



VARITRONIX INTERNATIONAL LIMITED

A large, semi-transparent watermark of the Varitronix logo is centered on the page. It features the word 'Varitronix' in a bold, sans-serif font, with a stylized 'V' and 'E' above it. The entire watermark is rendered in a light green color that blends with the background's green gradient and abstract shapes.

Varitronix

**INTERIM REPORT 2005**

## RESULTS

The Board of directors (the "Board") of Varitronix International Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 with comparative figures for the corresponding period of last year are as follows:

### Consolidated Income Statement

For the six months ended 30 June 2005 – unaudited

		<b>Six months ended 30 June</b>	
		<b>2005</b>	2004
	Note	<b>HK\$'000</b>	HK\$'000 (restated)
<b>Turnover</b>	3	<b>1,022,664</b>	981,154
Other revenue		<b>11,039</b>	8,362
Other net income		<b>9,475</b>	6,431
Changes in inventories of finished goods and work in progress		<b>(11,777)</b>	25,962
Raw material and consumables used		<b>(632,672)</b>	(633,829)
Write off of inventories		<b>(37,600)</b>	-
Staff costs		<b>(112,756)</b>	(120,595)
Depreciation		<b>(41,365)</b>	(39,631)
Other operating expenses		<b>(118,596)</b>	(102,130)
<b>Profit from operations</b>		<b>88,412</b>	125,724
Finance costs	4(a)	<b>(3,385)</b>	(1,928)
<b>Profit before taxation</b>	4	<b>85,027</b>	123,796
Income tax	5	<b>(10,759)</b>	(14,953)
<b>Profit after taxation</b>		<b>74,268</b>	108,843
<b>Attributable to:</b>			
Minority interests		<b>(23,788)</b>	12,829
Equity holders of the parent		<b>98,056</b>	96,014
Interim dividend		<b>31,920</b>	31,457
Earnings per share	6		
Basic		<b>30.99 cents</b>	30.94 cents
Diluted		<b>30.75 cents</b>	30.74 cents

The notes on pages 5 to 14 form part of this interim financial report.

**Consolidated Balance Sheet**

At 30 June 2005 – unaudited

	Note	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000 (restated)
<b>Non-current assets</b>			
Fixed assets			
– Investment properties		10,835	11,058
– Other property, plant and equipment		365,599	367,611
		<u>376,434</u>	<u>378,669</u>
Intangible assets		26,239	27,050
Interest in leasehold land held for own use under operating leases		32,963	33,408
Goodwill		28,340	28,340
Other financial assets		236,347	60,489
Deferred tax assets		790	1,423
		<u>701,113</u>	<u>529,379</u>
<b>Current assets</b>			
Trading securities		170,206	90,586
Inventories		285,034	312,415
Trade and other receivables	7	473,339	539,604
Current taxation recoverable		1,234	1,667
Cash and cash equivalents	8	653,293	669,406
		<u>1,583,106</u>	<u>1,613,678</u>
<b>Current liabilities</b>			
Bank loans and overdrafts		160,859	98,750
Trade and other payables	9	374,992	378,477
Fair value derivatives		2,597	–
Current taxation payable		22,574	14,108
Dividends payable		88,607	–
Dividends payable to minority shareholder		6,784	6,784
		<u>656,413</u>	<u>498,119</u>
<b>Net current assets</b>		<u>926,693</u>	<u>1,115,559</u>
<b>Total assets less current liabilities</b>		<u>1,627,806</u>	<u>1,644,938</u>
<b>Non-current liabilities</b>			
Convertible notes		30,004	31,200
Deferred tax liabilities		5,346	6,800
		<u>35,350</u>	<u>38,000</u>
<b>NET ASSETS</b>		<u>1,592,456</u>	<u>1,606,938</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	10	79,114	79,059
Reserves	10	1,478,699	1,471,971
<b>Total equity attributable to equity holders of the parent</b>		<u>1,557,813</u>	<u>1,551,030</u>
<b>Minority interests</b>		34,643	55,908
<b>TOTAL EQUITY</b>		<u>1,592,456</u>	<u>1,606,938</u>

The notes on pages 5 to 14 form part of this interim financial report.

