



VARITRONIX INTERNATIONAL LIMITED



Interim Report 2004



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 2004 with comparative figures for the corresponding period of last year are as follows:

Consolidated Income Statement

for the six months ended 30 June 2004 – unaudited

		Six months ended 30 June	
		2004	2003
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	981,154	613,050
Other revenue		8,362	13,177
Other net income		6,431	17,253
Changes in inventories of finished goods and work in progress		25,962	(8,241)
Raw material and consumables used		(633,829)	(299,422)
Staff costs		(120,595)	(112,137)
Depreciation		(40,053)	(40,615)
Other operating expenses		(101,708)	(91,417)
Profit from operations		125,724	91,648
Finance cost	3(a)	(1,928)	(1,340)
Share of losses of associate		-	(3,682)
Profit from ordinary activities before taxation	3	123,796	86,626
Income tax	4	(14,953)	(10,226)
Profit from ordinary activities after taxation		108,843	76,400
Minority interests		(12,829)	(9,384)
Profit attributable to shareholders		96,014	67,016
Interim dividend		31,457	21,505
Special interim dividend		-	64,513
Total interim dividends		31,457	86,018
Earnings per share	5		
Basic		30.94 cents	22.02 cents
Diluted		30.74 cents	21.97 cents

Consolidated Balance Sheet*As at 30 June 2004 – unaudited*

	Note	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Non-current assets			
Fixed assets		409,373	414,662
Intangible assets		27,860	28,672
Goodwill		29,181	30,022
Interest in associate		–	5,289
Non-trading securities		73,031	171,610
		<u>539,445</u>	<u>650,255</u>
Current assets			
Trading securities		94,722	98,640
Inventories		298,678	237,239
Trade and other receivables	6	513,075	290,274
Current taxation recoverable		981	6,006
Cash and cash equivalents	7	543,445	549,159
		<u>1,450,901</u>	<u>1,181,318</u>
Current liabilities			
Bank loans and overdrafts		78,473	86,298
Bills payable		3,729	–
Trade and other payables	8	279,788	231,436
Current taxation payable		9,036	1,485
Dividends payable		86,906	–
		<u>457,932</u>	<u>319,219</u>
Net current assets		<u>992,969</u>	<u>862,099</u>
Total assets less current liabilities		<u>1,532,414</u>	<u>1,512,354</u>
Non-current liabilities			
Convertible notes		31,200	31,200
Deferred taxation		7,914	10,499
		<u>39,114</u>	<u>41,699</u>
Minority interests		56,205	43,437
NET ASSETS		<u>1,437,095</u>	<u>1,427,218</u>
CAPITAL AND RESERVES			
Share capital	9	77,597	77,574
Reserves	10	1,359,498	1,349,644
		<u>1,437,095</u>	<u>1,427,218</u>

Condensed Consolidated Statement of Changes in Equity*For the six months ended 30 June 2004 – unaudited*

	2004 HK\$'000	2003 <i>HK\$'000</i>
Total equity at 1 January	<u>1,427,218</u>	<u>1,389,702</u>
(Deficit)/surplus on revaluation of non-trading securities	(574)	1,777
Exchange translation differences	<u>450</u>	<u>2,261</u>
Net (losses)/gains not recognised in the income statement	<u>(124)</u>	<u>4,038</u>
Net profit for the period:	<u>96,014</u>	<u>67,016</u>
Dividends approved in respect of the previous year	<u>(86,906)</u>	<u>(66,901)</u>
Revaluation deficit/(surplus) transferred to the income statement on disposal/liquidation of securities	<u>388</u>	<u>(768)</u>
Movements in share capital	<u>505</u>	<u>15,170</u>
Total equity at 30 June	<u>1,437,095</u>	<u>1,408,257</u>

Condensed Consolidated Cash Flow Statement*For the six months ended 30 June 2004 – unaudited*

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(75,549)	68,878
Net cash from/(used in) investing activities	79,111	(75,455)
Net cash from/(used in) financing activities	5,027	(47,660)
	<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents	8,589	(54,237)
Effect of foreign exchange rates changes	(28)	2,476
Cash and cash equivalents at 1 January	534,884	460,875
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	543,445	409,114
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	90,553	71,326
Deposits with banks and other financial institutions	452,892	337,788
	<hr/>	<hr/>
	543,445	409,114
	<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 ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants, the former name of which is the Hong Kong Society of Accountants.

The same accounting policies and basis of preparation adopted in the Group's 2003 audited annual financial statements have been applied to the 2004 interim report.

