



**VARITRONIX**

# EVER GROWING EVER YOUNG



**INTERIM REPORT 2014**

**VARITRONIX INTERNATIONAL LIMITED**

STOCK CODE 710

# CHAIRMAN'S STATEMENT

## FINANCIAL HIGHLIGHTS

HK\$ million	Six months ended 30 June 2014	Six months ended 30 June 2013
Turnover	<b>1,341</b>	1,190
Profit attributable to shareholders	<b>115</b>	101
Basic earnings per share	<b>35.28 HK cents</b>	31.00 HK cents
Interim dividend per share	<b>12.0 HK cents</b>	12.0 HK cents

On behalf of Varitronix International Limited (the "Company") and its subsidiaries ("Varitronix" or the "Group"), I present the Group's results for the six-month period ended 30 June 2014.

During the period under review, the Group recorded turnover of HK\$1,341 million, representing a 13% increase from the HK\$1,190 million reported for the first half of 2013. Profit from operations was HK\$134 million, and profit attributable to shareholders was HK\$115 million, both up 14%, as compared to the corresponding period in 2013.

The strong business momentum in the second half of 2013 was carried through to the first quarter of 2014. The Group's performance in the first quarter was satisfactory, but the growth trend weakened in the second quarter. All in all, the business in the first-half period was steady and both the automotive and industrial display businesses recorded growth. The presence of the new production lines also helped to expand the capacity for additional new orders.

The gross profit margin of the Group was 24% in the first-half period of 2014, down slightly compared to that of 2013. The decrease was mainly due to the commencement of depreciation charges and factory overheads during the period. Manufacturers in China face challenges related to rising costs of labour and raw materials, as well as inflation. Management responded to the challenges by optimising production mix, containing labour costs and improving efficiency of automation. We take all of these exercises in stride, in order to maintain a profit margin in an unfavourable environment.

### DIVIDENDS

The Board of Directors (the "Board") has recommended an interim dividend of 12.0 HK cents per share (1H 2013: 12.0 HK cents). The payout ratio is 34% (1H 2013: 39%).

### BUSINESS REVIEW

#### Automotive Display Business

For the six months ended 30 June 2014, revenue generated by the automotive display business amounted to HK\$941 million, representing an increase of 10% as compared with the same period last year. This business generated around 70% of the Group's total turnover. Of the various automotive display markets, Europe maintained steady performance during the period under review. Despite the fact that there was no clear sign of a strong rebound for the economy in the European region, a moderate growth trend was indicated.

In terms of overall performance, the growth of the automotive display business in Japan and the United States was more significant, as the business base in these two markets is smaller. Given the hard work in the past few years, the Japanese business is now on a growth track, and has started to reap a harvest. In the US, the automotive display business has great market potential and it is worthwhile investing resources to accelerate business development there.

The automotive display business in China has achieved satisfactory growth, though the pace of the domestic economy has slowed slightly. Sales of mid- to high-end cars remained steady as previous orders progressed to mass production in the period under review. The Group's automotive display business in Korea regained momentum last year, but the development pace in the first half of this year slowed after a period of fast growth. This is the result of cyclical factors and fierce competition.

#### Industrial Display Business

The industrial display business generated revenue of HK\$400 million for the six-month period under review, up 20% as compared with the corresponding period last year. This business contributed approximately 30% of total turnover. The industrial display business experienced a downturn in the first half of 2013 when compared with the same period of 2012; however, starting from the second half of 2013, this business demonstrated great improvement and that momentum was sustained in the first half of this year. In addition to this healthy trend, the expansion of the industrial display sales force added strength to the development of this business, with a notable growth in revenue achieved.

Europe is an important market for our industrial display business. In the beginning of 2014, countries in Europe regained vitality and this is particularly true in the industrial market. The demand for industrial machinery and equipment was thus stimulated, and a significant number of industrial display orders were given the green light to enter the mass run stage.

The US market went through a repositioning to raise the proportion of high value product business last year. Business was temporarily affected during the adjustment period. As the figures for the first-half period showed, however, this region has completed the repositioning exercise and recorded a significant increase in revenue. The sale of displays for medical and industrial equipment was especially encouraging.

## PROSPECTS

### Automotive Display Business

The global economy moved steadily ahead in the first half of 2014, though falling short of a significant upswing. The European market, which remains the focus of the Group's automotive display business, is expected to drive this business segment steadily forward in the second half of the year.

Within the Group, the US and Japanese automotive markets share common ground as both are important bases of automobile design with strong proprietary brands. And in both markets the Group enjoys considerable room for growth. Japanese clients are known for their rigour and the amount of time they need to accept and adapt to new suppliers. US automotive customers, on the other hand, are known for being innovative and design-oriented. It is anticipated that our US sales team can grow market share by mastering the keys to market access.

The Group remains positive about the Chinese market. China's rapid urbanisation and sustained increases in per capita income benefit the automotive industry. The emerging middle class is also generating a rising demand for cars – a trend that will continue to benefit our automotive display business, which the Group has focused on Sino-foreign joint venture car manufacturers.

