



*Varitronix
International
Limited*



Interim Report 2001

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 2001 with comparative figures for the corresponding period of last year are as follows:

Consolidated Profit and Loss Account

For the six months ended 30 June 2001 – unaudited

		Six months ended 30 June	
		2001	2000
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	557,640	526,512
Other revenue		12,359	26,289
Other net income		1,441	5,578
Changes in inventories of finished goods and work in progress		(10,758)	43,768
Raw material and consumables used		(261,994)	(280,170)
Staff costs		(128,628)	(96,151)
Depreciation		(38,285)	(29,368)
Other operating expenses		(69,400)	(57,551)
Profit from operations		62,375	138,907
Finance cost	3(a)	(1,208)	(479)
Share of losses of associate		(130)	(471)
Profit from ordinary activities before taxation	3	61,037	137,957
Taxation	4	(7,493)	(10,636)
Profit from ordinary activities after taxation		53,544	127,321
Minority interests		534	(3,020)
Profit attributable to shareholders		54,078	124,301
Interim dividend		19,138	44,693
Earnings per share	5		
Basic		18.51 cents	42.98 cents
Diluted		N/A	42.68 cents

Consolidated Statement of Recognised Gains and Losses*For the six months ended 30 June 2001 – unaudited*

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Deficit on revaluation of non-trading securities	(12,208)	(6,772)
Exchange differences on translation of the accounts of foreign entities	(483)	341
Net losses not recognised in the profit and loss account	(12,691)	(6,431)
Profit for the period	54,078	124,301
Revaluation deficit/(surplus) transferred to the profit and loss account on disposal of non-trading securities	430	(4,348)
Total recognised gains and losses	41,817	113,522

Consolidated Balance Sheet*As at 30 June 2001 – unaudited*

		At 31 December 2000 (restated) HK\$'000
	At 30 June 2001 HK\$'000	
Note		HK\$'000
Non-current assets		
Fixed assets	407,415	385,288
Interest in associate	25,463	21,241
Non-trading securities	223,521	250,486
	<u>656,399</u>	<u>657,015</u>
Current assets		
Trading securities	69,871	66,425
Inventories	312,745	360,820
Trade and other receivables	6 313,126	367,418
Cash and cash equivalents	7 293,553	192,297
	<u>989,295</u>	<u>986,960</u>
Current liabilities		
Interest-bearing bank loan and overdrafts	12,728	21,412
Bills payable	19,806	6,264
Trade and other payables	8 173,143	241,128
Taxation	24,527	21,806
Dividend payable	52,589	–
	<u>282,793</u>	<u>290,610</u>
Net current assets	<u>706,502</u>	<u>696,350</u>
Total assets less current liabilities	1,362,901	1,353,365
Non-current liabilities		
Bank borrowings	20,806	–
Convertible notes	31,200	31,200
Minority interests	26,851	27,349
NET ASSETS	<u>1,284,044</u>	<u>1,294,816</u>
CAPITAL AND RESERVES		
Share capital	9 73,040	73,040
Reserves	10 1,191,866	1,169,187
Proposed dividend	10 19,138	52,589
	<u>1,284,044</u>	<u>1,294,816</u>

Condensed Consolidated Cash Flow Statement*For the six months ended 30 June 2001 – unaudited*

	<i>HK\$'000</i>
Net cash inflow from operating activities	133,964
Net cash inflows from returns on investments and servicing of finance	6,338
Tax paid	(4,772)
Net cash outflow from investing activities	(45,919)
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Net cash inflow before financing	89,611
Net cash inflow from financing	10,783
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Increase in cash and cash equivalents	100,394
Effect of foreign exchange rates	(477)
Cash and cash equivalents at 1 January 2001	180,908
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Cash and cash equivalents at 30 June 2001	<u>280,825</u>
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Analysis of the balances of cash and cash equivalents	
Cash at bank and in hand	125,743
Deposits with banks and other financial institutions	167,810
Bank loans and overdrafts	(12,728)
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	<u>280,825</u>

Notes:–

1. Basis of preparation

The 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 except that the comparative figures for cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Listing Rules.

The same accounting policies and basis of preparation adopted in the Group’s 2000 audited annual accounts have been applied to the 2001 interim report except that the Group has adopted SSAP 9 (revised) “Events after the balance sheet date” (“SSAP 9 (revised)”) for the first time. SSAP 9 (revised) specifies that dividends declared after the balance sheet date should not be recognised as a liability at the balance sheet date.

As a result of this new accounting policy, the Group’s net assets at 30 June 2001 have been increased by HK\$19,138,000 (at 31 December 2000 : HK\$52,589,000). This new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods.