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 2004 HK\$'000	as at 31 December 2003 HK\$'000	the period ended 30 June 2004 HK\$'000	the year ended 31 December 2003 HK\$'000
Hong Kong and PRC	1,710,664	1,549,279	34,540	113,352
Rest of Asia	129,499	136,194	426	14,978
Europe	92,459	75,150	117	1,316
North America	27,563	29,633	-	46

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

	Six Months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
France	69,230	65,383
United Kingdom	49,985	46,863
Germany	69,539	61,386
Other European countries	142,629	122,554
North America	43,919	45,489
Hong Kong and PRC	515,979	197,048
Rest of Asia	77,199	57,159
Others	12,674	17,168
	<u>981,154</u>	<u>613,050</u>

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	
	2004	2003
	HK\$'000	HK\$'000
(a) Finance cost:		
Interest on bank advances and other borrowings repayable within five years	992	404
Interest on convertible notes	936	936
	<u>1,928</u>	<u>1,340</u>
(b) Other items:		
Cost of inventories	687,077	406,555
Loss/(gain) on disposal of non-trading securities	388	(768)
Gain on disposal of trading securities	(2,484)	(3,634)
Loss on revaluation of trading securities	3,951	28
Investment income	(2,668)	(7,688)
Other interest income	(2,672)	(2,492)
Rental income under operating leases	(1,574)	(1,621)
Other income	(1,449)	(1,375)

4. Income tax

	Six Months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Current tax		
Hong Kong taxation	12,022	8,951
Overseas taxation	5,517	2,696
	<u>17,539</u>	<u>11,647</u>
Deferred tax		
Origination and reversal of temporary differences	(2,586)	(2,350)
Attributable to increase in tax rate	-	929
	<u>(2,586)</u>	<u>(1,421)</u>
	<u>14,953</u>	<u>10,226</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the six months ended 30 June 2004. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

5. Earnings per share

- (a) The calculation of basic earnings per share is based on the unaudited profit attributable to shareholders of HK\$96,014,000 (2003: HK\$67,016,000) and the weighted average number of 310,338,547 shares (2003: 304,283,568 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\$96,014,000 (2003: HK\$67,016,000) and the weighted average number of 312,321,857 shares (2003: 304,980,385 shares) after adjusting for the effects of all dilutive potential shares.

	Six Months ended 30 June	
	2004	2003
	Number of shares	Number of shares
Weighted average number of shares for the purpose of basic earnings per share	310,338,547	304,283,568
Deemed issue of shares for no consideration arising from share options	1,983,310	696,817
	<hr/> 312,321,857	<hr/> 304,980,385
Weighted average number of shares for the purpose of diluted earnings per share	312,321,857	304,980,385

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 2004 HK\$'000	At 31 December 2003 HK\$'000
Within 60 days of the invoice issue date	342,837	161,410
61 to 90 days after the invoice issue date	62,801	60,927
91 to 120 days after the invoice issue date	18,004	11,715
More than 120 days but within 12 months after the invoice issue date	17,910	15,311
	<hr/> 441,552	<hr/> 249,363

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

7. Cash and cash equivalents

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Deposits with banks and other financial institutions	452,892	495,574
Cash at bank and in hand	90,553	53,585
	<hr/>	<hr/>
Cash and cash equivalents in the balance sheet	543,445	549,159
Bank overdrafts	-	(14,275)
	<hr/>	<hr/>
Cash and cash equivalents in the cash flow statement	543,445	534,884
	<hr/>	<hr/>

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 2004 HK\$'000	At 31 December 2003 HK\$'000
Within 60 days of supplier invoice date	156,432	121,423
61 to 120 days after supplier invoice date	17,472	15,498
More than 120 days but within 12 months after supplier invoice date	3,519	3,880
	<hr/>	<hr/>
	177,423	140,801
	<hr/>	<hr/>

9. Share Capital

	No. of shares ('000)	Amount HK\$'000
Issued and fully paid: Ordinary shares of HK\$0.25 each		
At 1 January 2004	310,295	77,574
Shares issued under share option scheme	93	23
	<hr/>	<hr/>
At 30 June 2004	310,388	77,597
	<hr/>	<hr/>

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 2004	616,286	(16,473)	2,492	1,933	745,406	1,349,644
Special dividend and final dividend approved in respect of previous year	-	-	-	-	(86,906)	(86,906)
Share premium arising from issue of shares	482	-	-	-	-	482
Exchange differences	-	450	-	-	-	450
Revaluation deficit	-	-	(574)	-	-	(574)
Revaluation deficit transferred to the income statement on disposal of securities	-	-	388	-	-	388
Profit for the period	-	-	-	-	96,014	96,014
At 30 June 2004	<u>616,768</u>	<u>(16,023)</u>	<u>2,306</u>	<u>1,933</u>	<u>754,514</u>	<u>1,359,498</u>

(b) Dividends

After the balance sheet date, the following dividends were proposed by the Board of Directors. The dividends have not been recognised as a liability at the balance sheet date.