In recent years, the Group's automotive display business has experienced fluctuations in South Korea attributable to, among other factors, business cycles, client relationships and quality requirements. What cannot be ignored is the fact that the automotive display business in this market is becoming more competitive than in other regions. In the face of growing competition, the Group will strive to improve production quality for the benefit of customers and avoid entering into a vicious competitive spiral. While this approach may exert downward pressure on turnover in the short term, it is in the interest of healthy development in the longer term.

Looking at the development of the automotive display business over the last few years, we believe that monochrome displays will continue to be widely used in cars. The Group will continue to leverage on our technological edge to maintain our leadership position in this area. At the same time, we have noted the clear trend of high- and mid-end cars switching to TFT displays. This trend presents a business opportunity if we can capitalise on it to support business growth, yet can also be a barrier for the Group's future development if we fail to seize the opportunity.

The highly competitive TFT display market is packed with major multinational corporations. That notwithstanding, Varitronix will take advantage of market niches to expand our business. Varitronix enjoys the advantage of design flexibility that meets the specific needs of our customers. Leveraging on the trust we have secured from customers, we have a greater chance of winning new projects that are challenging in terms of technical design. The Group will endeavour to capture every business opportunity, though the prospects in this area are somewhat uncertain in the midst of a highly competitive environment.



## CHAIRMAN'S STATEMENT

### Industrial Display Business

The industrial display business saw good progress in the first half of the year and is expected to develop steadily in the second half. We remain firmly focused on this business segment, which offers the economic benefits of balanced development and shared production resources with the automotive display business.

Europe's economy is back on an even keel and is expected to demonstrate slow and steady growth ahead. Accordingly, the Group has invested more manpower resources in the region, on the basis that a stronger European economy is positive for the Group's business development there.

The industrial display business in the US has performed well. Although economic activity was affected by bad weather in the first quarter, the situation improved in the subsequent quarter. Also, with ageing populations and longer life expectancies in developed countries, displays used in medical products will become a source of growth.

Currently, customers of the industrial display business are concentrated in Europe and the US. Industrial displays typically feature a diversified customer base and relatively lower demand for quality as compared to automotive products. While the Group still enjoys ample room for geographic expansion, we will invest more resources in the hope of building an increasingly larger share of industrial display sales in the next few years.

### CONCLUSION

Whilst there is no tangible sign of substantial growth in terms of revenue in the second-half period based on orders on hand, we nonetheless believe we have the right business strategy in place to address the upcoming challenges and this will show financial rewards in the long run.

In the process of developing the automotive and industrial display business over the past few years, Varitronix has acquired unique skillsets in operation and production, which are geared towards meeting the stringent requirements of customers. We will consider extending our business into the areas of other automotive and industrial components through organic growth or acquisitions.

### ACKNOWLEDGEMENT

On behalf of the Board, I would like to sincerely thank our customers, employees, suppliers, business partners and shareholders. In appreciation of your support, we will remain committed to developing our business, maintaining its agility and momentum for healthy growth.

### **Ko Chun Shun, Johnson**

Chairman

Hong Kong, 11 August 2014

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2014 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2014 \$'000	2013 \$'000
Turnover	3	<b>1,340,528</b>	1,189,634
Other operating loss	4	<b>(4,193)</b>	(20,668)
Change in inventories of finished goods and work in progress		<b>(42,089)</b>	6,578
Raw materials and consumables used		<b>(772,790)</b>	(740,171)
Staff costs		<b>(202,018)</b>	(174,836)
Depreciation		<b>(53,955)</b>	(37,604)
Other operating expenses		<b>(131,487)</b>	(105,090)
Profit from operations		<b>133,996</b>	117,843
Finance costs	5(a)	<b>(2,477)</b>	(803)
Share of profits less losses of associates		<b>4,784</b>	(1,097)
Profit before taxation	5	<b>136,303</b>	115,943
Income tax	6	<b>(21,035)</b>	(15,240)
<b>Profit for the period</b>		<b>115,268</b>	100,703
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>115,268</b>	100,703
Non-controlling interests		-	-
<b>Profit for the period</b>		<b>115,268</b>	100,703

	Note	Six months ended 30 June	
		2014 \$'000	2013 \$'000
<b>Earnings per share (in HK cents)</b>	8		
Basic		<b>35.28 cents</b>	31.00 cents
Diluted		<b>34.31 cents</b>	30.57 cents

The notes on pages 10 to 19 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15(a).

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2014 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2014	2013
Note	\$'000	\$'000
<b>Profit for the period</b>	<b>115,268</b>	100,703
<b>Other comprehensive income for the period (after tax and reclassification adjustments):</b>		
7		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustments: net movement in exchange reserve	(8,486)	14,456
Available-for-sale securities: net movement in fair value reserve	33	339
<b>Other comprehensive income for the period</b>	<b>(8,453)</b>	14,795
<b>Total comprehensive income for the period</b>	<b>106,815</b>	115,498

	Six months ended 30 June	
	2014	2013
Note	\$'000	\$'000
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>106,815</b>	115,498
Non-controlling interests	-	-
<b>Total comprehensive income for the period</b>	<b>106,815</b>	115,498

The notes on pages 10 to 19 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2014 – unaudited

(Expressed in Hong Kong dollars)