2. Segmental information

The principal activities of the Group are the design, manufacture and sale of liquid crystal displays and related products. The analysis of the geographical locations of the turnover of the Group during the financial period is as follows:

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
France	92,947	101,604
United Kingdom	60,370	63,223
Germany	48,072	52,679
Other European countries	123,409	85,782
North America	101,952	124,804
Hong Kong	37,099	28,821
Rest of Asia	88,303	64,284
Others	5,488	5,315
	557,640	526,512

Contribution to operating profit by geographical locations has not been presented as the contribution to operating profit from each market is closely proportional to the turnover attributable to the market.

3. Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	272	474
Interest on convertible notes	936	-
Amortization of finance costs	-	5
	1,208	479
(b) Other items:		
Cost of inventories	372,428	301,297
Loss/(gain) on disposal of fixed assets	174	(60)
Loss/(gain) on disposal of non-trading securities	430	(4,348)
Loss/(gain) on disposal of trading securities	1,149	(1,319)
Loss on revaluation of trading securities	1,594	2,705
Investment income	(6,890)	(10,722)
Other interest income	(3,674)	(13,781)
Rental under operating leases	(386)	(386)
Other income	(1,409)	(1,400)

4. Taxation

	Six months ended 30 June	
	2001	2000
	HK\$'000	<i>HK\$'000</i>
Hong Kong taxation	611	4,730
Overseas taxation	6,882	5,906
	<u>7,493</u>	<u>10,636</u>

- (a) The provision for Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the six months ended 30 June 2001. 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\$54,078,000 (2000: HK\$124,301,000) and the weighted average number of 292,159,987 shares (2000: 289,178,153 shares) in issue during the period.
- (b) The calculation of diluted earnings per share for the period ended 30 June 2000 was based on the unaudited profit attributable to shareholders of HK\$124,342,000 and the weighted average number of 291,307,203 shares in issue during the period. The share options and convertible notes were considered not to have dilutive effects on the earnings per share for the period ended 30 June 2001 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.

	Six months ended
	30 June 2000
	<i>HK\$'000</i>
Net profit attributable to shareholders	124,301
Interest saved as the convertible notes converted	41
	<u>124,342</u>
	Shares
Weighted average number of shares for the purpose of basic earnings per share	289,178,153
Effect of dilutive potential shares:	
Deemed issue of shares for no consideration arising from share options	1,721,617
Deemed issue of shares from convertible notes	407,433
	<u>291,307,203</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>291,307,203</u>

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 2001 HK\$'000	At 31 December 2000 HK\$'000
Within 60 days of the invoice issue date	157,911	212,237
61 to 90 days after the invoice issue date	54,051	48,336
91 to 120 days after the invoice issue date	18,680	16,948
More than 120 days but within 12 months after the invoice issue date	49,087	59,387
	<u>279,729</u>	<u>336,908</u>

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

7. Cash and cash equivalents

	At 30 June 2001 HK\$'000	At 31 December 2000 HK\$'000
Deposits with banks and other financial institutions	167,810	95,168
Cash at bank and in hand	125,743	97,129
	<u>293,553</u>	<u>192,297</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 2001 HK\$'000	At 31 December 2000 HK\$'000
Within 60 days of supplier invoice date	63,641	103,890
61 to 120 days after supplier invoice date	16,024	38,955
More than 120 days but within 12 months after supplier invoice date	13,651	9,666
	<u>93,316</u>	<u>152,511</u>

9. Share Capital

	No. of shares ('000)	Amount HK\$'000
Issued and fully paid:		
Ordinary shares of HK\$0.25 each		
At 31 December 2000 and 30 June 2001	<u>292,160</u>	<u>73,040</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>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	537,164	(24,887)	(4,889)	661,799	1,169,187
Exchange differences	-	(483)	-	-	(483)
Revaluation deficit	-	-	(12,208)	-	(12,208)
Revaluation deficit transferred to the profit and loss account on disposal of securities	-	-	430	-	430
Profit for the period	-	-	-	54,078	54,078
Dividends	-	-	-	(19,138)	(19,138)
	<u>537,164</u>	<u>(25,370)</u>	<u>(16,667)</u>	<u>696,739</u>	<u>1,191,866</u>
At 30 June 2001	<u>537,164</u>	<u>(25,370)</u>	<u>(16,667)</u>	<u>696,739</u>	<u>1,191,866</u>

(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 2001 <i>HK\$'000</i>	At 31 December 2000 <i>HK\$'000</i>
HK\$0.065 per share (2000 : HK\$0.15)	<u>19,138</u>	<u>52,589</u>

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

	At 30 June 2001 <i>HK\$'000</i>	At 31 December 2000 <i>HK\$'000</i>
Contracted for	<u>9,827</u>	<u>23,973</u>

12. Contingent liabilities

At 30 June 2001, 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\$8,648,000 (at 31 December 2000: HK\$5,454,000).

INTERIM DIVIDEND

The Directors declared an interim dividend of 6.5 cents per share for the six months ended 30 June 2001 (2000: 15 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, 26 October 2001. 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 30 October 2001.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 22 October 2001 to Friday, 26 October 2001, 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, Central Registration Hong Kong Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 19 October 2001.

