VARITRONIX

Varitronix International Limited
2007 Annual Report

30 Years of Success

Moving Forward with a Global Vision

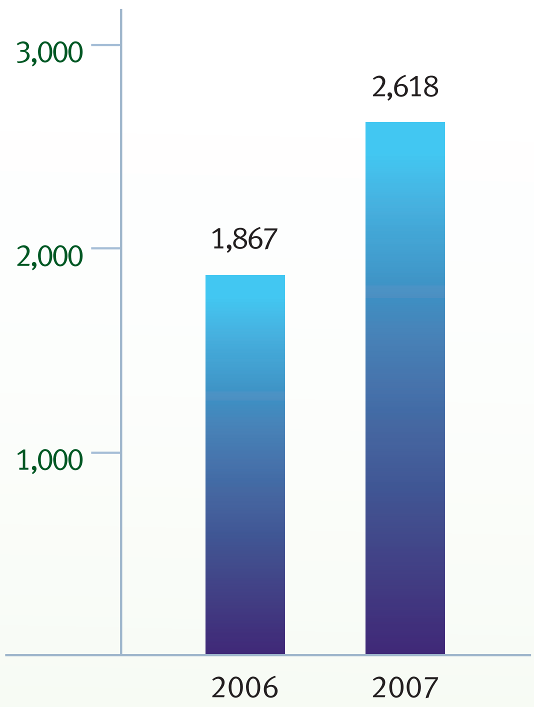
Stock Code 710

Contents

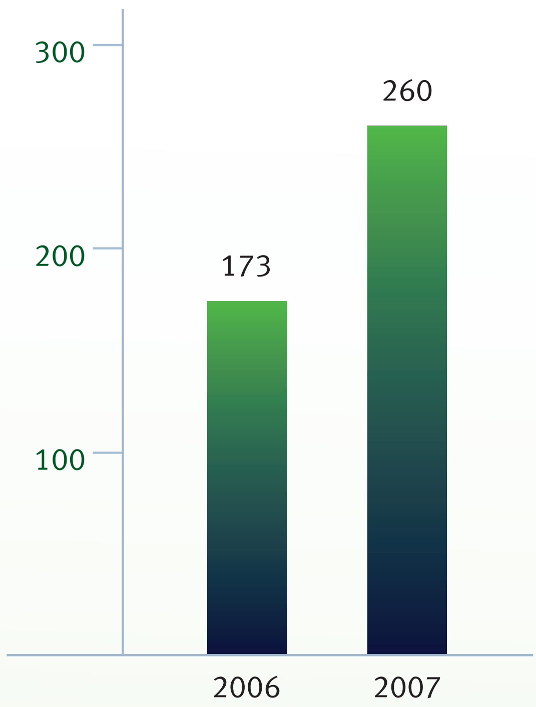
1	Financial Highlights
2	30 Years of Success Moving Forward with a Global Vision
3	3 Generations of Staff Sharing their Stories
6	Chairman's Statement
12	Review of Operations
14	Corporate Social Responsibility Report
18	Financial Review
20	Board of Directors and Senior Management
22	Corporate Governance Report
26	Report of the Directors
32	Report of the Independent Auditor
33	Consolidated Income Statement
34	Consolidated Balance Sheet
36	Balance Sheet
37	Consolidated Statement of Changes in Equity
38	Consolidated Cash Flow Statement
40	Notes on the Financial Statements
84	Five Year Summary
86	Properties Held by the Group
88	Corporate Information

Financial Highlights

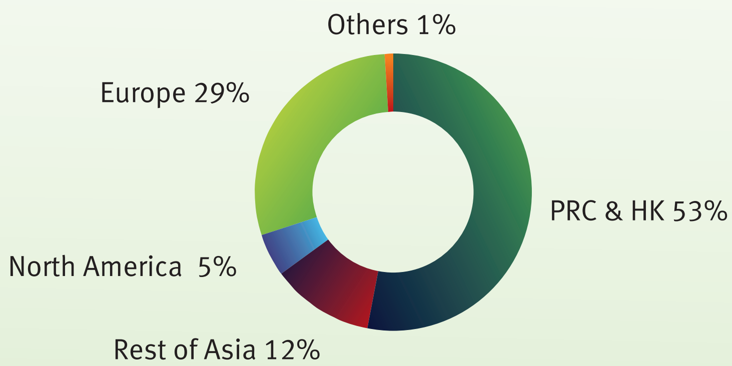
Turnover (HK$'M)



