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## CHAIRMEN'S STATEMENT

On behalf of Varitronix International Limited and its subsidiaries ("Varitronix" or the "Group"), we are pleased to present the Group's annual results for the year ended 31 December 2006.

During the year under review, the Group recorded a turnover of HK\$1,867 million as compared to last year's HK\$1,980 million. Profit from operations was HK\$200 million and profit attributable to shareholders was HK\$173 million, compared to a loss in 2005 which was due to certain impairment losses, write-offs and provisions.

The Board of Directors recommended a final dividend of 24 HK cents per share (2005: 28 HK cents per share). Combined with the interim dividend of 9 HK cents per share (2005: 10 HK cents per share), total dividends for the year amounted to 33 HK cents per share (2005: 38 HK cents per share), representing a payout ratio of 61%.

2006 witnessed the use of LCD technology in a widened range of applications from automotive and industrial

equipment to home electrical appliances and electronic consumer products. This trend has fuelled a strong demand in the market for the Group's products, generating stable order flows. It is apparent, however, that the development of LCD technology has reached an advanced stage and the profit margin from such products has to be adjusted in the face of stiff competition, as is expected in any normal product development cycle.

The Group has responded to the threat of such competition by implementing measures such as the development of a diversified range of high value-added products to meet the stringent and unique requirements of our customers. Efforts are made to develop certain new technologies that are rarely seen in the market, turning them into the Group's key products to create new sources of revenue and to raise profitability. At the same time, the Group is committed to the goal of keeping our production, operation and material costs under control. In so doing, the Group is able to broaden sources of income and reduce expenditure to maximize yields.

## RESULTS HIGHLIGHTS

HK\$' million	2006	2005
Turnover	1,867	1,980
Profit/(Loss) from operations	200	(167)
Profit/(Loss) attributable to shareholders	173	(179)
Basic earnings/(loss) per share	54 HK cents	(56) HK cents
Final dividend per share	24 HK cents	28 HK cents

## REVIEW OF OPERATIONS

### Automotive Products Market

In the period under review, the Group has recorded satisfactory progress in its automotive LCD product business, with business in Europe accounting for 50% of the Group's total turnover from this sector, and the remaining half coming from the US, South East Asia and the PRC. A notable development in 2006 is that many European automotive manufacturers have set up production plants in the Mainland, and it is predicted that these new plants will gradually take over the responsibility of purchasing specific raw materials and components. The Group has made it an important part of our marketing strategy to strike strategic partnerships with such branch offices and opened its first sales office in Shanghai in the year to facilitate efforts to develop the automotive market in the PRC.

In Korea, the sales of automotive LCD displays in 2006 have recorded better results than in the corresponding period last year, with a rise in the number of units per

order. The Group's products are mainly applied in audio equipment in automobiles.

In the American market, there is a marked trend developing as more and more automotive manufacturers switch to LCD in place of Vacuum Fluorescent Displays. This has presented the Group with a wider scope of development in this sector.

The Group has also undertaken decisive steps to penetrate the automotive manufacturing stronghold in Japan. As the Group has already formed business relationships with many Japanese production plants in Europe and America, we are capitalizing on their referrals to open up negotiations with their headquarters in Japan as our first step in tapping into the Japanese market. The Group is off to a good start and has already received our first batch of orders.

### Industrial and Consumer Markets

Our orders generated from these sectors come mainly from Europe and North America. Owing to a robust economy in Europe in 2006, there is a steady rise in demand

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for industrial (data readers and mileage meters) and consumer products (cordless phones and home electrical appliances). There is a strong growth in the volume of the Group's business in these sectors with particularly encouraging results in home electrical appliances.

The home electrical appliances market is a newly developed sector which has shown vast growth in 2006. The Group's display units are already used in a number of European brand names of home electrical appliances.

The Group's focus in the North American market is in the US, with steadily rising business volumes in 2006. The majority of our customers in this market come from the industrial sector, which favours mono-colour displays. There have been more enquiries about TFT recently with target users being large-scale industrial and medical equipment manufacturers.

