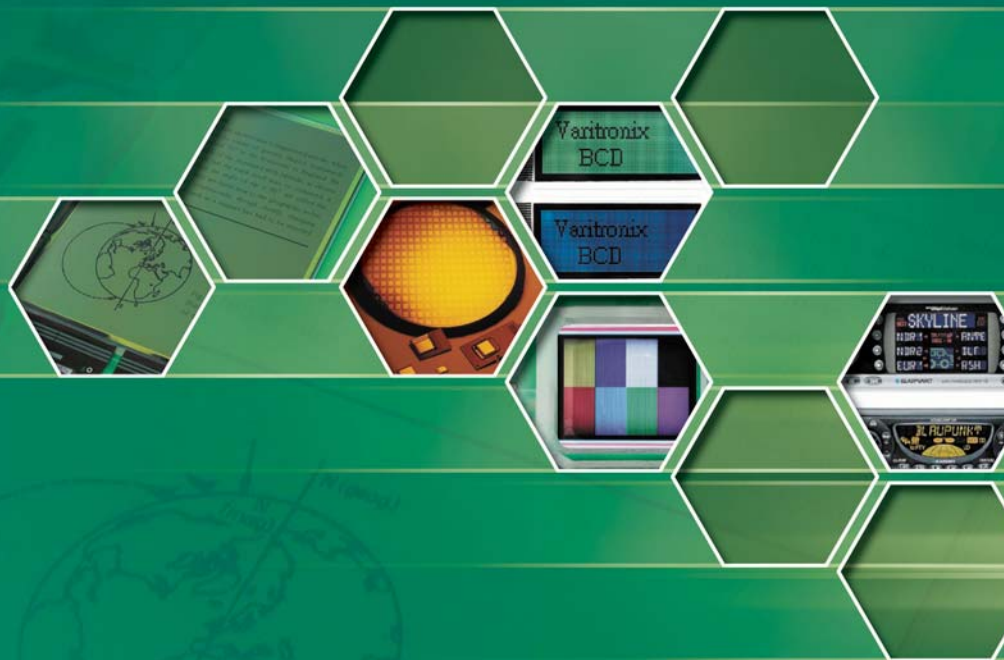




VARITRONIX INTERNATIONAL LIMITED



interim report
2002

RESULTS

The Directors of Varitronix International Limited (the “Company”) announce that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2002 with comparative figures for the corresponding period of last year are as follows:

Consolidated Income Statement

for the six months ended 30 June 2002 – unaudited

		Six months ended 30 June	
		2002	2001
	Note	HK\$'000	HK\$'000
Turnover	2	499,212	557,640
Other revenue		13,453	12,359
Other net (loss)/income		(253)	1,441
Changes in inventories of finished goods and work in progress		(28,924)	(10,758)
Raw material and consumables used		(200,796)	(261,994)
Loss on investment in mutual fund liquidated during the period		(10,471)	–
Staff costs		(100,627)	(128,628)
Depreciation		(38,795)	(38,285)
Other operating expenses		(72,591)	(69,400)
Profit from operations		60,208	62,375
Finance cost	3(a)	(1,846)	(1,208)
Share of losses of associate		(1,448)	(130)
Profit from ordinary activities before taxation	3	56,914	61,037
Taxation	4	(10,831)	(7,493)
Profit from ordinary activities after taxation		46,083	53,544
Minority interests		(1,734)	534
Profit attributable to shareholders		44,349	54,078
Interim dividend		13,341	19,138
Earnings per share	5		
Basic		14.66 cents	18.51 cents
Diluted		14.64 cents	N/A

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2002 – unaudited

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Total equity at 1 January	1,295,207	1,294,816
Effect of adopting HK SSAP 34	(6,421)	(5,065)
	<u>1,288,786</u>	<u>1,289,751</u>
As restated	1,288,786	1,289,751
Surplus/(Deficit) on revaluation of non-trading securities	7,876	(12,208)
Exchange translation differences	2,586	(483)
	<u>10,462</u>	<u>(12,691)</u>
Net losses not recognized in the income statement	10,462	(12,691)
Net Profit for the period	44,349	54,078
Dividends approved in respect of the previous year	(19,674)	(52,589)
Issue of share capital	611	–
Revaluation deficit transferred to the income statement:–		
(a) on liquidation of mutual fund	10,471	–
(b) on disposal of non-trading securities	40	430
	<u>1,335,045</u>	<u>1,278,979</u>
Total equity at 30 June	1,335,045	1,278,979