**Condensed Consolidated Statement of Changes in Equity***For the six months ended 30 June 2005 – unaudited*

	<b>Six months ended 30 June</b>	
	<b>2005</b>	<b>2004</b>
	<b>HK\$'000</b>	<b>HK\$'000</b> (restated)
<b>Total equity at 1 January</b>		
Attributable to: Equity holders of the parent (as previously reported at 31 December)	<b>1,551,030</b>	1,427,218
Minority interests (as previously presented separately from liabilities and equity at 31 December)	<b>55,908</b>	39,381
As restated, before opening balance adjustments	<b>1,606,938</b>	1,466,599
Opening adjustments arising from adoption of HKAS 32 and 39 ( <i>Note 2(iv)(b)</i> )	<b>1,281</b>	–
At 1 January, after restatement and opening balance adjustments	<b>1,608,219</b>	1,466,599
<b>Deficit on revaluation of other financial assets</b>	<b>(405)</b>	(574)
<b>Exchange translation differences</b>		
Attributable to: Equity holders of the parent	<b>(4,638)</b>	450
Minority interests	<b>(297)</b>	(61)
<b>Net losses not recognised in the income statement</b>	<b>(5,340)</b>	(185)
<b>Net profit for the period:</b>		
Attributable to: Equity holders of the parent	<b>98,056</b>	96,014
Minority interests	<b>(23,788)</b>	12,829
	<b>74,268</b>	108,843
Dividends approved in respect of the previous year	<b>(88,607)</b>	(86,906)
<b>Revaluation deficit transferred to the income statement on disposal of securities</b>	<b>–</b>	388
<b>Movements in share capital</b>	<b>1,096</b>	505
<b>Capital contribution by minority interests</b>	<b>2,820</b>	–
<b>Total equity at 30 June</b>	<b>1,592,456</b>	1,489,244

**Condensed Consolidated Cash Flow Statement***For the six months ended 30 June 2005 – unaudited*

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	<i>HK\$'000</i>
Net cash from/(used in) operating activities	<b>131,049</b>	(75,549)
Net cash (used in)/from investing activities	<b>(204,792)</b>	79,111
Net cash from financing activities	<b>59,833</b>	5,027
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	<b>(13,910)</b>	8,589
Effect of foreign exchange rates changes	<b>(2,191)</b>	(28)
Cash and cash equivalents at 1 January	<b>669,394</b>	534,884
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Cash and cash equivalents at 30 June	<b>653,293</b>	543,445
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<b>Analysis of the balances of cash and cash equivalents</b>		
Cash at bank and in hand	<b>170,404</b>	90,553
Deposits with banks and other financial institutions	<b>482,889</b>	452,892
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	<b>653,293</b>	543,445
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Notes:–

## 1. Basis of preparation

This unaudited interim financial 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 Hong Kong Accounting Standards (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The same accounting policies and basis of preparation adopted in the Group’s 2004 audited annual financial statements have been applied to the 2005 interim financial report except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

## 2. Changes in accounting policies

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRS”) and HKASs (herein collectively referred to as “HKFRSs”) which are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board has determined the accounting policies to be adopted in the preparation of the Group’s annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

In the current period, the application by the Group, for the first time, of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively.

The following sets out further information on the changes in the accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

### (i) *Amortisation of positive goodwill*

On the adoption of HKFRS 3 “Business Combinations”, the Group has ceased amortisation of positive goodwill from 1 January 2005 and eliminated the accumulated amortisation as at 31 December 2004 with a corresponding decrease in the cost of positive goodwill. Positive goodwill is subject to impairment testing at least annually. In prior years, positive goodwill was amortised to the consolidated income statement on a straight-line basis over its estimated useful life of 20 years. The adoption of HKFRS 3 has increased the Group’s profit for the six months ended 30 June 2005 by HK\$841,000 (2004: HK\$Nil) as positive goodwill is no longer amortised.

