

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL PLACE OF BUSINESS

Varitronix International Limited ("the Company") is a company incorporated in Bermuda and has its registered office at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and principal place of business at 9th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

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.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 27 on the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2006 are set out in note 15 on the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2006 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 31 to 86.

DIVIDENDS

An interim dividend of 9.0 cents per share was paid on 19 October 2006 (2005: interim dividend 10.0 cents per share). The directors now recommend the payment of a final dividend of 24.0 cents per share (2005: 28.0 cents per share).

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 26 on the financial statements. Shares were issued on exercise of share options and as a result of scrip dividends.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$84,237 (2005: HK\$196,377).

FIXED ASSETS

Movements in fixed assets during the year are set out in note 12 on the financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 26 on the financial statements.

DIRECTORS

The Directors during the financial year and up to the date of this report were:

Executive Directors:

Dr Chang Chu Cheng, *Chairman*
Johnson Ko Chun Shun, *Chairman*
Tony Tsoi Tong Hoo
Cecil Ho Te Hwai

Independent Non-executive Directors:

Dr William Lo Wing Yan
Yuen Kin
Hou Ziqiang

In accordance with the Bye-laws of the Company, Messrs Tony Tsoi Tong Hoo and Cecil Ho Te Hwai shall retire from office by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting. In addition, Dr Chang Chu Cheng will retire voluntarily at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN SHARES

The Directors of the Company who held office at 31 December 2006 had the following interests in the share of the Company and its subsidiaries (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and share positions required to be kept under Section 352 of the SFO:

(a) Interests in the Company

	Shares of HK\$0.25 each			% of the issued share capital
	Personal interests	Corporate interests	Total	
Dr Chang Chu Cheng	22,730	6,203,716 (note (a))	6,226,446	1.93
Mr Johnson Ko Chun Shun	–	43,012,000 (note (b))	43,012,000	13.30

Notes:

- (a) A family trust of Dr Chang Chu Cheng and his wife, Madam Iling Sieh, was the beneficial owner of the issued share capital of Colville Group Limited which held 6,203,716 shares of the Company.
- (b) Rockstead Technology Limited and Omnicorp Limited, both wholly-owned by Mr Johnson Ko Chun Shun, held 32,312,000 shares and 10,700,000 shares of the Company respectively.

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DIRECTORS' INTERESTS IN SHARES (continued)

(b) Interests in subsidiaries

	Non-voting deferred shares of HK\$1,000 each in Varitronix Limited	Non-voting deferred shares of HK\$100 each in Polysources Properties Limited
Dr Chang Chu Cheng	960	78

Notes:

- (a) Dr Chang Chu Cheng held the above non-voting deferred shares as beneficial owner.
- (b) Dr Chang Chu Cheng was also interested in 4 non-voting deferred shares in Polysources Properties Limited which were held by a non-voting deferred shareholder of Polysources Properties Limited in trust for all non-voting deferred shareholders of Polysources Properties Limited.

DIRECTORS' SERVICE CONTRACTS

Dr Chang Chu Cheng and Messrs Johnson Ko Chun Shun, Tony Tsoi Tong Hoo and Cecil Ho Te Hwai have entered into management agreements with the Company which may be terminated by either party to the agreements at three months' notice.

Non-executive Directors are appointed for a period up to 31 December 2008 or such other date as agreed by the Non-executive Directors and the Company.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the foregoing, no contract of significance to which the Company, or any of its subsidiaries was a party, in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEMES

The Company had a Share Option Scheme for the employees of the Group which was adopted on 6 June 1991, 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 Group's employees and business associates. This Scheme shall be valid and effective for a period of ten years ending on 11 May 2013, after which no further options will be granted. The maximum number of shares in respect of which options may be granted under the third Share Option Scheme and any other Share Option Schemes of the Company may not exceed 10 percent of the issued share capital of the Company at the date of approval of the third Share Option Scheme. The maximum entitlement of each participant in the total number of shares issued and to be issued upon exercise of options granted under the third Share Option Scheme and any other Share Option Scheme of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue.

SHARE OPTION SCHEMES (continued)

The total number of shares available for issue under the Share Option Schemes at 31 December 2006 represents 5.10% (2005: 6.59%) of the issued share capital of the Company at that date. Further details of the Share Option Schemes are set out in note 25 on the financial statements.