Consolidated Balance Sheet
As at 30 June 2002 – unaudited

		At 30 June 2002	At 31 December 2001 (restated)
	Note	HK\$'000	HK\$'000
Non-current assets			
Fixed assets		395,694	393,658
Goodwill		32,546	33,386
Interest in associate		16,554	19,276
Non-trading securities		216,330	227,861
		<u>661,124</u>	<u>674,181</u>
Current assets			
Trading securities		82,668	81,020
Inventories		207,912	213,235
Trade and other receivables	6	317,619	252,998
Cash and cash equivalents	7	443,721	368,578
		<u>1,051,920</u>	<u>915,831</u>
Current liabilities			
Interest-bearing bank loan and overdrafts		59,464	39,924
Bills payable		53	2,169
Trade and other payables	8	202,450	158,615
Taxation		23,643	25,729
Dividend payable		19,674	–
		<u>305,284</u>	<u>226,437</u>
Net current assets		<u>746,636</u>	<u>689,394</u>
Total assets less current liabilities		1,407,760	1,363,575
Non-current liabilities			
Bank borrowings		17,428	21,324
Convertible notes		31,200	31,200
Minority interests		24,087	22,265
NET ASSETS		<u>1,335,045</u>	<u>1,288,786</u>
CAPITAL AND RESERVES			
Share capital	9	75,669	75,619
Reserves	10	1,259,376	1,213,167
		<u>1,335,045</u>	<u>1,288,786</u>

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2002 – unaudited

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Net cash inflow from operating activities	68,241	129,192
Net cash used in investing activities	(10,136)	(35,355)
Net cash used in financing activities	(12,228)	6,557
	<hr/>	<hr/>
Increase in cash and cash equivalents	45,877	100,394
Effect of foreign exchange rates changes	2,629	(477)
Cash and cash equivalents at 1 January	347,776	180,908
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	396,282	280,825
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	85,654	125,743
Deposits with banks and other financial institutions	358,067	167,810
Bank loans and overdrafts	(47,439)	(12,728)
	<hr/>	<hr/>
	396,282	280,825
	<hr/>	<hr/>

Notes:–

1. Basis of preparation

This unaudited interim report 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 (the "Stock Exchange"), including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The same accounting policies and basis of preparation adopted in the Group's 2001 audited annual accounts have been applied to the 2002 interim report with the exception of changes in accounting policies to comply with new and revised Statements of Standard Accounting Practice ("HK SSAPs") issued by the Hong Kong Society of Accountants, which are effective for accounting periods commencing on or after 1 January 2002, as set out below.

- (a) On adoption of HK SSAP 11 (revised) "Foreign currency translation", the income statements of subsidiaries and associated company denominated in foreign currencies are translated at the weighted average exchange rates during the period. In previous years these were translated at exchange rates ruling at the balance sheet date.
- (b) As a result of the adoption of HK SSAP 34 "Employee benefits", it was necessary to change the Group's accounting policy in respect of long service payments. The changes have been applied retrospectively, resulting in prior period adjustments with the opening balances of the retained profits as at 1 January 2001 and 1 January 2002 restated by reductions of HK\$5,065,000 and HK\$6,421,000 respectively.

- (c) Certain presentational changes have been made upon the adoption of HK SSAP 1 (revised) "Presentation of financial statements" and HK SSAP 15 (revised) "Cash flow statements".

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	
	as at 30 June 2002 HK\$'000	as at 31 Dec 2001 HK\$'000	the period ended 30 June 2002 HK\$'000	the year ended 31 Dec 2001 HK\$'000
Hong Kong and PRC	1,379,547	1,237,046	36,015	65,772
Rest of Asia	170,227	190,133	4,274	32,357
Europe	86,956	87,184	470	415
North America	26,090	22,987	28	49

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

	Six Months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
France	77,398	92,947
United Kingdom	53,383	60,370
Germany	42,423	48,072
Other European countries	84,879	123,409
North America	65,914	101,952
Hong Kong and PRC	113,476	74,770
Rest of Asia	53,627	50,632
Others	8,112	5,488
	499,212	557,640

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 from ordinary activities before taxation