BUSINESS REVIEW

Review of operations

Facing the global economic slowdown, the orders from the industrial section for the Group remained relatively stable during the period under review though the demand from the MNC communication sector plunged sharply. The Group's turnover for the six months ended 30 June 2001 amounted approximately to HK\$557.6 million, representing a modest growth of 6% over the same period last year. Sales in Europe accounted for 58% of group turnover, while sales in North America and in Asia Pacific accounted for 18% and 22% of group turnover respectively. The growth in Asia Pacific, more specifically in mainland China, is evidenced by the success of the joint venture with the Tsinghua University Enterprise Group.

The results of operation rationalization was on an encouraging trend. The overall material cost consumption reduced to a more reasonable level and the inventory level lowered by over 13%. The productivity of the Group has also been rising. Nevertheless, the Group recorded a drop in profit which was resulted mainly from the higher overhead absorption that had been driven up to satisfy the high business volume in the MNC sector during the second half of 2000, and lower selling prices due to the fierce price competition in the LCD industry, especially in the MNC sector. Our operation in Malaysia, which concentrated more in mobile phone products, was hit particularly hard by this downturn and registered a loss of HK\$10.5 million. Coupled with poor performance of the liquid portfolio during the period because of the lackluster global market environment, an unrealized deficit of HK\$12.2 million was recorded upon revaluation of the Group's security holdings at 30 June 2001. The unaudited profit attributable to shareholders for the period was approximately HK\$54.1 million, a decrease of 56% over the same period last year.

The Heyuan Plant

The main layout plan of the Heyuan plant has been finalized and the architecture blueprint will be finished in November this year. The construction of the plant is expected to start by the end of this year. The major function of the plant is to consolidate and to improve logistics of the Group's operation in mainland China.

Staff

At the end of June 2001, the Group employed approximately 4,990 persons around the world, of whom approximately 700 were in Hong Kong, 3,700 in PRC and 590 overseas.

Liquidity and Financial Resources

The Group continues to maintain a strong financial position. As at 30 June 2001, the Group had a total shareholders' equity amounting to approximately HK\$1.3 billion and a liquid portfolio of HK\$587 million (31/12/2000: HK\$509 million) of which HK\$294 million (31/12/2000: HK\$192 million) was in cash and cash equivalents and HK\$293 million (31/12/2000: HK\$317 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

The LCD market is still unsettled and the Directors believe that the global economic slowdown will continue in the next couple of months. Facing this challenging environment, the management, with a positive attitude as usual, will strive to re-deploy the Group's existing resources more efficiently and to pave the way for the opportunities ahead. Emphasis will be placed on effective cost control, new product development and exploration of new markets, especially in mainland China. In order to enjoy a better economy of scale and to lower its operating overhead, the Group also plans to relocate and consolidate its resources as well as to further streamline the organization.

Looking forward, the Group will, on top of solid organic growth, explore opportunities for growth by way of acquisition. However, the management fully understands the complexity and risks of growing through acquisition and will endeavour to ensure that any potential acquisition passes the Group's rigorous screening criteria.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2001, 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's shares

Name of Director	Shares of HK\$0.25 each		
	Personal interests	Family interests	Corporate interests
Dr. C. C. Chang	20,795	–	67,294,474 (Note 1)
Dr. York Liao	33,575,066	1,086,000	–
Dr. S. K. Yan	10,371,072	–	–
S. M. Chung	4,322,959	–	–
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 67,294,474 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 options to subscribe for the Company's shares

Name of Director	Date granted	Exercisable period	Price per share to be paid on exercise of option	Number of options
S. K. Kwok	1.1.1997	1.1.1999-31.12.2001	HK\$11.40	400,000
	1.1.1998	1.1.2000-31.12.2002	HK\$10.55	400,000
	9.6.1999	9.7.1999-8.7.2009	HK\$10.90	150,000

No share option was granted to or exercised by any Director during the period.

(c) 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. York Liao	492	40
Dr. S. K. Yan	123	10
S. M. Chung*	50	8
S. K. Kwok	50	4
G. N. Lee, James	123	10
	1,798	150

* 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 2001 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.

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.

CONNECTED TRANSACTIONS

It was announced on 24 April 2001 that Varitronix (B.V.I.) Limited, a wholly-owned subsidiary of the Company had conditionally agreed to acquire the remaining minority interests in Varitronix (Malaysia) Sdn. Bhd., in consideration of an issue, in aggregate, of 7,112,313 shares of the Company. The transactions were approved at the special general meeting held on 22 June 2001. Completion will take place within 90 business days after satisfaction of certain conditions and is expected to be before the end of this year.

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 2001, 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 2001 of the Company now reported on.

By Order of the Board

Dr. C. C. Chang

Chairman

Hong Kong, 24 September 2001