### (ii) *Leasehold land and buildings held for own use*

Following the adoption of HKAS 17 “Leases”, where the land and buildings components of a lease can be separated reliably and the land is held on an operating lease, the land is presented separately from “Fixed Assets” and included in “Non-current Assets” under the caption of “Interest in leasehold land held for own use under operating leases”. Any lease premiums or other costs of acquiring the leasehold land are spread over the lease term.

*(iii) Investment property*

On the adoption of HKAS 40 "Investment Property", where the future use of the property is currently undetermined, the property is regarded as held for capital appreciation and therefore classified as investment property. Investment properties are stated at cost less accumulated depreciation and impairment loss, if any.

*(iv) Other financial assets and convertible notes*

The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" have resulted in changes in accounting policies as follows:

- (a) Non-trading securities were redesignated as other financial assets on 1 January 2005.
- (b) Convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the capital reserve until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits). Convertible notes were stated at issue price in prior years.

The change was adopted by way of an increase to the opening balance of the capital reserve of HK\$1,961,000 and a retained earnings decrease of HK\$680,000 at 1 January 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, profit for the six months ended 30 June 2005 has decreased by HK\$85,000.

*(v) Share option schemes*

In prior years, no amounts were recognised when grantees (which term includes employees, directors and business associates) were granted share options over shares in the Company. If the grantees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2 "Share-based payment", the Group is required to recognise the fair value of such options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within the entity.

Where the grantees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an grantee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained profits.

The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- (i) all options granted to grantees on or before 7 November 2002; and
- (ii) all options granted to grantees after 7 November 2002 but which had vested before 1 January 2005.

All the options granted by the Company fall within the above two categories. This change in accounting policy has no impact on the results of the Group for the six months ended 30 June 2005. Details of the share option schemes can be found in the Company's annual report for the year ended 31 December 2004 and page 21 of this interim financial report.

### 3. 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	
	at 30 June 2005 HK\$'000	at 31 December 2004 HK\$'000	the period ended 30 June 2005 HK\$'000	the year ended 31 December 2004 HK\$'000
Europe	101,014	95,300	12	793
Hong Kong and PRC	1,853,507	1,869,751	39,899	80,432
North America	30,290	26,893	4	47
Rest of Asia	269,044	119,683	706	2,571



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>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Asia ( <i>Note</i> )	<b>629,379</b>	593,178
Europe	<b>325,248</b>	331,383
North America	<b>41,089</b>	43,919
Others	<b>26,948</b>	12,674
	<b><u>1,022,664</u></b>	<u>981,154</u>

*Note:* Sales to Asia for the 6 months ended 30 June 2005 included sales to Hong Kong and PRC for the same period amounting to HK\$422,610,000 (2004: HK\$515,979,000).

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

#### 4. Profit before taxation

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

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000 (restated)
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	<b>2,449</b>	992
Interest on convertible notes	<b>936</b>	936
	<b><u>3,385</u></b>	<u>1,928</u>
(b) Other items:		
Cost of inventories	<b>736,707</b>	687,077
Amortisation of goodwill	–	841
Amortisation of intangible assets	<b>811</b>	811
Amortisation of land lease premium	<b>446</b>	422
Loss on disposal of other financial assets	–	388
Gain on disposal of trading securities	<b>(7,534)</b>	(2,484)
Loss on revaluation of trading securities	<b>2,099</b>	3,951
Investment income	<b>(2,547)</b>	(2,668)
Other interest income	<b>(6,646)</b>	(2,672)
Rental income under operating leases	<b>(183)</b>	(1,574)
Other income	<b>(1,663)</b>	(1,449)