Profit Attributable to Shareholders (HK$'M)



Turnover by Market Segment

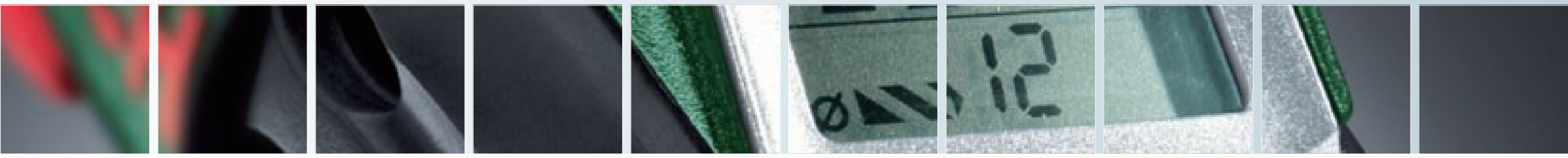


	Year-on-Year Change
PRC & HK	84%
Rest of Asia	22%
North America	16%
Europe	10%

30 Years of Success
Moving Forward with a Global Vision

Initially set up in 1978 by an enterprising team of academics from Hong Kong's universities, Varitronix was one of the few local companies in our industry with a truly original, innovative idea.

With this as a foundation and with our advanced and sophisticated engineering skills, Varitronix display products are well accepted today in the global market.



Varitronix has become one of the world's leading LCD manufacturers, with a market presence across Asia and beyond including the PRC, Europe and America.

Building on its 30 years of solid development experience, Varitronix is well positioned to expand further and has set its eyes on the larger global market. It is determined to extend its horizon by reaching new markets while penetrating deeper into existing markets.

Varitronix is well-equipped with young and energetic staff, committed, responsible and smart senior supervisory staff, and an experienced and flexible senior management team. It is ready to leapfrog and reach higher levels of achievement.

30th Anniversary Activities

At the end of 2007 as the Group approached its 30th Anniversary, a 30th Anniversary logo design competition was held open to staff worldwide. The brand new anniversary logo we adopted is the design work of one of the staff members.

To commemorate the occasion of the company's 30th Anniversary, Varitronix management decided upon two meaningful acts. Firstly, to establish the "Varitronix 30th Anniversary Scholarship" at The Hong Kong University of Science and Technology and at the South China University of Technology in Guangzhou, PRC, and secondly, to make a donation to the Hong Kong Blind Union in order to help visually impaired members of our society.

The university scholarship will help deserving students to achieve their academic goals, while the donation to the Hong Kong Blind Union can improve and enhance the non-governmental organisation's service to its visually impaired members. The contribution can help them to overcome their physical constraints, reach out to the community and fulfill the visions in their minds.

Conclusion

At Varitronix, we view the past 30 years as just a beginning. We are still young and energetic, and full of plans and aspirations. Varitronix is looking forward to many more anniversaries to come as we move forward with a global vision in mind.

3 Generations of Staff Sharing their Stories

Time flies! When it was first established in 1978, the Company was a much smaller operation that employed only around 20 staff. Now in 2008, which marks the 30th anniversary of Varitronix, we are a publicly listed company that employs 5,000 staff, with businesses that span the globe. As a member of the Varitronix team, I am extremely proud of the Company's growth and success.

Having worked here for more than 20 years, I have grown up with Varitronix. I remember when I first joined the Company in 1980, I was intrigued by the production uniforms and caps that staff wore in the clean room. At that time, it seemed to me that this front end process was the most important part of the production line. My long career at Varitronix started with working in one of these teams, attaching two polarisers to the displays, a process known as "polariser sticking". Later on I worked in other departments, such as Inspections and Quality Control. Eventually, I was appointed to help set up our production plants in Foshan and Shawan in Mainland China. During my years at Varitronix, I have immensely enjoyed these opportunities to take on different roles and gain wider experience. Currently, I am Senior Supervisor in the Warehouse Department and a member of the Company's Health and Safety Committee.