		At 30 June 2014 \$'000	At 31 December 2013 \$'000
	Note		
<b>Non-current assets</b>			
Fixed assets	9		
– Property, plant and equipment		521,690	553,095
– Interest in leasehold land held for own use under operating leases		12,668	13,350
		534,358	566,445
Interest in associates		115,911	114,247
Loans receivable		62,000	62,000
Other financial assets		29,910	29,878
Deferred tax assets		725	725
		742,904	773,295
<b>Current assets</b>			
Trading securities		155,479	141,032
Inventories	11	419,325	464,292
Trade and other receivables	12	654,594	657,022
Other financial assets		16,125	41,600
Current tax recoverable		3,544	3,506
Cash and cash equivalents	13	674,533	555,148
		1,923,600	1,862,600

		At 30 June 2014 \$'000	At 31 December 2013 \$'000
	Note		
<b>Current liabilities</b>			
Trade and other payables	14	429,534	548,020
Bank loans		242,471	243,086
Current tax payable		60,551	51,919
Dividends payable		124,239	–
		856,795	843,025
<b>Net current assets</b>		1,066,805	1,019,575
<b>Total assets less current liabilities</b>			
		1,809,709	1,792,870
<b>Non-current liabilities</b>			
Bank loans		91,726	59,147
Deferred tax liabilities		5,539	5,539
		97,265	64,686
<b>NET ASSETS</b>			
		1,712,444	1,728,184
<b>CAPITAL AND RESERVES</b>			
Share capital	15	81,736	81,621
Reserves		1,630,464	1,646,319
<b>Total equity attributable to equity shareholders of the Company</b>			
		1,712,200	1,727,940
Non-controlling interests		244	244
<b>TOTAL EQUITY</b>			
		1,712,444	1,728,184

The notes on pages 10 to 19 form part of this interim financial report.



## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2014 – unaudited

(Expressed in Hong Kong dollars)

	Attributable to shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Exchange reserve	Fair value reserve	Capital reserve	Other reserves	Retained profits	Total		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2013	81,049	697,739	76,391	13,868	19,212	2,165	658,400	1,548,824	244	1,549,068
<b>Changes in equity for six months ended 30 June 2013:</b>										
Profit for the period	-	-	-	-	-	-	100,703	100,703	-	100,703
Other comprehensive income	-	-	14,456	339	-	-	-	14,795	-	14,795
Total comprehensive income	-	-	14,456	339	-	-	100,703	115,498	-	115,498
Issuance of shares upon exercise of share options	380	4,782	-	-	(1,362)	-	-	3,800	-	3,800
Equity settled share-based transactions	-	-	-	-	846	-	-	846	-	846
Dividends declared in respect of the previous year	-	-	-	-	-	-	(65,143)	(65,143)	-	(65,143)
Balance at 30 June 2013	81,429	702,521	90,847	14,207	18,696	2,165	693,960	1,603,825	244	1,604,069

	Attributable to shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Exchange reserve	Fair value reserve	Capital reserve	Other reserves	Retained profits	Total		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2014	81,621	704,991	108,735	14,806	18,386	12,466	786,935	1,727,940	244	1,728,184
<b>Changes in equity for six months ended 30 June 2014:</b>										
Profit for the period	-	-	-	-	-	-	115,268	115,268	-	115,268
Other comprehensive income	-	-	(8,486)	33	-	-	-	(8,453)	-	(8,453)
Total comprehensive income	-	-	(8,486)	33	-	-	115,268	106,815	-	106,815
Issuance of shares upon exercise of share options	115	1,501	-	-	(416)	-	-	1,200	-	1,200
Equity settled share-based transactions	-	-	-	-	484	-	-	484	-	484
Dividends declared in respect of the previous year	-	-	-	-	-	-	(124,239)	(124,239)	-	(124,239)
Balance at 30 June 2014	81,736	706,492	100,249	14,839	18,454	12,466	777,964	1,712,200	244	1,712,444

The notes on pages 10 to 19 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2014 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2014	2013
	\$'000	\$'000
<b>Cash generated from operations</b>	<b>111,503</b>	141,493
Tax paid		
– Hong Kong Profits Tax paid	(643)	–
– People's Republic of China ("PRC") income taxes paid	(9,944)	(2,097)
– Tax paid in respect of jurisdictions outside Hong Kong and the PRC	(3,034)	(4,269)
<b>Net cash generated from operating activities</b>	<b>97,882</b>	135,127
Payment for the purchase of fixed assets	(33,893)	(38,051)
Payment for the purchase of trading securities	(9,620)	(40,027)
Payment for the purchase of certificates of deposits	(15,996)	(18,270)
Proceeds from redemption of certificates of deposits	40,500	–
Other cash flows arising from investing activities	10,892	9,872
<b>Net cash used in investing activities</b>	<b>(8,117)</b>	(86,476)

	Six months ended 30 June	
	2014	2013
	\$'000	\$'000
Proceeds from new bank loans	150,809	83,716
Repayment of bank loans	(120,122)	(114,608)
Other cash flows arising from financing activities	(1,081)	1,736
<b>Net cash generated from/ (used in) financing activities</b>	<b>29,606</b>	(29,156)
<b>Net increase in cash and cash equivalents</b>	<b>119,371</b>	19,495
<b>Cash and cash equivalents at 1 January</b>	<b>555,148</b>	464,178
<b>Effect of foreign exchange rates changes</b>	<b>14</b>	3,278
<b>Cash and cash equivalents at 30 June</b>	<b>674,533</b>	486,951

The notes on pages 10 to 19 form part of this interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars otherwise indicated)

## 1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 11 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any change in accounting policy are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's review report to the Board of Directors is included on page 20.