	At 30 June 2004 <i>HK\$'000</i>	At 31 December 2003 <i>HK\$'000</i>
Dividends not provided for	<u>31,457</u>	<u>86,903</u>

11. Capital commitments

Capital commitments outstanding at 30 June 2004 not provided for in the Group's financial statements were as follows:

	At 30 June 2004 <i>HK\$'000</i>	At 31 December 2003 <i>HK\$'000</i>
Contracted for	<u>16,960</u>	<u>15,117</u>

12. Contingent Liabilities

At 30 June 2004, 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\$59,586,000 (at 31 December 2003: HK\$72,023,000).

INTERIM DIVIDEND

The Directors declared an interim dividend of 10 cents per share (2003: 7 cents) for the six months ended 30 June 2004, 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 Wednesday, 6 October 2004. No special interim dividend was declared for the six months ended 30 June 2004 (2003: 21 cents per share). 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 13 October 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Thursday, 30 September, 2004 to Wednesday, 6 October 2004, 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. on Tuesday, 28 September, 2004.

BUSINESS REVIEW

The six months under review was a rewarding period for Varitronix. As the growth momentum generated in the second half of last year continued to gain pace, we were able to report strong operating results across all product sectors. We made further strides in extending our market presence and broadening our customer base.

The turnover for the first half of the year was reported at HK\$981 million, 60% above the same period last year. The profit attributable to shareholders climbed 43% to reach HK\$96 million, and the basic earnings per share was 30.94 cents. During the period, orders for both monochrome and color telecommunication products were strong as the handset market in the PRC remained robust. The Group's product diversification strategy also benefited from the increase in demand for displays used in automobiles and various industrial applications.

The Group's business coverage remained geographically diverse. Hong Kong and the PRC market emerged as the largest market during the period with Europe coming second, followed by North America. The Korean market continues to expand especially in the applications for personal digital entertainment systems and automotive products.

In recognizing that R&D ensure our competitive position in the industry, progress was made in new LCD products, including prototyping of micro-displays, zenithal bistable displays and full color OLEDs.

In restructuring its Malaysian operations, the Group divested its electro-chromic mirror manufacturing business. The Directors believed that this would enable the Group to better utilize its resources in expanding the core business of LCD display products. Furthermore, the Group is negotiating a possible merger of its subsidiary Varitronix (Malaysia) Sdn. Bhd. with Crystal Clear Technology Sdn. Bhd, which is engaged in the manufacturing of liquid displays, modules, display devices and other electro-optical systems in Malaysia. Listing the shares of the merged entity on the Malaysian Exchange for Securities and Automatic Quotation is intended.

As a result of robust cash flow from operations, the Group's financial position remained strong with liquid portfolio of HK\$711 million at the end of the reporting period.

PROSPECTS

The results we achieved during the period provide an optimistic growth expectation and re-enforces the Group's continuous growth into the second half of the year. Although the real impact of the Chinese government's economic austerity measures has yet to be seen, we believe that our products for mobile handsets will penetrate further in the PRC market with the growing popularity of colour displays. Whilst endeavoring to capture opportunities in this segment, Varitronix will continue to pursue its diversification strategy to add versatility to its products and at the same time boost the Group's resilience to market fluctuations. The Group's ability to deliver customized displays for automotive applications through the certification of ISO/TS 16949, should win further orders in this sector. Industrial products will also continue to be an important pillar of the Group's business.

In line with our market diversification strategy, the Group will remain committed to extending its presence in the Korean market and other markets in order not to rely on any single market or product. The increase in demand in industrial and automotive sectors are also expected to provide future growth opportunities.

We will continue to strive and maintain balanced growth across different markets and product offerings. The smooth expansion of the new Heyuan plant has improved the efficiency of the Group's operations. Supported by enhanced technical capabilities and growth in demand for our products, Management is confident, barring unforeseen circumstances, in achieving a steadfast growth in 2004.

STAFF

At the end of June 2004, the Group employed approximately 4,850 persons around the world, of whom approximately 520 were in Hong Kong, 3,880 in PRC and 450 overseas.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to maintain a strong financial position. As at 30 June 2004, the Group had a total shareholders' equity amounting to approximately HK\$1.4 billion and a liquid portfolio of HK\$711 million (31/12/2003: HK\$819 million) of which HK\$543 million (31/12/2003: HK\$549 million) was in cash and cash equivalents and HK\$168 million (31/12/2003: HK\$270 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.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2004, the interests of the Directors and their associates in the share capital of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO Ordinance")) as recorded in the register maintained by the Company under Section 352 of the SFO Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Interests in shares of the Company

Name of Director	Personal interests (Note 1)	Corporate interests	Shares of HK\$0.25 each in the Company	
			Total	Approximate % of shareholding
Dr. C. C. Chang	21,596	68,386,479 (Note 2)	68,408,075	22.03
Dr. S. K. Yan	10,371,072	–	10,371,072	3.34
S. M. Chung	4,434,314	–	4,434,314	1.42
S. K. Kwok	2,283,959	–	2,283,959	0.73

Notes:

1. The shares are held by the respective Directors personally as beneficial owners.
2. 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 68,386,479 shares of the Company.