## 5. Income tax

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	<i>HK\$'000</i>
Current tax		
Hong Kong taxation	<b>7,176</b>	12,022
Overseas taxation	<b>4,381</b>	5,517
	<u><b>11,557</b></u>	<u>17,539</u>
Deferred tax		
Reversal of temporary differences	<u><b>(798)</b></u>	<u>(2,586)</u>
	<u><b>10,759</b></u>	<u>14,953</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the six months ended 30 June 2005. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

As disclosed in the Group's audited financial statements for the year ended 31 December 2004, a subsidiary has received from the Hong Kong Inland Revenue Department ("IRD") additional assessments relating to prior years for taxation totalling HK\$141 million. These additional assessments relate to a dispute over the deductibility of certain sub-contracting charges for tax assessment purposes. The directors of the subsidiary consider that there are grounds to contest the additional assessments and have indicated that they will pursue this case vigorously. The subsidiary has formally objected to the additional assessments and has purchased Tax Reserve Certificates totalling HK\$45 million pending the outcome of the objection. They are now in negotiation with the IRD and have made provisions of HK\$65 million (31/12/2004: HK\$61 million).

## 6. Earnings per share

- (a) The calculation of basic earnings per share is based on the unaudited profit attributable to equity holders of the parent of HK\$98,056,000 (2004: HK\$96,014,000) and the weighted average number of 316,369,113 shares (2004: 310,338,547 shares) in issue during the period.
- (b) The calculation of diluted earnings per share is based on the unaudited profit attributable to equity holders of the parent of HK\$98,056,000 (2004: HK\$96,014,000) and the weighted average number of 318,872,140 shares (2004: 312,321,857 shares) after adjusting for the effects of all dilutive potential shares.

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>Number of shares</b>	Number of shares
Weighted average number of shares for the purpose of basic earnings per share	<b>316,369,113</b>	310,338,547
Deemed issue of shares for no consideration arising from share options	<b>2,503,027</b>	1,983,310
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Weighted average number of shares for the purpose of diluted earnings per share	<b><u>318,872,140</u></b>	<b><u>312,321,857</u></b>

## 7. 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:

	<b>At 30 June 2005 HK\$'000</b>	At 31 December 2004 HK\$'000
Within 60 days of the invoice issue date	<b>371,828</b>	437,715
61 to 90 days after the invoice issue date	<b>55,127</b>	40,565
91 to 120 days after the invoice issue date	<b>8,095</b>	5,255
More than 120 days but within 12 months after the invoice issue date	<b>12,922</b>	17,647
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	<b><u>447,972</u></b>	<b><u>501,182</u></b>

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

**8. Cash and cash equivalents**

	<b>At 30 June 2005 HK\$'000</b>	At 31 December 2004 HK\$'000
Deposits with banks and other financial institutions	<b>482,889</b>	587,871
Cash at bank and in hand	<b>170,404</b>	81,535
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Cash and cash equivalents in the balance sheet	<b>653,293</b>	669,406
Bank overdrafts	<b>-</b>	(12)
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Cash and cash equivalents in the cash flow statement	<b>653,293</b>	669,394
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**9. 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 2005 HK\$'000</b>	At 31 December 2004 HK\$'000
Within 60 days of supplier invoice date	<b>196,393</b>	216,675
61 to 120 days after supplier invoice date	<b>24,482</b>	23,268
More than 120 days but within 12 months after supplier invoice date	<b>3,428</b>	13,293
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	<b>224,303</b>	253,236
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## 10. Capital and reserves