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

	Six Months ended 30 June	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	910	272
Interest on convertible notes	936	936
	<u>1,846</u>	<u>1,208</u>
(b) Other items:		
Cost of inventories	314,407	372,428
(Gain)/loss on disposal of fixed assets	(128)	174
Loss on disposal of non-trading securities	40	430
Loss on disposal of trading securities	3,820	1,149
Loss on revaluation of trading securities	880	1,594
Investment income	(8,357)	(6,890)
Other interest income	(2,887)	(3,674)
Rental income under operating leases	(1,568)	(386)
Other income	(641)	(1,409)

4. Taxation

	Six Months ended 30 June	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong taxation	5,553	611
Overseas taxation	5,278	6,882
	<u>10,831</u>	<u>7,493</u>

- (a) The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the six months ended 30 June 2002. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.
- (b) No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

5. Earnings per share

- (a) The calculation of basic earnings per share is based on the unaudited profit attributable to shareholders of HK\$44,349,000 (2001: HK\$54,078,000) and the weighted average number of 302,596,895 shares (2001: 292,159,987 shares) in issue during the period.
- (b) The calculation of diluted earnings per share is based on the unaudited adjusted profit attributable to shareholders of HK\$44,349,000 and the weighted average number of 302,944,575 shares after adjusting for the effects of all dilutive potential shares.

For the period ended 30 June 2001, the share options and convertible notes were considered not to have dilutive effects on the earnings per share as the average market value of the shares of the Company during the period was lower than the exercise prices of the respective share options and convertible notes. Accordingly, no diluted earnings per share was calculated for the period ended 30 June 2001.

	Six Months ended 30 June 2002
	<i>HK\$'000</i>
Net profit attributable to shareholders	44,349
Interest saved as the convertible notes converted	—
	<hr/>
Adjusted profit attributable to shareholders for the purpose of diluted earnings per share	44,349
	<hr/>
	Shares
Weighted average number of shares for the purpose of basic earnings per share	302,596,895
Effect of dilutive potential shares:	
Deemed issue of shares for no consideration arising from share options	347,680
Deemed issue of shares from convertible notes	—
	<hr/>
Weighted average number of shares for the purpose of diluted earnings per share	302,944,575
	<hr/>

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 2002	At 31 December 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 60 days of the invoice issue date	152,821	136,600
61 to 90 days after the invoice issue date	35,309	36,019
91 to 120 days after the invoice issue date	16,331	9,591
More than 120 days but within 12 months after the invoice issue date	30,934	43,659
	<hr/>	<hr/>
	235,395	225,869
	<hr/>	<hr/>

The Group allows an average credit period of 90 days to its trade customers.

7. Cash and cash equivalents

	At 30 June 2002 <i>HK\$'000</i>	At 31 December 2001 <i>HK\$'000</i>
Deposits with banks and other financial institutions	358,067	291,994
Cash at bank and in hand	85,654	76,584
	<u>443,721</u>	<u>368,578</u>

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 2002 <i>HK\$'000</i>	At 31 December 2001 <i>HK\$'000</i>
Within 60 days of supplier invoice date	88,234	58,032
61 to 120 days after supplier invoice date	15,377	8,886
More than 120 days but within 12 months after supplier invoice date	4,053	4,646
	<u>107,664</u>	<u>71,564</u>

9. Share Capital

	No. of shares (<i>'000</i>)	Amount <i>HK\$'000</i>
Issued and fully paid: Ordinary shares of HK\$0.25 each		
At 1 January 2002	302,477	75,619
Shares issued under share option scheme	200	50
	<u>302,677</u>	<u>75,669</u>
At 30 June 2002	<u>302,677</u>	<u>75,669</u>

10. Reserves

(a) Reserves

	Share premium <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	573,073	(25,042)	(15,741)	455	686,843	1,219,588
Effect of adopting HK SSAP34	–	–	–	–	(6,421)	(6,421)
As restated	573,073	(25,042)	(15,741)	455	680,422	1,213,167
Special dividend and final dividend approved in respect of previous year	–	–	–	–	(19,674)	(19,674)
Share premium arising from issue of shares	561	–	–	–	–	561
Exchange differences	–	2,586	–	–	–	2,586
Revaluation surplus	–	–	7,876	–	–	7,876
Revaluation deficit transferred to the income statement	–	–	–	–	–	–
– on liquidation of mutual fund	–	–	10,471	–	–	10,471
– on disposal of securities	–	–	40	–	–	40
Profit for the period	–	–	–	–	44,349	44,349
At 30 June 2002	573,634	(22,456)	2,646	455	705,097	1,259,376

(b) Dividends

After the balance sheet date, the following dividends were proposed by the Board of Directors. The dividends have not been provided for.