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company's registered office at Units A-F, 35/F., Legend Tower, No.7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 March 2014.

## 2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a few amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following amendment is relevant to the Group:

- Amendments to HKAS 32 *Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 2. CHANGES IN ACCOUNTING

### POLICIES (CONTINUED)

#### Amendments to HKAS 32 Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

## 3. TURNOVER AND SEGMENT REPORTING

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture and sale of liquid crystal displays and related products.

### (a) Operating segment results

The Group manages its business as a single unit and, accordingly, the design, manufacture and sale of liquid crystal displays and related products is the only reporting segment and virtually all of the turnover and operating profits is derived from this business segment. The interim financial report is already presented in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. Accordingly, no separate business segment information is disclosed.

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined that a single operating segment exists based on this internal reporting.

The Board assesses the performance of the operating segments based on turnover which is consistent with that in the interim financial report. Other information, being the total assets excluding deferred tax assets, loans receivable, other financial assets, trading securities, current tax recoverable and the interest in associates, all of which are managed on a central basis, are provided to the Board to assess the performance of the operating segment.

### (b) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenues from external customers and (ii) the Group's fixed assets and interest in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and the location of operations, in the case of interest in associates.

#### (i) Group's revenues from external customers

	Six months ended 30 June	
	2014	2013
	\$'000	\$'000
The PRC (place of domicile)	457,000	388,827
Europe	498,693	452,776
America	164,398	124,901
Korea	113,247	122,764
Others	107,190	100,366
	883,528	800,807
Consolidated turnover	1,340,528	1,189,634

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars otherwise indicated)

### 3. TURNOVER AND SEGMENT

#### REPORTING (CONTINUED)

##### (b) Geographic information (continued)

##### (i) Group's revenues from external customers (continued)

Revenue from external customers located in Europe is analysed as follows:

	Six months ended 30 June	
	2014	2013
	\$'000	\$'000
France	87,536	98,663
United Kingdom	62,904	53,633
Germany	57,628	40,338
Italy	38,661	32,050
Other European countries	251,964	228,092
	<b>498,693</b>	<b>452,776</b>

##### (ii) Group's specified non-current assets

	At 30	At 31
	June	December
	2014	2013
	\$'000	\$'000
The PRC (place of domicile)	531,537	563,183
Germany	110,570	109,048
Korea	5,341	5,199
Others	2,821	3,262
	<b>650,269</b>	<b>680,692</b>

### 4. OTHER OPERATING LOSS

	Six months ended 30 June	
	2014	2013
	\$'000	\$'000
Dividend income from listed equity securities	-	2,682
Interest income from listed debt securities	890	1,318
Interest income from non-listed debt securities	87	986
Other interest income	811	396
Net gain on disposal of fixed assets	-	65
Impairment loss on non-listed available-for-sale equity securities (Note 10)	-	(40,700)
Net realised and unrealised gains/(losses) on trading securities	9,205	(3,160)
Net exchange (loss)/gain	(13,533)	11,148
Other (loss)/income	(1,653)	6,597
	<b>(4,193)</b>	<b>(20,668)</b>

## 5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2014 \$'000	2013 \$'000
<b>(a) Finance costs</b>		
Interest on bank advances and other borrowings wholly repayable within five years	2,477	2,261
Less: Interest expense capitalised into construction in progress*	-	(1,458)
	<b>2,477</b>	803

\* During the period ended 30 June 2013, the borrowing costs had been capitalised at a rate of 1.30% – 1.73% per annum.

	Six months ended 30 June	
	2014 \$'000	2013 \$'000
<b>(b) Other items</b>		
Cost of inventories	1,019,333	898,246

## 6. INCOME TAX

	Six months ended 30 June	
	2014 \$'000	2013 \$'000
Current tax – Hong Kong Profits Tax	13,810	13,273
Current tax – The PRC income taxes	2,091	1,646
Current tax – Jurisdictions outside Hong Kong and the PRC	5,134	1,526
Deferred taxation	-	(1,205)
	<b>21,035</b>	15,240

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2013: 16.5%) to the six months ended 30 June 2014. The provision for the PRC Corporate Income Tax is calculated by applying a reduced tax rate of 15% which is applicable for Varitronix (Heyuan) Display Technology Limited (“Varitronix Heyuan”), a subsidiary of the Group designated as high and new technology enterprise by the PRC tax authority. Withholding tax is levied on dividend distributions arising from profit of the Group’s subsidiaries operating in the PRC earned after 1 January 2008 based on an applicable tax rate of 5%. Taxation for subsidiaries operating outside Hong Kong and the PRC is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant jurisdictions.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars otherwise indicated)

### 7. OTHER COMPREHENSIVE INCOME

There are no tax effects in respect of reclassification adjustments relating to the components of other comprehensive income during the periods ended 30 June 2014 and 2013.