I remember the 1980s as the golden age of manufacturing in Hong Kong. The number of orders we received from customers was astounding. At one time, we worked non-stop for consecutive weeks without leave to get the job completed. There were no complaints from any of the staff though. Varitronix is like a big family in many ways – we all work towards the same goals and objectives and we enjoy ourselves together. Our achievements are a result of the hard work and contributions of all members of the Company. It is this teamwork and family atmosphere that has enabled me to stay at Varitronix for so long.

Over the last 30 years, Varitronix has been transformed from a small company that produced small size LCD panels to a listed company that manufactures products such as Chip-on-Glass (COG) and Thin Film Transistor (TFT) display modules. We keep evolving and are consistently improving. It is this persistent pursuit of excellence and innovation that has enabled Varitronix to stay ahead of the market all these years.

Looking ahead, I hope Varitronix can design and produce more advanced display products through the joint efforts of our staff. It is my ambition that the Company will stay ahead of the competition, continue to generate impressive results and enjoy another 30 years of success.

"We keep evolving and are consistently improving."

Chan Mei Ha
Senior Supervisor – Warehouse
Joined Varitronix in 1980

I have been at Varitronix for 13 years now, which is a relatively long time. However, compared to some of my colleagues who have worked here for nearly 30 years, this is still regarded as short! Even so, I have been asked from time to time why I have stayed with Varitronix for so long.

My case is unique as I have left the Company twice before to work elsewhere. On both these occasions though, I have returned to Varitronix. There is a Chinese proverb that says, "A good horse will never return to eat the same grass". In my case, perhaps I am not a good horse or perhaps the grass at Varitronix is just too appealing! I will let my supervisors be the judge of whether I am a good horse or not, but certainly there are many appealing factors at Varitronix that keep me here.

It is my opinion that a good company must possess a number of important elements. Firstly, it should have a strong financial background with an emphasis on long-term development and investment. Secondly, staff must be independent, easy to work with and not overwrought with company politics. Thirdly, there must be plenty of room for growth and personal development. Fourthly, staff should be encouraged to use their own initiative. Finally, there should be a firm overall commitment to staff, customers and the society at large.

I believe that Varitronix possesses all these elements. Though by no means a perfect company, we are continually improving and enhancing the way we work. We are thankful to the founders and the current management of Varitronix for their commitment to sustained development.

On a personal level, it is the many opportunities available within the Company that has kept me at Varitronix for so long. During my time here, I have led different departments, each with their own unique and demanding challenges. These experiences have enabled me to hone my management skills, as well as further develop my knowledge and understanding of the business. Recently, I was rather excited to participate in a production facilities improvement project in one of the Company's manufacturing plants. The initiative was strong evidence of Varitronix's long-term development goals.

I am honoured to have this chance to share my thoughts with my colleagues. It is rare to come across an LCD manufacturer with more than 30 years of history. The Company's rich pedigree is a culmination of the hard work and dedication of many Varitronix colleagues over the past years. I hope all of us treasure what we have today and live up to the strong tradition of the Company. By doing so, Varitronix will be able to maintain our leading role in the industry and we will continue to be proud members of a dynamic and sustainable company.

"There are many appealing factors at Varitronix that keep me here."

Alex Wong
Manager – Contract Manufacturing
Joined Varitronix in 1994

Joe Cheung
Senior Engineer II – Technical Service Team
Joined Varitronix in 2005

I have worked at Varitronix for just over 3 years, a very short time considering that the Company's history spans 30 years.

This is my third job since graduation. My previous work experience has been very much focused on R&D, while my work here at Varitronix has been much broader, encompassing technical design but also including direct communications with customers. Unaccustomed to this exposure, I was nervous at first. As time has passed though, I have grown more confident and amassed more experience in dealing with customers. I am grateful that Varitronix has given me the opportunity to gain these skills and experience. Recently, I visited a customer in the Middle East, which was an unforgettable and eye-opening experience.

Varitronix provides real opportunities for staff that allow us to learn new skills and realize our full potential. I don't believe that there are many companies out there that will invest in their staff in the same way. This gives me the job satisfaction I desire. The great team spirit and friendships I have fostered with my colleagues are also very inspiring.