## (a) Capital and reserves

	Total attributable to equity holders of the parent								
	Share capital	Share premium	Exchange fluctuation reserve	Investment revaluation reserve	Other reserves	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2004</b>									
At 1 January 2004	77,574	616,286	(16,473)	2,492	1,933	745,406	1,427,218	39,381	1,466,599
Final dividend approved in respect of previous year	-	-	-	-	-	(86,906)	(86,906)	-	(86,906)
Shares issued under share option scheme	23	-	-	-	-	-	23	-	23
Share premium arising from issue of shares	-	482	-	-	-	-	482	-	482
Exchange differences	-	-	450	-	-	-	450	(61)	389
Revaluation deficit	-	-	-	(574)	-	-	(574)	-	(574)
Revaluation deficit transferred to the income statement on disposal of securities	-	-	-	388	-	-	388	-	388
Profit for the period	-	-	-	-	-	96,014	96,014	12,829	108,843
<b>At 30 June 2004</b>	<b>77,597</b>	<b>616,768</b>	<b>(16,023)</b>	<b>2,306</b>	<b>1,933</b>	<b>754,514</b>	<b>1,437,095</b>	<b>52,149</b>	<b>1,489,244</b>
Shares issued under share option scheme	17	-	-	-	-	-	17	-	17
Allotment of shares from scrip dividends	1,445	-	-	-	-	-	1,445	-	1,445
Share premium arising from issue of shares	-	40,621	-	-	-	-	40,621	-	40,621
Exchange differences	-	-	3,554	-	-	-	3,554	262	3,816
Revaluation surplus	-	-	-	3,259	-	-	3,259	-	3,259
Revaluation surplus transferred to the income statement on disposal of securities	-	-	-	(200)	-	-	(200)	-	(200)
Dividend payable to minority shareholder	-	-	-	-	-	-	-	(6,784)	(6,784)
Interim dividends declared in respect of the current year	-	-	-	-	-	(31,459)	(31,459)	-	(31,459)
Profit for the period	-	-	-	-	-	96,698	96,698	10,281	106,979
<b>At 31 December 2004</b>	<b>79,059</b>	<b>657,389</b>	<b>(12,469)</b>	<b>5,365</b>	<b>1,933</b>	<b>819,753</b>	<b>1,551,030</b>	<b>55,908</b>	<b>1,606,938</b>

## Total attributable to equity holders of the parent

	Share capital	Share premium	Exchange fluctuation reserve	Investment revaluation reserve	Capital reserve	Other reserves	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2005</b>										
At 1 January 2005	79,059	657,389	(12,469)	5,365	-	1,933	819,753	1,551,030	55,908	1,606,938
Effect of Adopting HKAS 32 (note 2(iv)(b))	-	-	-	-	1,961	-	(680)	1,281	-	1,281
As restated	79,059	657,389	(12,469)	5,365	1,961	1,933	819,073	1,552,311	55,908	1,608,219
Final dividend approved in respect of previous year	-	-	-	-	-	-	(88,607)	(88,607)	-	(88,607)
Shares issued under share option scheme	55	-	-	-	-	-	-	55	-	55
Share premium arising from issue of shares	-	1,041	-	-	-	-	-	1,041	-	1,041
Exchange differences	-	-	(4,638)	-	-	-	-	(4,638)	(297)	(4,935)
Revaluation deficit	-	-	-	(405)	-	-	-	(405)	-	(405)
Capital contribution by minority interests	-	-	-	-	-	-	-	-	2,820	2,820
Profit for the period	-	-	-	-	-	-	98,056	98,056	(23,788)	74,268
<b>At 30 June 2005</b>	<b>79,114</b>	<b>658,430</b>	<b>(17,107)</b>	<b>4,960</b>	<b>1,961</b>	<b>1,933</b>	<b>828,522</b>	<b>1,557,813</b>	<b>34,643</b>	<b>1,592,456</b>

## (b) Dividends

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

	<b>At 30 June 2005 HK\$'000</b>	At 31 December 2004 HK\$'000
Dividends not provided for	<b>31,920</b>	88,604

## Note: Dividend distribution

There is a difference of HK\$3,000 between the amount of the dividend not provided for at 31 December 2004, HK\$88,604,000, as stated in Note 10 (b) and the amount of the final dividend for the year ended 31 December 2004 (the "2004 Final Dividend"), HK\$88,607,000, as stated in Note 10 (a). The difference represents the amount of dividend payable for shares issued upon the exercise of share options between the date on which the 2004 Final Dividend was declared and the record date for the 2004 Final Dividend.