### 8. EARNINGS PER SHARE

#### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of \$115,268,000 (2013: \$100,703,000) and the weighted average number of shares of 326,764,541 shares (2013: 324,814,597 shares) in issue during the period, calculated as follows:

*Weighted average number of ordinary shares*

	Six months ended 30 June	
	2014	2013
Issued ordinary shares at 1 January	326,485,204	324,195,204
Effect of share options exercised	279,337	619,393
Weighted average number of ordinary shares at 30 June	326,764,541	324,814,597

#### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of \$115,268,000 (2013: \$100,703,000) and the weighted average number of shares of 335,919,378 shares (2013: 329,371,499 shares), calculated as follows:

*Weighted average number of ordinary shares (diluted)*

	Six months ended 30 June	
	2014	2013
Weighted average number of ordinary shares at 30 June	326,764,541	324,814,597
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	9,154,837	4,556,902
Weighted average number of ordinary shares (diluted) at 30 June	335,919,378	329,371,499

### 9. FIXED ASSETS

During the six months ended 30 June 2014, the Group acquired items of fixed assets with a cost of \$33,895,000 (six months ended 30 June 2013: \$46,940,000). There were no items of fixed assets disposed of during the six months ended 30 June 2014 (six months ended 30 June 2013: \$Nil).

## 10. IMPAIRMENT LOSS ON NON-LISTED AVAILABLE-FOR-SALE EQUITY SECURITIES

At 30 June 2013, the Group held non-listed available-for-sale equity securities, representing 10.42% equity interest (the “Investment”) in a private company (the “Investee”) which were carried at cost less impairment loss, amounting to \$77,979,000. During the six months ended 30 June 2013, the Directors became aware that the Investee incurred operating loss which indicated a failure to meet the business forecast for the period. The Directors considered that there was an adverse operating environment against the Investee which indicated that the Investment might be impaired. After comparing the carrying amount of the Investment and the estimated future cash flows of the Investment as at 30 June 2013, the Group recognised an impairment loss of \$40,700,000 at 30 June 2013.

On 31 December 2013, the Group completed a transaction to sell the Investment and recorded a loss on disposal of \$17,770,000 after comparing the consideration and the carrying amounts of the Investments. The consideration is receivable by instalments which are included in “Loans receivable”.

## 11. INVENTORIES

During the six months ended 30 June 2014, \$Nil (2013: \$Nil) has been recognised as an inventory write-down in the profit or loss during the periods and \$2,345,000 (2013: \$7,380,000), being the amount of reversal of a write-down of inventories to estimated net realisable value, has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss during the periods. This reversal arose due to an increase in the estimated net realisable value of certain electronic components as a result of a change in customer preferences.

## 12. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts of \$2,109,000 (31 December 2013: \$2,475,000)) with the following ageing analysis as of the end of the reporting period:

	At 30 June 2014 \$'000	At 31 December 2013 \$'000
Within 60 days of the invoice issue date	431,874	397,379
61 to 90 days after the invoice issue date	113,110	115,501
91 to 120 days after the invoice issue date	40,911	58,260
More than 120 days but less than 12 months after the invoice issue date	19,682	15,822
	<b>605,577</b>	586,962

Trade debtors and bills receivable are generally due within 60 to 90 days from the date of the billing.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars otherwise indicated)

### 13. CASH AND CASH EQUIVALENTS

	At 30 June 2014 \$'000	At 31 December 2013 \$'000
Deposits with banks and other financial institutions	234,376	104,240
Cash at bank and in hand	440,157	450,908
Cash and cash equivalents in the consolidated statement of financial position and the condensed consolidated cash flow statement at 30 June 2014 and 31 December 2013	<b>674,533</b>	555,148

### 14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	At 30 June 2014 \$'000	At 31 December 2013 \$'000
Within 60 days of supplier invoice date	287,103	351,786
61 to 120 days after supplier invoice date	62,767	92,484
More than 120 days but within 12 months after supplier invoice date	4,750	6,920
More than 12 months after supplier invoice date	728	1,106
	<b>355,348</b>	452,296

### 15. CAPITAL, RESERVES AND DIVIDENDS

#### (a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the period

	Six months ended 30 June	
	2014 \$'000	2013 \$'000
Interim dividend declared after the end of the reporting period 12.0 HK cents (2013: 12.0 HK cents) per share	<b>39,298</b>	39,171

The interim dividend declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year declared during the period

	Six months ended 30 June	
	2014 \$'000	2013 \$'000
Final dividend in respect of the previous financial year declared during the period of 38.0 HK cents (2013: 20.0 HK cents) per share	<b>124,239</b>	65,143

## 15. CAPITAL, RESERVES AND

### DIVIDENDS (CONTINUED)

#### (b) Equity settled share-based transactions

During the six months ended 30 June 2014, options have been exercised to subscribe for 460,000 ordinary shares (2013: 1,520,000 ordinary shares) in the Company at a consideration of \$1,200,000 (2013: \$3,800,000) of which \$115,000 (2013: \$380,000) was credited to share capital and the balance of \$1,085,000 (2013: \$3,420,000) was credited to the share premium amount. \$416,000 (2013: \$1,362,000) has been transferred from the capital reserve to the share premium account.