Last but not least, I hope that Varitronix will continue to innovate and move forward in the competitive LCD market to maintain its prominent position in the industry.

“ The great team spirit and friendships I have fostered with my colleagues are very inspiring. ”

Chairman's Statement

The operating environment is expected to be challenging in 2008, and the Group will take prudent steps to counteract this:

- **The Group will maintain a wide product portfolio and market coverage in order to diversify the risk factors.**
- **It will further develop the high-value sector to maintain a reasonable profit level.**
- **The Group will invest in new production facilities to enhance production technology, with the aim of reinforcing our standing in the market for high-end products.**

On behalf of Varitronix International Limited and its subsidiaries ("Varitronix" or the "Group"), I am pleased to present the Group's annual results for the year ended 31 December 2007

During the year under review, the Group recorded a turnover of HK$2,618 million as compared to the previous year's HK$1,867 million, representing a surge of 40%. Profit from operations was HK$285 million and profit attributable to shareholders was HK$260 million, representing increases of 43% and 50%, respectively, as compared to 2006.

The Board of Directors has recommended a final dividend of 26 HK cents per share (2006: 24 HK cents). Combined with the interim dividend of 12 HK cents (2006: 9 HK cents), the total dividend for 2007 amounted to 38 HK cents per share (2006: 33 HK cents).

Business Review

Automotive Market

Sales of automotive displays recorded satisfactory growth during the year, mainly due to the fact that plentiful resources including manpower and technological expertise have been allocated to develop this sector in the past few years. This concentrated effort has contributed to the success of the automotive-related business.

The European market has always been the mainstay of our automotive display business. We have successfully built up a reputation in the European automotive market, with Varitronix products installed in the majority of sedan cars in the region. Moreover, as our clients' businesses have expanded to other parts of the world, our automotive related business has gradually extended to the United States, South Korea and Mainland China. In the past year, we also actively pursued opportunities to enter the Indian market with an aim of progressively extending the geographical reach of our automotive business.

Financial Highlights (HK$'million)	2007	2006
Turnover	2,618	1,867
Profit attributable to shareholders	260	173
Basic earnings per share	80.5 HK cents	53.6 HK cents
Dividend per share	38 HK cents	33 HK cents

Market for Industrial and Other Products

Sales from European clients in industrial products and home electrical appliances have risen compared with last year. Customers from these sectors have a continued demand for more LCD products, demonstrating their faith in Varitronix products. The Group has committed to extending the customer network in home electrical appliances during the year and has signed up new accounts. We look forward to carving our niche in the home electrical appliances sector, just as we have done in the automotive market, with both sectors realizing an advantage over our competitors.

Customers for home electrical appliances are as demanding as those in the automotive sector, displaying exceptionally high requirements for product functions and safety performance. The Group's high-end products have proven to be able to fulfill the demands of this specific type of customer. There is a relative lack of suppliers in the market of such high-end products and Varitronix enjoys a competitive edge in this sector. In the year under review, the Group became a certified supplier to several new home electrical appliance manufacturers and large-scale industrial clients.

Mobile Phone Market in the Mainland

The Mainland boasts a vast market for mobile handsets, with numerous models making their way into cities and rural areas. Discounting the expansive domestic market, Chinese manufactured mobile handsets are also being exported to developing markets such as India, Eastern Europe and South America. With such promising conditions in both the domestic and foreign markets, the Group sustained business growth from its Mainland mobile phone manufacturers in 2007.

Prospects for 2008

Automotive Display Business

It is expected that the momentum for growth in automotive displays in 2008 will be driven by business in Europe, the United States, South Korea and emerging markets such as Shanghai and India.

In Europe, the Group already enjoys a sizeable customer base of automotive clients, yet the market has not reached saturation and still presents room for expansion. Our marketing staff endeavors to make contact with new clients to develop more business opportunities. The Group conducted a workshop in Munich, Germany at the beginning of 2008 for automotive customers and established contact with new prospective clients who have expressed interest in the Group's LCD products.

The Group has gradually established a client network in Shanghai, where clients are mostly branch offices or joint venture companies of major international automotive manufacturers located in the city. As we enter 2008, most projects in China will reach the mass production stage, and it is therefore envisaged that sales in this region will continue to grow.