**11. Capital commitments**

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

	<b>At 30 June 2005 HK\$'000</b>	At 31 December 2004 HK\$'000
Contracted for	<b><u>24,424</u></b>	<b><u>7,184</u></b>

**12. Contingent liabilities**

At 30 June 2005, 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\$131,842,000 (at 31 December 2004: HK\$76,674,000).

**13. Material related party transactions**

There were no material related party transactions during the period (2004: Nil).

## **INTERIM DIVIDEND**

The directors of the Company (“the Directors”) declared an interim dividend of 10 cents per share (2004: 10 cents) for the six months ended 30 June 2005, 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 Tuesday, 20 September 2005. 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 27 September 2005.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from Wednesday, 14 September 2005 to Tuesday, 20 September 2005, 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, 13 September, 2005.

## **BUSINESS REVIEW**

Turnover for the first half of 2005 was HK\$1,023 million, representing an increase of 4.2% from the same period of last year. Profit attributable to shareholders for the interim period amounted to HK\$98 million, compared with HK\$96 million a year earlier. Basic earnings per share were 30.99 HK cents, compared with 30.94 HK cents a year earlier.

The first half of 2005 was a period of progress for Varitronix. Sales of our automobile and industrial/consumer products grew healthily although those for our telecommunications products declined amidst unfavorable market conditions in China.

Sales of automotive products were higher than the same period last year, which helped to strengthen our leading position in the automotive display sector. Our quality products consistently met the strict requirements imposed by major European, American as well as Korean automakers. During the period under review, orders from Korea were especially strong, thanks to the country’s booming auto industry. With our extensive sales network covering major auto manufacturing bases, we are well positioned to serve our customers and prosper with them.



The performance of the industrial/consumer segment was encouraging. Sales of our displays used in industrial, medical equipment and personal entertainment instruments continued to be solid. In the particular sector of personal entertainment instruments, the positive response from major Asian-based manufacturers helped us establish a strong foothold.

The mobile phone market in China experienced a period of consolidation, particularly among domestic phone-makers, as a result of strong competition from foreign brands and rampant counterfeit products. Our business was adversely affected. In prompt response, we strengthened distribution channels, broadened product variety and established closer working relationships with our customers. Moreover, Varitronix Pengyuan Ltd., our 51%-owned subsidiary which designs and distributes mobile phone products in China, is currently undergoing rationalisation. We shall come out of the market trough with a more streamlined and competitive operational structure.

The restructuring of our Malaysian operation is in progress while the negotiation for a possible merger between our subsidiary Varitronix (Malaysia) Sdn. and Crystal Clear Technology Sdn. has been terminated. We will closely monitor the performance of our Malaysian operation and will take necessary corrective measures. Such measures may result in certain write-offs, which can be ascertained towards the end of the year.

## **PROSPECTS**

We have taken certain important steps in our pursuit of leadership in display technologies. The investment in Ness Display, a Korean-based OLED (Organic Light-Emitting Diode) display manufacturer, in June 2005, provided us with the access to advanced know-how of the OLED technology.

While currently being used in laptop computers, flat panel TVs, mobile phones and many other consumer products, TFT-LCD displays have become increasingly appealing to industrial equipment manufacturers, automakers as well as medical products manufacturers. Our sales of TFT-LCD products accounted for a substantial proportion of turnover for the period under review, and will continue to be one of our key technological focuses in the future. To accelerate our development process, we are seeking possible alliances with TFT-LCD manufacturers.

Nevertheless, it is expected that CSTN-LCD (Color Supertwisted Nematic Liquid Crystal Display) will continuously gain its market share in low cost applications, especially in the area of lower-end mobile phones. Therefore, we have further upgraded and expanded one of our production lines in our Heyuan plant, which will increase our capacity for CSTN-LCD as well as other display products of demanding specifications. Mass production has been scheduled for the fourth quarter of the year.