There were no options forfeited during the period ended 30 June 2014 (2013: 100,000).

## 16. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

### (a) Financial instruments carried at fair value

#### (i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	The Group		
	Level 1 \$'000	Level 2 \$'000	Total \$'000
<b>Recurring fair value measurement at 30 June 2014</b>			
Financial assets:			
Non-listed available-for-sale mutual funds	-	7,569	7,569
Listed available-for-sale debt securities	10,706	-	10,706
Listed available-for-sale equity securities	11,635	-	11,635
Trading securities	155,479	-	155,479
	<b>177,820</b>	<b>7,569</b>	<b>185,389</b>

	The Group		
	Level 1 \$'000	Level 2 \$'000	Total \$'000
<b>Recurring fair value measurement at 31 December 2013</b>			
Financial assets:			
Non-listed available-for-sale mutual funds	-	7,168	7,168
Listed available-for-sale debt securities	10,388	-	10,388
Listed available-for-sale equity securities	12,322	-	12,322
Trading securities	141,032	-	141,032
	<b>163,742</b>	<b>7,168</b>	<b>170,910</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars otherwise indicated)

### 16. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(CONTINUED)

#### (a) Financial instruments carried at fair value (continued)

##### (i) Fair value hierarchy (continued)

During the six months ended 30 June 2014 there were no transfers between instruments in Level 1 and Level 2.

##### (ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of non-listed available-for-sale mutual funds investments in Level 2 is determined by using the realisable market value at the end of the reporting period reported by the fund manager.

#### (b) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2014 and 31 December 2013 except as follows:

	30 June 2014		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$'000	\$'000	\$'000	\$'000
<b>The Group</b>				
Other financial assets: held-to-maturity debt securities	-	-	25,600	25,349

### 17. MATERIAL RELATED PARTY TRANSACTIONS

The following transactions were carried out with related party, except for disclosed elsewhere in these unaudited condensed consolidated interim financial report:

	Six months ended 30 June	
	2014	2013
	\$'000	\$'000
Sales of goods to Data Modul AG	29,134	22,320

Data Modul AG is an associate of the Group. The Directors of the Company are of the opinion that this related party transaction was conducted on normal commercial terms with reference to prevailing market prices, and in the ordinary course of business.

### 18. COMMITMENTS

Capital commitments outstanding at the end of the reporting period not provided for in the Group's financial statements were as follows:

	At 30	At 31
	June	December
	2014	2013
	\$'000	\$'000
Contracted for	15,793	31,331
Authorised but not contracted for	23,018	27,948
	38,811	59,279

## **19. CONTINGENT LIABILITIES**

### **Financial guarantees issued**

As at the end of the reporting period, the Company has issued guarantees to banks in respect of a banking facilities granted to certain subsidiaries.

As at the end of the reporting period, the Directors do not consider it is probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued and the facilities drawn down by the subsidiaries is \$334,197,000 (31 December 2013: \$302,233,000).

# REVIEW REPORT

## Review report to the board of directors of Varitronix International Limited

*(Incorporated in Bermuda with limited liability)*

### INTRODUCTION

We have reviewed the interim financial report set out on pages 5 to 19 which comprises the consolidated statement of financial position of Varitronix International Limited as of 30 June 2014 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2014 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

### KPMG

Certified Public Accountants

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

11 August 2014

## OTHER INFORMATION

### INTERIM DIVIDEND

The Board has recommended declaring an interim dividend of 12.0 HK cents (2013: 12.0 HK cents) per share for the six months ended 30 June 2014. The interim dividend will be payable on or around Friday, 3 October 2014 to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 19 September 2014.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 15 September 2014 to Friday, 19 September 2014 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the aforementioned interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 12 September 2014.

### STAFF

As at 30 June 2014, the Group employed 4,990 staff around the world, of whom 172 were in Hong Kong, 4,776 in the People's Republic of China (the "PRC") and 42 were in overseas. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group operates an employee share option scheme and provides rent-free quarters to certain of its employees in Hong Kong and the PRC.

The Group adopts a performance-based remuneration policy. Salary adjustments and performance bonuses are based on the evaluation of job performance. The aim is to create an atmosphere that encourages top performers and provides incentives for general employees to improve and excel.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the total equity of the Group was HK\$1,712 million (31 December 2013: HK\$1,728 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 2.25 as at 30 June 2014 (31 December 2013: 2.21).

At the period end, the Group held a liquid portfolio of HK\$876 million (31 December 2013: HK\$768 million) of which HK\$675 million (31 December 2013: HK\$555 million) was in cash and cash equivalents and HK\$201 million (31 December 2013: HK\$213 million) in securities. The unsecured interest-bearing bank loans amounted to HK\$334 million (31 December 2013: HK\$302 million). The gearing ratio (bank loans over net assets) was 20% (31 December 2013: 17%).

### FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases, loan receivables and bank loans that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United State dollars, Euros, Japanese Yen, Renminbi and Korean Won.

The Group is not engaged in the use of any financial instruments for hedging purposes. However, the management monitors foreign exchange exposure from time to time and will consider hedging significant foreign currency exposure when the need arises.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the interests and shorts positions of the Directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

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

Name of Director	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
Ko Chun Shun, Johnson	Interest in controlled corporations	54,651,000 (Notes)	16.72

Notes:

- (1) Rockstead Technology Limited and Omnicorp Limited, both wholly-owned by Mr. Ko Chun Shun, Johnson held 43,951,000 shares and 10,700,000 shares of the Company respectively.
- (2) The above interests represented long positions.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

### (b) Interests in share options of the Company

Name of Director	Date of grant	Number of share options at 1 January 2014	Number of share options granted during the period	Number of share options exercised during the period	Number of share options at 30 June 2014	Exercisable period	Exercise price per share option	Weighted average closing price of share options immediately before the dates on which the share options were exercised
Ko Chun Shun, Johnson	19 December 2005	3,000,000	-	-	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73	N/A
	24 June 2010	1,900,000	-	-	1,900,000	(Note 1)	HK\$2.50	N/A
Tsoi Tong Hoo, Tony	22 July 2005	3,000,000	-	-	3,000,000	22 July 2005 to 21 July 2015	HK\$6.60	N/A
	24 June 2010	1,900,000	-	-	1,900,000	(Note 1)	HK\$2.50	N/A
Yuen Kin	24 June 2010	320,000	-	-	320,000	(Note 1)	HK\$2.50	N/A
Ho Te Hwai, Cecil	19 December 2005	3,000,000	-	-	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73	N/A
	24 June 2010	1,200,000	-	-	1,200,000	(Note 1)	HK\$2.50	N/A
Lo Wing Yan, William	24 June 2010	240,000	-	-	240,000	(Note 1)	HK\$2.50	N/A
Chau Shing Yim, David	24 June 2010	400,000	-	(240,000)	160,000	(Note 1)	HK\$2.50	HK\$8.77
Hou Ziqiang	24 June 2010	400,000	-	-	400,000	(Note 1)	HK\$2.50	N/A

#### Notes:

- Exercisable period:
  - the first 20% of the share options shall be exercisable from 1 July 2011 to 30 June 2016;
  - the second 20% of the share options shall be exercisable from 1 July 2012 to 30 June 2016;
  - the third 20% of the share options shall be exercisable from 1 July 2013 to 30 June 2016;
  - the fourth 20% of the share options shall be exercisable from 1 July 2014 to 30 June 2016; and
  - the remaining 20% of the share options shall be exercisable from 1 July 2015 to 30 June 2016.
- The above interests represented long positions.

Saved as disclosed above, as at 30 June 2014, none of the Directors, chief executives or any of their associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



## OTHER INFORMATION

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Saved as disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the six months ended 30 June 2014 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their spouses or children under the age of 18 to acquire benefits by the means of the acquisition of the shares in or debentures of the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2014, other than the interests disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above in respect of Mr. Ko Chun Shun, Johnson and Rockstead Technology Limited, so far as is known to the Directors and chief executives of the Company, the following company had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
Schroders Plc	Interest in controlled corporations	16,392,206 (Note)	5.01

Note: All the above interests represented long positions.

Saved as disclosed above, as at 30 June 2014, there were no other companies nor persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Section 336 of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

## SHARE OPTION SCHEMES

On 6 June 1991, the Company adopted a share option scheme. This is to provide the Group with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Group's employees and business associates (the "Participants"). It was subsequently amended on 8 June 1999 and expired on 5 June 2001. A second share option scheme of the Company was adopted on 22 June 2001 and terminated on 12 May 2003.

A third share option scheme of the Company was adopted on 12 May 2003 as an incentive to the Participants. The third share option scheme limit was subsequently refreshed by a resolution passed at the annual general meeting held on 2 June 2010. The maximum number of share options that can be granted by the Company was refreshed to 32,342,220 share options. This scheme expired on 11 May 2013.

A fourth share option scheme of the Company was adopted on 3 June 2013. It shall be valid and effect for a period of 10 years ending on 2 June 2023, after which no further share options will be granted.

The Company can grant share options to the Participants for a consideration of HK\$1.0 for each grant payable by the Participants. The maximum number of shares in respect of which share options may be granted under the fourth share option scheme and any other schemes of the Company may not exceed 10% of the issued share capital of the Company at the date of approval of the fourth share option scheme. The maximum entitlement of each Participant in the total number of shares issued and to be issued upon exercise of share options granted under the fourth share option scheme and any other share option schemes of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue.

Subscription price of the shares in relation to a share option shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date on which the share option is offered to the Participants, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; and (iii) the nominal value of the shares. There shall be no minimum period for which the share options must be held before they are exercised but the Board may determine.

As at the date of this report, the total number of share options that can be granted was 32,561,520, representing 9.96% of the issued share capital of the Company. The total number of shares available for issue under the share option schemes as at 30 June 2014 represents 6.69% (2013: 7.14%) of the issued share capital of the Company at that date.