The Group made preparations for expansion into the Indian automotive market in 2007. At the end of the year, the Group entered into a strategic distribution agreement with Toyota Tsusho (Singapore) and Toyota Tsusho (India) to tap into the fast-growing Indian automotive market. According to a survey by IBM Global Business Services, the number of cars manufactured in India will reach 4.2 million by 2015. This will make India one of the top ten countries in the world in terms of vehicle production. Toyota Tsusho is a prestigious global automotive parts supplier. Leveraging on their vast experience in India, Varitronix can secure a foothold in this exciting market in a timely and efficient manner. At present, a few projects from India have started mass production and it is anticipated that the Group's business in India will enter a whole new phase of development in 2008.

Home Electrical Appliances Display Business

In the year under review, the Group held a White Goods Workshop in Italy to introduce our LCD products to prospective and existing customers in a bid to extend the business network. The workshop was well received and successfully displayed the Group's technological strength, laying the groundwork for new strides into the home electrical appliance sector.

Apart from mono-color displays, several home electrical appliances customers have already adopted the use of TFT solutions, a testament to the speedy development of this sector. With a demand for a widening range of LCD products in the market, the Group is determined to dedicate more resources to developing this business segment and establishing a solid business base in this niche market.

Mainland China Electronic Consumer Product Displays

As far as business on the Mainland is concerned, the Group will continue to focus on the mobile handset market in 2008. Due to the fact that mobile phone customers mainly favor TFT and CSTN displays, the Group must consider the need to secure a reliable and steady supply of TFT and CSTN panels while actively pursuing new orders.

Strategies targeting the Mainland will center around handset manufacturers, branching out from a steady business base towards other applications in electronic consumer and industrial products. The aim is to develop this market into one involving multiple application solutions.

Acquisition of BOE Hydis

Orders for mobile handsets and other electronic consumer products are noted for their volume and short delivery time, which often require an urgent bulk delivery of related parts. In 2007 there was a shortage in the supply of TFT panels, which put considerable pressure on sales orders related to TFT displays. During the year, Varitronix formed a Consortium with both Prime View International Co., Ltd., one of the leading small to medium sized TFT-LCD panel manufacturers in Taiwan, and Alco Holdings Limited, a major provider of Electronics Manufacturing Services (EMS) in Hong Kong. The Consortium has signed a binding memorandum of understanding to acquire South Korean based BOE Hydis ("Hydis"). Varitronix will contribute HK$240 million approximately in this acquisition.

Hydis currently operates three TFT-LCD manufacturing lines comprising Gen 2.5, Gen 3 and Gen 3.5, with monthly capacities of 16K, 14K and 67K, respectively. Due to its proprietary AFFS (Advanced Fringe Field Switching) wide viewing angle technology, Hydis is one of the leading suppliers to top tier display companies worldwide.

This transaction is near completion, with Varitronix acquiring an 11% stake in Hydis when it is finalized. This acquisition bears strategic significance to the Group, providing a stable source of supply of TFT panels in times of shortage and giving our sales staff the ease of mind to work towards acquiring a bigger market share and signing more orders.

With the investment in TFT manufacturer Hydis finalized, sales in the Mainland will benefit from an abundant supply of key parts. In addition, by securing a steady supply of TFT panels, a significant amount of potential new business targeting high-margin color products can be developed with our solid network of automotive customers. By proposing more color display projects for this particular customer base, the product range and revenue sources within the automotive sector will be further diversified, widening our scope with bright prospects for our automotive business.

Investment in Production Facilities

The second half of 2007 saw new policies put into force in the Mainland, such as the 100% standing book deposits levied on certain materials, the increase in export tax, new labor contract laws, and the appreciation of the RMB, which all combined to put a significant amount of pressure on Hong Kong enterprises that operate production facilities in China.

The Group will on the one hand seek ways to mitigate the impact of these measures on our operations. For instance, the Group will forge long-term cooperation with solid material suppliers, modify our export policies, study the feasibility of sourcing and selling our products locally, enforce the implementation of our human resources system and control headcount. On the other hand, we will counter the effects of rising production costs with active measures, one of which is to enhance the technological content of our products, producing high-end products with advanced technology that are of a high level of precision, thereby improving the competitiveness of our products and elevating their position in the market, as well as securing a higher profit margin to maintain the profit level of the Group as a whole.

