

REVIEW OF OPERATIONS



EUROPE

Sales in Europe achieved a historic high of HK\$703 million in 2006, representing growth of 11% from HK\$636 million in 2005. Sales in this region accounted for 38% of the Group's turnover and it remained the Group's second-largest sales contributor after the PRC & HK region. The robust sales in Europe were driven by the automotive sector as well as the industrial/ consumer sector with applications for high-end white goods. In February 2006, Varitronix held a workshop in Germany, demonstrating its latest technologies for automotive applications. The workshop drew an enthusiastic audience both locally and from the rest of Europe, and initiated discussion about a number of projects. The Group also received an enthusiastic response from buyers around the world when it participated in Electronica, a world-class showcase of electronic technologies held in Germany in November 2006. In the second half of 2006, sales in Europe amounted to HK\$356 million, representing 3% growth from the first half of 2006 and 15% growth from the second half of 2005.

NORTH AMERICA

Sales in North America amounted to HK\$110 million in 2006, representing 24% growth from HK\$88 million in 2005. Sales in this region accounted for 6% of the Group's turnover. Sales in North America are expected to gain more importance in 2007 and beyond. Varitronix has extended its sales and technical service network in North America to meet the growing demand for high-end LCD products in the region. As in Europe, sales growth in North America in the second half of 2006 surpassed that in the first half. For the second half of 2006, sales in North America amounted to HK\$60 million, representing 20% growth from the first half of 2006 and 28% growth from the second half of 2005.

THE PRC & HONG KONG

Sales in the PRC & Hong Kong amounted to HK\$744 million in 2006, representing a decline of 10% from HK\$828 million in 2005. Sales in this region accounted for 40% of the Group's turnover. The full-year decline of sales in this region was due to the year-on-year decline in the first half of the year. After Varitronix successfully completed the repositioning of itself in the mobile phone sector, sales in this region recovered. In the second half of 2006, sales in the region recorded positive half-year-on-half-year growth for the first time since 2004. In the second half of 2006, sales in the PRC and Hong Kong amounted to HK\$430 million, representing 37% growth from the first half of 2006 and 6% growth from the second half of 2005.

REST OF ASIA

Sales in the rest of Asia amounted to HK\$261 million in 2006, representing a decline of 30% from HK\$372 million in 2005. Sales in this region accounted for 14% of the Group's turnover. The full-year decline of sales in this region was due to the year-on-year decline in the first half of the year. During the first half of 2006, demand from manufacturers of portable consumer electronics weakened. This was, however, partly offset by encouraging demand from auto parts manufacturers in Korea. Due to the recovery of demand from manufacturers of portable consumer electronics as well as the continued robustness of the automotive sector, sales in this region stabilised in the second half. In an exhibition held in Korea in October, Varitronix presented a range of TFT solutions which received an encouraging response from consumer electronics manufacturers. In the second half of 2006, sales in this region amounted to HK\$149 million, representing 33% growth from the first half of 2006 and a 10% decline from the second half of 2005.

OTHERS

Sales in other regions amounted to HK\$49 million in 2006, representing a decline of 11% from HK\$55 million in 2005. Sales in these regions accounted for 2% of the Group's turnover.

PRODUCTION

To meet growing demand and ensure that the Group has adequate room for future expansion, the construction of a new production plant in Shenzhen was completed in the first quarter of 2007 and production will commence in the second quarter. This production plant is located adjacent to the existing production plant in Nanling, Shenzhen, as part of the Group's strategy of expanding production capacity to accommodate the anticipated increase in demand. As with all the existing plants, the new plant is designed to comply with the international quality standards of ISO 9001, TS 16949 and ISO 14001.

MARKET EXPANSION

Varitronix will continue to strengthen its market penetration into its four strategic market regions - Europe, the US, the PRC & HK and the rest of Asia. In 2006, the Group

significantly extended its sales and technical services network in these regions. In addition to the five existing offices in Germany, Italy, France, the UK and Switzerland, the Group has extended its reach to Eastern Europe and Netherlands. In the US, the Group has expanding its coverage to Midwest from the existing office in Los Angeles. Two stations were established in Shanghai, Shenzhen, in addition to the five existing offices in Beijing, Hong Kong, Macau, Malaysia and Singapore. Besides, the Group plans to explore business opportunities in Middle East. These extended operations, which bear minimal operating costs, not only provide localised and responsive services to existing customers but also help to develop new market frontiers.

FINAL REMARKS

2006 presented a tremendous turnaround for Varitronix and prepared the Group for the achievement of sustainable long-term growth.

SALES IN FOUR MAJOR REGIONS (HK\$'000)