## OTHER INFORMATION

### SHARE OPTION SCHEMES (CONTINUED)

Movements in the Company's share options during the period were as follows:

Date of grant	Number of share options at 1 January 2014	Number of share options granted during the period	Number of share options cancelled/lapsed during the period	Number of share options exercised during the period	Number of share options at 30 June 2014	Exercisable period	Exercise price per share option	Weighted average closing price of share options immediately before the dates on which the share options were exercised
<b>Directors</b>								
22 July 2005	3,000,000	-	-	-	3,000,000	22 July 2005 to 21 July 2015	HK\$6.80	N/A
19 December 2005	6,000,000	-	-	-	6,000,000	19 December 2005 to 18 December 2015	HK\$5.73	N/A
24 June 2010	6,360,000	-	-	(240,000)	6,120,000	(Note 1)	HK\$2.50	HK\$8.77
<b>Employees (Note 2)</b>								
20 December 2004	173,000	-	-	(10,000)	163,000	20 December 2004 to 19 December 2014	HK\$7.50	HK\$8.20
24 June 2010	2,010,000	-	-	(210,000)	1,800,000	(Note 1)	HK\$2.50	HK\$8.46
<b>Others (Note 2)</b>								
20 December 2004	1,500,000	-	-	-	1,500,000	20 December 2004 to 19 December 2014	HK\$7.50	N/A
21 December 2004	300,000	-	-	-	300,000	21 December 2004 to 20 December 2014	HK\$7.45	N/A
19 December 2005	3,000,000	-	-	-	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73	N/A
	22,343,000	-	-	(460,000)	21,883,000			

#### Notes:

- Exercisable period:
  - the first 20% of the share options shall be exercisable from 1 July 2011 to 30 June 2016;
  - the second 20% of the share options shall be exercisable from 1 July 2012 to 30 June 2016;
  - the third 20% of the share options shall be exercisable from 1 July 2013 to 30 June 2016;
  - the fourth 20% of the share options shall be exercisable from 1 July 2014 to 30 June 2016; and
  - the remaining 20% of the share options shall be exercisable from 1 July 2015 to 30 June 2016.
- Dr. Chang Chu Cheng ("Dr. Chang") retired as Director and become Honorary Chairman on 11 June 2007. The 3,300,000 share options held by Dr. Chang were retained until the end of the expiry of the respective exercisable periods of the share options, and reclassified from the category "Directors" to "Others".  
An Employee became the financial advisor of the Company with effect from 9 April 2008. The 1,500,000 share options held by the financial advisor were retained until the end of the expiry of the respective exercisable periods of the share options, and reclassified from the category "Employees" to "Others".
- The consideration for the share options granted was HK\$1.0.
- The above interests represented long positions.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2014.

## **CORPORATE GOVERNANCE**

In the opinion of the Directors, the Company has complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules throughout the period ended 30 June 2014.

All other information on the Code has been disclosed in the corporate governance report contained in the 2013 annual report of the Company issued in March 2014.

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

The Company has adopted the Model Code. 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 of the Company (the "AC") comprises 3 Independent Non-executive Directors: Dr. Lo Wing Yan, William (Chairman of the AC), Mr. Chau Shing Yim, David and Mr. Hou Ziqiang. The AC is responsible for appointment of external auditors, review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures. It is also responsible for reviewing the interim and annual results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting and internal control matters and to this end has unrestricted access to both the Company's internal and external auditors. The AC has reviewed the interim results for the six months ended 30 June 2014 of the Company now reported on.

The interim financial report for the six months ended 30 June 2014 have been reviewed by the Company auditors, KPMG, Certified Public Accountants, in accordance with Hong Kong Standard on Review Engagements 2410 "Review on Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

## **REMUNERATION COMMITTEE**

The Remuneration Committee of the Company (the "RC") is responsible for setting and monitoring the remuneration policy for all Directors and senior management of the Group. The RC comprises Dr. Lo Wing Yan, William (Chairman of the RC), Mr. Hou Ziqiang and Mr. Ko Chun Shun, Johnson. Among the 3 members of the RC, 2 members are Independent Non-executive Directors.



## **OTHER INFORMATION**

### **NOMINATION COMMITTEE**

The Nomination Committee of the Company (the “NC”) comprises Dr. Lo Wing Yan, William (Chairman of the NC), Mr. Hou Ziqiang and Mr. Ko Chun Shun, Johnson. Among the 3 members of the NC, 2 members are Independent Non-executive Directors.

The roles and functions of the NC include reviewing the structure, size and composition of the Board at least annually, making recommendations on any proposed changes to the Board to complement the Company’s corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the Independent Non-executive Directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for the Directors, in particular the Chairman of the Board and the Chief Executive Officer.

### **DIRECTORS**

As at the date of this report, the Board comprises seven Directors, of which Mr. Ko Chun Shun, Johnson, Mr. Tsoi Tong Hoo, Tony, Mr. Yuen Kin and Mr. Ho Te Hwai, Cecil were Executive Directors, and Dr. Lo Wing Yan, William J.P., Mr. Chau Shing Yim, David and Mr. Hou Ziqiang were Independent Non-executive Directors.