In the past few years, the Group has relied on research and development to raise the technological standard of our products, such as improving the performance of current products and developing value-added products based on current technology that are suited to the demands of the market. At the same time, we have ensured that the design and all the links in the production process meet with our customers' stringent requirements for performance and quality. In order to significantly raise our competitiveness to meet with market demand, the Group has decided to invest HK$200 million approximately in expanding the advanced LCD production line and strengthening existing assembly facilities. It is estimated that the new equipment will be in operation by the beginning of 2009.

The new equipment will benefit the Group in three ways:

1) To further enhance and optimize the production of existing products, raise the percentage of passing yield so as to improve production efficiency, and enable the Group to deploy resources in a more flexible manner.

2) To improve the production capability for high precision and high value-added products, making them more suitable to increasing customer demand while maintaining respectable profit margins.

3) To develop new products corresponding to market trends and to identify new sources of revenue.

Customers for the Group's LCD panels include those from the automotive, industrial, home electrical appliance and even aircraft technology sectors. As demands for quality in these categories of products are very strict, the Group is working to optimize our production facilities so as to maintain our standing in the market for high-end products. This is also an important move to sharpen the Group's competitive edge in a competitive market.

Summary and Acknowledgement

During the fourth quarter of 2007, adverse effects brought on by the sub-prime mortgage crisis in the United States began to surface as the American economy started to show signs of a recession. It is feared that this will have a negative impact on the world's economic growth. In this uncertain environment, the Group is endeavoring to sustain diversified market coverage in order to reduce the risk level. It is expected that the Group's own future growth will mainly derive from the European, Asian and Mainland China markets, which are comparatively less affected by the downturn in the American economy. Despite this, the Group will closely follow the global adjustments and be cautious in its moves. We aim to defend and strike with a two-pronged strategy: by adding value to our products and actively developing new business on the one hand and by ensuring our supply lines and strictly controlling our production costs on the other, to improve our readiness for any business opportunity or challenge ahead.

During the year, the Group's operation has faced different pressures arising from shortage of critical materials, the rise in the number of orders and the strain on human resources. The Board of Directors is grateful to the management and staff whose responsible and timely actions in difficult times, doing everything within their power to cooperate with each other in order to find solutions for the problems encountered, took the Group over each and every hurdle.

The Group's management team has taken shape after a series of preparations. The members of our management team are young and enthusiastic, bringing with them a wealth of operational and management experience. Daring to experiment with new concepts, this new generation of management will help to sustain the growth of the enterprise. We look forward to another year with the Group working together even more effectively as a team, so as to better prepare ourselves for the challenges ahead.

Varitronix is well into its 30th year of operation. Throughout the years, we have been through the ups and downs together with the Hong Kong community. Today, we have developed into an enterprise possessing a manufacturing base in Mainland China and a business portfolio that serves companies in Europe, America and Asia. In the future, we have our vision set on a more expansive market for our products and we pledge to make it our mission to bring a Hong Kong LCD brand to all the four corners of the world.

Ko Chun Shun, Johnson
Chairman

Hong Kong, 9 April 2008

Review of Operations

Europe

Sales in Europe achieved a historic high, for the second year in a row, amounting to HK$771 million in 2007. That represented growth of 10% from HK$703 million in 2006. The sales growth was driven by orders for high quality LCD displays from the automotive sector and the industrial sector. The Group succeeded in expanding its market share in the region's automotive sector after strengthening its technology offerings. Orders from upmarket white goods manufacturers also increased, as the Group gained its foothold in this niche. Europe remained the second-largest sales contributor, generating sales that accounted for 29% of the Group's turnover.

North America

Sales in North America amounted to HK$128 million in 2007, representing 16% growth from HK$110 million in 2006. This growth was driven by robust orders from the industrial sector, such as those for medical applications and agricultural applications. Sales in this region accounted for 5% of the Group's turnover.