## Mobile Phone Market

Business in this sector is concentrated in the PRC, the characteristics of which are mass production volume, short delivery and quick repeat orders. In the year under review, the Group continued to concentrate on promoting LCD to non-major brand handset manufacturers and sales from such customers have risen since the second half of the year. At the same time, the Group will make full use of opportunities to market LCD products for use in other portable electronic products in China.

## PROSPECTS

### Product Development

Building on the foundation of LCD manufacturing, the Group's Technology Team has developed an Improved Black Nematic (IBN) display with high contrast, high resolution and sharp images. The new technology has received a satisfactory initial response from our customers, who have enquired about details in regard to applications and pricing. It is hoped that the new technology would be launched in the near future after further fine-tuning and modification.

## Automotive Market

The Group is convinced that the Asian automotive market, especially that of the PRC, has immense growth potential, and will therefore inject more resources into developing the business of automotive LCD applications in this region.

The group is also actively developing new products such as IBN, which is especially suited for outdoor use due to its wide viewing angles and high display quality, and is therefore particularly compatible with the strict requirements of automotive applications. The Group plans to promote such new products to existing and new automotive customers, so as to expand our product portfolio and applications to develop new revenue sources.

## European Market

The Group occupies a firm foothold in the European market, with longstanding relationships built with automotive and industrial clients. The Group now plans to extend our business in the home electrical appliances sector. According to Datamonitor research report (June 2006), the European household appliances market is forecasted to have a value of US\$42.3 billion in 2010, representing an increase of 12.4% since 2005, thereby prompting the Group to dedicate efforts to tap into this highly lucrative market. The Group has also established a new sales office in the Netherlands, and plans to develop the Russian market and extend our business reach to Northern and Eastern Europe.

## American Market

The American market focuses mainly on industrial equipment. The Group will market more TFT display products to industrial and medical equipment customers in 2007, to increase sales from existing customers and identify new client sources.

It is envisaged that the percentage of total sales from automotive customers will increase in 2007. We are confident that revenue generated from this sector will improve commensurate with our experience in the development of automotive display units and our production of high quality products.

### Korean Market

Efforts made in the Korean market will concentrate on automotive, consumer and telecommunications products. Our business in automotive display units will benefit from the thriving development of the Korean automotive industry. High-end portable visual telecommunication products such as PMP customers and telecommunications products such as cordless phone manufacturers are also the Group's key targets. Applications of small-to-medium sized TFT displays are popular as well in Korea.

### Japanese Market

The Group has established business relationships in Japan in the year under review and such efforts have started to generate orders. Under the present market situation, we have identified three target segments with potential in Japan: automotive, industrial and consumer products. In addition, electronic price labels using Bistable Cholesteric Display (BCD) technology is becoming more widely used in Japan, and it is the Group's strategy to actively promote our BCD products in this market that values high technology.

### SUMMARY

Presently, good market sentiments prevail and our sales orders are on the increase. We foresee that such favourable conditions will continue. In 2007, our priority will be to keep our costs under control and increase productivity in an efficient manner to meet the demands of our customers.

### ACKNOWLEDGEMENT

During the year, the Group has been actively pursuing management talent and training middle management who have demonstrated good potential, providing them with ample opportunities to prove their capabilities in order to prepare them for greater responsibilities in leading the Group forward.

Management would like to express our thanks to the Board of Directors, our staff and shareholders for their support in the past year. We shall continue to act in the Varitronix spirit to continue to better ourselves, to improve on our technology and focus our efforts on production to enhance the Group's value.

Ever since the establishment of the Group in 1978, Dr C C Chang has dedicated himself to leading the company and constantly improving on the technology of LCD manufacturing, rendering Varitronix a unique LCD manufacturer in Hong Kong. Dr Chang will retire voluntarily in the forthcoming Annual General Meeting, but will become Honorary Chairman. The Board of Directors would like to thank Dr Chang for his contribution to Varitronix throughout his tenure. His vision, technological expertise, experience and resolution are direct factors contributing to Varitronix's success. The management team and every staff member of the Group pledge to strive to improve our technology and further develop our business so as to live up to the expectations of our founders.

**Chang Chu Cheng**  
*Chairman*

**Ko Chun Shun, Johnson**  
*Chairman*

Hong Kong, 19 April 2007