	At 30 June 2002 <i>HK\$'000</i>	At 31 December 2001 <i>HK\$'000</i>
HK\$ 0.044 per share	13,341	19,674

11. Capital commitments outstanding not provided for in the Group's accounts

	At 30 June 2002 <i>HK\$'000</i>	At 31 December 2001 <i>HK\$'000</i>
Contracted for	31,761	25,703

12. Contingent Liabilities

At 30 June 2002, 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\$47,439,000 (at 31 December 2001: HK\$12,895,000).

INTERIM DIVIDEND

The Directors declared an interim dividend of 4.4 cents per share for the six months ended 30 June 2002 (2001: 6.5 cents), to be satisfied by way of scrip dividend with cash option, to shareholders whose names appear on the register of members of the Company on Friday, 25 October, 2002. Subject to the Listing Committee of the Stock Exchange granting listing of and permission to deal in the new shares of the Company, each shareholder will be allotted fully paid shares having an aggregate market value equal to the total amount of the interim dividend which such shareholder could elect to receive in cash and that they be given the option to elect to receive payment of the interim dividend in cash instead of the allotment of shares. Full details of the scrip dividend will be set out in a letter to be sent to shareholders together with a form of election for cash on or about 31 October 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 21 October 2002 to Friday, 25 October 2002, 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, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 18 October 2002.

BUSINESS REVIEW

Review of operations

Surrounded by low visibilities in many parts of the world, global economic conditions were generally sluggish during the reporting period. This has impacts not only in the LCD industry, but also in almost every industry around the world. Against this backdrop, the Group managed to deliver results, which represented continuing improvement from the previous reporting period of second half of 2001. This was largely due to the greater efforts made to target niche markets. Turnover was 10% lower than the corresponding period last year at HK\$499 million. This can partly be explained by the fact that significant back orders were included in the same period last year, but not in this half-year period.

Profit attributable to shareholders was reported at HK\$44 million, 18% lower than the corresponding period of last year but higher compared to the second half. It was diluted due to the winding up of an investment held by a Group subsidiary resulting in a charge against operating profit of HK\$10 million. If this was excluded, the Group would have reported better operating profits resulting from cost containment policies, management restructuring and lowering the material cost content. In addition, the Group has further reported an improvement in productivity, helping the Group to maintain satisfactory business margins.

The European market remained the Group's largest market, accounting for 52% of total turnover whilst the North American and Asian markets accounted for 13% and 33% respectively. Benefiting from the thriving PRC manufacturing activities, contribution from this market increased significantly during the first half of this year.

The Group's financial position continued to grow stronger and stronger, with HK\$444 million (30/6/2001: HK\$294 million) in cash and cash equivalents and HK\$299 million (30/6/2001: HK\$293 million) in securities as at 30 June 2002. In addition, our prudent credit policy/debt management has continued to render a satisfactory flow of cash to meet our obligations.

Faced with market uncertainty, the Group has continued to strive for better internal controls to boost overall efficiencies. Our efforts during the period were underpinned by persistent focus on enhancing operational and production management, and tighter inventory control, both within and between operating units. In particular, the management is committed to optimizing production structure and streamlining production processes. To achieve these objectives, the Group has pressed on with the construction and equipment installation at the new Heyuan plant, with the completion of a fully automated production line expected by the end of year, and enabling the eventual consolidation of more operations under one roof.

Staff

At the end of June 2002, the Group employed approximately 3,700 persons around the world, of whom approximately 540 were in Hong Kong, 2,900 in PRC and 260 overseas.

Liquidity and Financial Resources

The Group continues to maintain a strong financial position. As at 30 June 2002, the Group had a total shareholders' equity amounting to approximately HK\$1.3 billion and a liquid portfolio of HK\$743 million (31/12/2001: HK\$677 million) of which HK\$444 million (31/12/2001: HK\$368 million) was in cash and cash equivalents and HK\$299 million (31/12/2001: HK\$309 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.

PROSPECTS

Looking ahead to the second half, while still facing uncertainty and low visibility, present orders-on-hand are nevertheless encouraging and orders are expected to exhibit healthy growth. The management is determined to see business moving forward. However, many challenges remain, especially in the MNC sector for our Malaysian operation due to the overall slowdown in the telecommunications sector.