	Date granted	Number of options at 1 January 2006	Options granted during the year	Options forfeited during the year	Number of exercised during the year	Options at 31 December 2006	Exercisable period	Price per share to be paid on exercise of option	Market value per share at date of grant of options	Weighted average market value per share on exercise of options
Directors										
Chang Chu Cheng	30 October 2002	1,000,000	-	-	-	1,000,000	31 October 2002 to 30 October 2012	HK\$4.605	HK\$4.35	N/A
	21 December 2004	300,000	-	-	-	300,000	21 December 2004 to 20 December 2014	HK\$7.45	HK\$7.45	N/A
	19 December 2005	3,000,000	-	-	-	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73	HK\$5.65	N/A
Johnson Ko Chun Shun	19 December 2005	3,000,000	-	-	-	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73	HK\$5.65	N/A
Tony Tsoi Tong Hoo	22 July 2005	3,000,000	-	-	-	3,000,000	22 July 2005 to 21 July 2015	HK\$6.60	HK\$6.55	N/A
Cecil Ho Te Hwai	19 December 2005	3,000,000	-	-	-	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73	HK\$5.65	N/A
Yan Sze Kwan (resigned on 30 August 2005)	30 October 2002	1,000,000	-	(1,000,000)	-	-	31 October 2002 to 30 October 2012	HK\$4.605	HK\$4.35	N/A
	21 December 2004	3,000,000	-	(3,000,000)	-	-	21 December 2004 to 20 December 2014	HK\$7.45	HK\$7.45	N/A
Employees										
	9 June 1999	357,750	-	(191,000)	-	166,750	9 July 1999 to 8 July 2009	HK\$10.90	HK\$15.00	N/A
	1 June 2000	569,000	-	(198,000)	-	371,000	1 July 2000 to 30 June 2010	HK\$11.30	HK\$13.40	N/A
	30 August 2001	140,000	-	(4,000)	(14,500)	121,500	30 August 2001 to 29 August 2011	HK\$3.06	HK\$3.68	HK\$5.44
	13 September 2002	153,500	-	(9,000)	(7,500)	137,000	13 September 2002 to 12 September 2012	HK\$3.905	HK\$3.85	HK\$4.94
	6 October 2003	301,500	-	(62,000)	-	239,500	6 October 2003 to 5 October 2013	HK\$7.35	HK\$7.35	N/A
	20 December 2004	2,428,500	-	(262,500)	-	2,166,000	20 December 2004 to 19 December 2014	HK\$7.50	HK\$7.50	N/A
		21,250,250	-	(4,726,500)	(22,000)	16,501,750				

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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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 31 December 2006, other than the interests disclosed above in respect of Mr Johnson Ko Chun Shun and Rockstead Technology Limited, the following person had an interest of 5% or more in the issued share capital of the Company:

Name of shareholder	Capacity	Number of shares	% of the issued share capital
Mr Cheah Cheng Hye	Interest of a controlled corporation (note)	28,604,974	8.84
	Personal interests	281,000	0.09
		<hr/> 28,885,974	<hr/> 8.93
Value Partners Limited	Beneficial owner (note)	28,604,974	8.84

Note: Mr Cheah Cheng Hye was deemed (by virtue of the SFO) to be interested in 28,604,974 shares. These shares were held by Value Partners Limited, which was owned as to 35.65% by Mr Cheah Cheng Hye.

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 31 December 2006.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the law in Bermuda.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Particulars of bank loans, overdrafts and other borrowings of the Group at 31 December 2006 are set out in notes 21 and 23 on the financial statements.

PROPERTIES

Particulars of the properties held by the Group are shown on pages 89 and 90 of the annual report.

FIVE YEAR SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on pages 87 and 88 of the annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

MAJOR CUSTOMERS AND SUPPLIERS

Revenue attributable to the five largest customers of the Group accounted for about 34% of the total income of the Group for the year.

Purchases attributable to the five largest suppliers of the Group accounted for about 32% of the value of the Group's total purchases for the year. At no time during the year have the Directors or any Shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2006.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent Non-executive directors to be independent.

AUDITORS

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

Tony Tsoi Tong Hoo

Director

Hong Kong, 19 April 2007