With 27 years of experience in the LCD business and a new management team in place, we have established ourselves as one of the world's leading small display LCD manufacturers offering a complete range of display solutions. Although the outlook for the second half of 2005 remains challenging, given the uncertain PRC mobile handset market, we are confident that, going forward, we will achieve balanced growth across different markets and product offerings.

## STAFF

At the end of June 2005, the Group employed approximately 4,710 persons around the world, of whom approximately 420 were in Hong Kong, 3,900 in PRC and 390 overseas.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to maintain a strong financial position. At 30 June 2005, the Group had a total shareholders' equity amounting to approximately HK\$1.6 billion and a liquid portfolio of HK\$904 million (31/12/2004: HK\$820 million) of which HK\$653 million (31/12/2004: HK\$669 million) was in cash and cash equivalents and HK\$251 million (31/12/2004: HK\$151 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 2005, 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 were as follows:

### (a) Interests in shares of the Company

Name of Director	Personal interests (Note 1)	Shares of HK\$0.25 each		Approximate % of shareholding
		Corporate interests	Total	
Dr. Chang Chu Cheng	22,462	16,903,716 (Note 2)	16,926,178	5.34
Mr. Johnson Ko Chun Shun	-	32,212,000 (Note 3)	32,212,000	10.17
Dr. Yan Sze Kwan	2,371,072	-	2,371,072	0.74
Mr. Chung Shun Ming	2,334,314	-	2,334,314	0.73
Mr. Kwok Siu Kwan	1,283,959	-	1,283,959	0.40

*Notes:*

- (1) The shares are held by the respective Directors personally as beneficial owners.
- (2) Omnicorp Limited, a company owned equally by Dr. Chang Chu Cheng ("Dr. Chang") and his wife, Madam Iling Sieh ("Mrs. Chang"), held 10,700,000 shares of the Company. A family trust of Dr. Chang and Mrs. Chang was the beneficial owner of the issued share capital of Colville Group Limited which held 6,203,716 shares of the Company.
- (3) Rockstead Technology Limited, a company wholly owned by Mr. Johnson Ko Chun Shun held 32,212,000 shares of the Company.
- (4) As at 30 June 2005, the issued share capital of the Company comprised 316,454,859 shares.

**(b) Interests in shares of subsidiaries**

	<b>Non-voting deferred shares of HK\$1,000 each in Varitronix Limited</b>	<b>Non-voting deferred shares of HK\$100 each in Polysources Properties Limited</b>
Dr. Chang Chu Cheng	960	78
Dr. Yan Sze Kwan	123	10
Mr. Chung Shun Ming ( <i>Note 1</i> )	50	8
Mr. Kwok Siu Kwan	50	4
	1,183	100

*Notes:*

1. Mr. Chung Shun Ming 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**

<b>Director</b>	<b>Date granted</b>	<b>Number of options at 1.1.2005</b>	<b>Options granted/ (exercised) during the period</b>	<b>Number of options at 30.6.2005</b>	<b>Exercisable period</b>	<b>Price per share to be paid on exercise of option HK\$</b>	<b>Market value per share at date of grant of options HK\$</b>
Dr. Chang Chu Cheng	30.10.2002	1,000,000	-	1,000,000	31.10.2002-30.10.2012	4.605	4.35
	21.12.2004	300,000	-	300,000	21.12.2004-20.12.2014	7.450	7.45
Dr. Yan Sze Kwan	30.10.2002	1,000,000	-	1,000,000	31.10.2002-30.10.2012	4.605	4.35
	21.12.2004	3,000,000	-	3,000,000	21.12.2004-20.12.2014	7.450	7.45
Mr. Chung Shun Ming	30.10.2002	1,000,000	-	1,000,000	31.10.2002-30.10.2012	4.605	4.35
	21.12.2004	3,000,000	-	3,000,000	21.12.2004-20.12.2014	7.450	7.45
Mr. Kwok Siu Kwan	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
	21.12.2004	3,000,000	-	3,000,000	21.12.2004-20.12.2014	7.450	7.45
		<u>13,450,000</u>	<u>-</u>	<u>13,450,000</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 2005 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.