Backed by enhanced production expertise, the Group's strategy is to spearhead growth and competitiveness by further exploring the niche industrial and automobile sectors. Meanwhile, the Group will continue to enlarge its share in the PRC market. Supported by the Group's joint venture partner, Tsinghua University Enterprise Group, the management is confident of penetrating further into the fast growing China LCD market. On the operational front,

enhancement in production yields will be the central task. These strategies will go hand in hand with our initiatives in product development, which are crucial to maintaining the Group's position in the market.

Research and development will continue to be one of our primary focuses as our R&D team seeks to improve the quality and features of our products. In addition, the Group will continue to develop new products with increasing efforts, aiming to enter new markets. During the first half, the Group secured prototype orders for its new color STN product, setting a positive tone for eventual volume production. Furthermore, an OLED development line was completed earlier this year and the Group has successfully demonstrated prototypes of both monochrome and area color OLED displays.

Uncertainties in the global market are expected to remain. However, barring unforeseeable circumstances, the management remains cautiously optimistic about the performance in the second half.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2002, the interests of the Directors and their associates in the issued share capital of the Company and its subsidiary companies, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

(a) Interests in the Company

Name of Director	Shares of HK\$0.25 each in the Company	
	Personal interests	Corporate interests
Dr. C. C. Chang	20,897	68,272,268 (Note 1)
Dr. S. K. Yan	10,371,072	–
S. M. Chung	4,331,036	–
S. K. Kwok	2,112,959	–
G. N. Lee, James	–	4,124,072 (Note 2)

Notes:

1. A family trust of Dr. C. C. Chang and his wife, Madam Iling Sieh, is the beneficial owner of the issued share capital of Colville Group Limited which holds 68,272,268 shares of the Company.
2. Mr. G. N. Lee, James is the sole beneficial owner of the entire issued share capital of Pressman Holdings Limited which holds 4,124,072 shares of the Company.

(b) Interests in subsidiaries

	Non-voting deferred shares of HK\$1,000 each in Varitronix Limited	Non-voting deferred shares of HK\$100 each in Polysources Properties Limited
Dr. C. C. Chang	960	78
Dr. S. K. Yan	123	10
S. M. Chung*	50	8
S. K. Kwok	50	4
G. N. Lee, James	123	10
	1,306	110

* Mr. S. M. Chung holds 4 non-voting deferred shares in Polysources Properties Limited in trust for all non-voting deferred shareholders of that company.

Save as mentioned above, none of the Directors, Chief Executives and their associates of the Company as at 30 June 2002 had any interests in the share capital of the Company or any associated corporations (within the meaning of the SDI Ordinance) which have been entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance.

SHARE OPTION SCHEMES

	Date granted	Number of options at 1.1.2002	Options lapsed during the period	Options exercised during the period	Number of options at 30.6.2002	Exercisable period	Price per share to be paid on exercise of option HK\$	Market value per share at date of grant of options HK\$
Director								
S. K. Kwok	1.1.1998	400,000	-	-	400,000	1.1.2000- 31.12.2002	10.55	13.20
	9.6.1999	150,000	-	-	150,000	9.7.1999- 8.7.2009	10.90	15.00
Employees	1.1.1998	1,139,500	(43,000)	-	1,096,500	1.1.2000- 31.12.2002	10.55	13.20
	9.6.1999	472,750	(26,000)	-	446,750	9.7.1999- 8.7.2009	10.90	15.00
	1.6.2000	780,000	(47,000)	-	733,000	1.7.2000- 30.6.2010	11.30	13.40
	30.8.2001	850,000	(2,000)	(199,500)	648,500	30.8.2001- 29.8.2011	3.06	3.68
		3,792,250	(118,000)	(199,500)	3,474,750			

Notes:

1. No share option was granted during the period.
2. The total number of shares available for issue under the Share Option Schemes at 30 June 2002 represents 1.15% of the issued share capital of the Company at that date.
3. The consideration paid by each employee for the options granted was HK\$1.
4. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$5.926.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

Other than the interests of the Directors of the Company as disclosed above, no person or corporation had any interest in the share capital of the Company as recorded in the registers required to be kept under Section 16(1) of the SDI Ordinance.

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.

CODE OF BEST PRACTICE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not during the six months ended 30 June 2002, in compliance with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules, except that the Non-Executive Directors of the Company are not appointed for a specific term as they are subject to retirement at annual general meeting in accordance with the Company's Bye-Laws.

AUDIT COMMITTEE

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 unaudited interim results for the six months ended 30 June 2002 of the Company now reported on.

By Order of the Board
Dr. C. C. Chang
Chairman

Hong Kong, 22 August 2002