(b) Interests in shares of 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 (<i>Note 1</i>)	50	8
S. K. Kwok	50	4
	<u>1,183</u>	<u>100</u>

Notes:

1. 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.
2. Except for the above 4 non-voting deferred shares, the other non-voting deferred shares are held by the respective Directors as beneficial owners.

(c) Interests in share options of the Company

Director	Date granted	Number of options at 1.1.2004	Options granted/ (exercised) during the period	Number of options at 30.6.2004	Exercisable period	Price per share to be paid on exercise of option HK\$	Market value per share at date of grant of options HK\$
Dr. C. C. Chang	30.10.2002	1,000,000	-	1,000,000	31.10.2002- 30.10.2012	4.605	4.35
Dr. S. K. Yan	30.10.2002	1,000,000	-	1,000,000	31.10.2002- 30.10.2012	4.605	4.35
S. M. Chung	30.10.2002	1,000,000	-	1,000,000	31.10.2002- 30.10.2012	4.605	4.35
S. K. Kwok	9.6.1999	150,000	-	150,000	9.7.1999- 8.7.2009	10.90	15.00
	30.10.2002	1,000,000	-	1,000,000	31.10.2002- 30.10.2012	4.605	4.35
		<u>4,150,000</u>	<u>-</u>	<u>4,150,000</u>			

All the interests disclosed above represent long position in the shares of the Company or its associated corporations (within the meaning of the SFO Ordinance).

Save as mentioned above, none of the Directors, Chief Executives and their associates of the Company as at 30 June 2004 had any interests or short position in the shares or underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO Ordinance) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The register of interests in shares and short positions maintained under Section 336 of the SFO Ordinance shows that at 30 June 2004, other than the interests disclosed above in respect of Dr. C. C. Chang and Colville Group Limited, the following company had an interest of 5% or more in the issued share capital of the Company:

Name	Number of shares	Capacity	Approximate % of shareholding
J.P. Morgan Chase & Co.			
Long position	23,296,764	Investment manager and other	7.50
Lending pool	11,827,140	–	3.81

Note: The interests of J.P. Morgan Chase & Co. in the Company were held by a number of its wholly-owned subsidiaries.

Save as stated above, no other person is recorded in the register of substantial shareholders maintained under Section 336 of the SFO Ordinance as having an interest of 5% or more in the issued share capital of the Company as at 30 June 2004.

SHARE OPTION SCHEMES

	Date granted	Number of options at 1.1.2004	Options exercised during the period	Number of options at 30.6.2004	Exercisable period	Price per share to be paid on exercise of option HK\$	Market value per share at date of grant of options HK\$
Directors	9.6.1999	150,000	-	150,000	9.7.1999-8.7.2009	10.90	15.00
	30.10.2002	4,000,000	-	4,000,000	31.10.2002-30.10.2012	4.605	4.35
Employees	9.6.1999	442,250	-	442,250	9.7.1999-8.7.2009	10.90	15.00
	1.6.2000	712,000	-	712,000	1.7.2000-30.6.2010	11.30	13.40
	30.8.2001	283,500	(1,500)	282,000	30.8.2001-29.8.2011	3.06	3.68
	13.9.2002	280,500	(50,000)	230,500	13.9.2002-12.9.2012	3.905	3.85
	6.10.2003	525,500	(41,500)	484,000	6.10.2003-5.10.2013	7.35	7.35
			<u>6,393,750</u>	<u>(93,000)</u>	<u>6,300,750</u>		

Notes:

- No share option was granted and lapsed during the period.
- The total number of shares available for issue under the Share Option Schemes at 30 June 2004 represents 2.03% of the issued share capital of the Company at that date.
- The consideration paid by each employee for the options granted was HK\$1.
- The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$7.901.

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 2004, in compliance with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules.

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 2004 of the Company now reported on.

DIRECTORS

As at the date of this report, the Board of Directors of the Company comprises seven directors, of which Dr. Chang Chu Cheng, Dr. Yan Sze Kwan, Mr. Chung Shun Ming and Mr. Kwok Siu Kwan are executive Directors and Professor Charles Kao Kuen, Mr. Anthony Lui Chi Shing and Dr. William Lo Wing Yan J.P. are independent non-executive Directors.

By Order of the Board
Dr. Chang Chu Cheng
Chairman

Hong Kong, 13 September 2004