**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 2005, other than the interests disclosed above in respect of Dr. Chang Chu Cheng, Mr. Johnson Ko Chun Shun and Rockstead Technology Limited, the following had an interest of 5% or more in the issued share capital of the Company:

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Approximate % of shareholding</b>
Mr. Cheah Cheng Hye	Interest of a controlled corporation ( <i>note a</i> )	22,718,974	7.17
Value Partners Limited	Beneficial owner ( <i>note a</i> )	22,718,974	7.17
J.P. Morgan Chase & Co.			
– Long position	Investment manager and other ( <i>note b</i> )	22,089,280	6.98
– Lending pool	–	20,088,993	6.34

*Notes:*

- (a) Mr. Cheah Cheng Hye was deemed (by virtue of the SFO) to be interested in 22,718,974 shares in the Company. These shares were held by Value Partners limited, which was 31.82% owned by Mr. Cheah Cheng Hye.
- (b) 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 2005.

## SHARE OPTION SCHEMES

	Date granted	Number of options at 1.1.2005	Options exercised during the period	Number of options at 30.6.2005	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
	21.12.2004	9,300,000	-	9,300,000	21.12.2004-20.12.2014	7.45	7.45
Employees	9.6.1999	430,250	-	430,250	9.7.1999-8.7.2009	10.90	15.00
	1.6.2000	688,000	-	688,000	1.7.2000-30.6.2010	11.30	13.40
	30.8.2001	265,000	(96,000)	169,000	30.8.2001-29.8.2011	3.06	3.68
	13.9.2002	199,000	(32,000)	167,000	13.9.2002-12.9.2012	3.905	3.85
	6.10.2003	433,000	(55,000)	378,000	6.10.2003-5.10.2013	7.35	7.35
	20.12.2004	2,596,000	(36,500)	2,559,500	20.12.2004-19.12.2014	7.50	7.50
		<u>18,061,250</u>	<u>(219,500)</u>	<u>17,841,750</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 2005 represents 5.638% 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\$8.470.

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

During the period, there was no purchase, sale or redemption by the Company or any of its subsidiaries of its listed securities.

## **CORPORATE GOVERNANCE**

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2005, in compliance with the Code on Corporate Governance Practices (the “Corporate Governance Code”) as set out in Appendix 14 of the Listing Rules.

In compliance with the code provisions of the Corporate Governance Code which came into force on 1 January 2005, the Company has set up a Remuneration Committee with terms of reference which are in line with the Corporate Governance Code.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the period under review.

## **AUDIT COMMITTEE**

The audit committee 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 2005 of the Company now reported on.

## **REMUNERATION COMMITTEE**

The Remuneration Committee is headed by Dr. William Lo Wing Yan, an Independent Non-executive Director. The other members of the Remuneration Committee are Mr. Hou Ziqiang, an Independent Non-executive Director, and Mr. Johnson Ko Chun Shun, an Executive Director.

## **DIRECTORS**

As at the date of this report, the Board comprises ten directors, of which Dr. Chang Chu Cheng, Mr. Johnson Ko Chun Shun, Mr. Tony Tsoi Tong Hoo, Dr. Yan Sze Kwan, Mr. Chung Shun Ming, Mr. Kwok Siu Kwan and Mr. Cecil Ho Te Hwai are executive Directors and Dr. William Lo Wing Yan, Mr. Yuen Kin and Mr. Hou Ziqiang are independent non-executive Directors.

By Order of the Board  
**Dr. Chang Chu Cheng**  
*Chairman*

Hong Kong, 29 August 2005