The PRC & Hong Kong

Sales in the PRC and Hong Kong amounted to HK$1,368 million in 2007, representing growth of 84% from HK$744 million in 2006. Sales in the region accounted for 53% of the group's turnover. Growth was driven by high-volume orders from customers in the telecommunications sector, to which the end products are either sold domestically or exported. In addition to growing domestic demand, new demand for mobile handsets exporting to developing countries such as India, Eastern Europe and South America translated into the growth of sales in the PRC.

Rest of Asia

Sales in the rest of Asia amounted to HK$317 million in 2007, representing growth of 22% from HK$261 million in 2006. Sales in this region accounted for 12% of the Group's turnover. This growth was driven by orders from the automotive sector and the industrial/consumer sector. Korean auto parts manufacturers provided a steady and growing stream of orders.

Others

Sales in other regions amounted to HK$34 million in 2007, representing a decline of 31% from HK$49 million in 2006. Sales in those regions accounted for 1% of the Group's turnover.

Production

Raw materials and consumables used amounted to HK$1,848 million in 2007, which represented an increase of 44% from HK$1,285 million in 2006.

Staff costs amounted to HK$294 million in 2007, an increase of 29% from HK$228 million in 2006. Staff costs are equivalent to 11% of total sales turnover, down from 12% in the year earlier.

Other operating expenses amounted to HK$233 million, increasing by 13% from HK$207 million in 2006. The rise was mainly due to increased spending on electricity, water, insurance, licensing and miscellaneous items.

Faced with price rises for raw materials as well as general production cost increases for manufacturers in China, the Group maintained effective cost control. The Group fostered its long-term relationships with material suppliers, improved procurement efficiency, strengthened its product design capability and enhanced production yield levels.

In addition, the Group extended its product mix toward higher value-added products in 2007 and will continue to pursue this strategy by scaling up its production capabilities and expanding its R&D activities.

Final Remarks

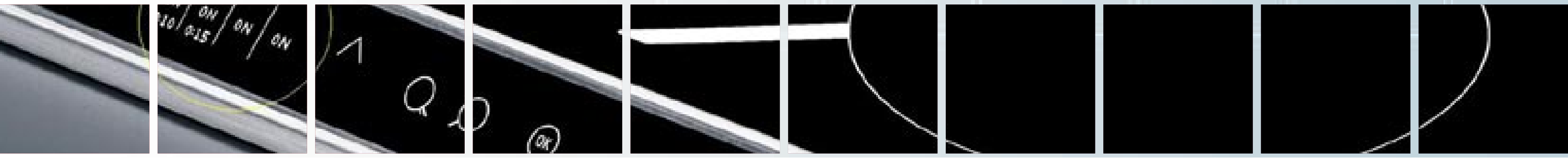
2007 was a year of progress. The Group achieved sales growth in each of its four major geographical markets – Europe, the United States, the PRC and Hong Kong, and the rest of Asia. The strengthened presence in all of these markets formed a solid foundation for the businesses going forward.

Since late last year, however, the global business environment has become less favorable, overshadowed by the uncertainties related to the US subprime crisis and the consequential slowdown of economic activities there. That increases business risks facing the Group.

Despite the challenges, the Group has, over the past 30 years, grown to become a global presence with customers from different parts of the world as well as different industry sectors. To further diversify, the Group has started to develop new markets including India and South America, and new market frontiers in China. Hence, the Group is confident that it will continue to win new opportunities emerging from an ever-changing business world.

Corporate Social Responsibility Report

商界展關懷
caringcompany 2007/08
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發



Human Resources

Human Asset

As at 31 December 2007, the Group had a total of 5,664 members of staff worldwide. Of these, 4,562 were workers and 1,102 were clerical, administrative and management staff. Within the latter group, over 40% were engaged in engineering-related areas such as product design and development, technology, quality assurance and technical services. In 2007, the Group's staff costs was HK$294 million approximately, representing 11% of total revenue.

The Group ensures that we meet local employment laws in the countries in which we operate. Our policy is to employ, retain and promote employees on the basis of merit, qualifications and competence. We make every endeavour to create a favourable and fair environment in which all employees can enjoy equal opportunities at work and avoid discrimination in the workplace.

People are the essential asset for the Group. We are committed to providing a safe work environment for all employees. Health and Safety Committees are present in the PRC and Hong Kong workplaces to ensure this.

The Group's management considers training and development of staff to be a key element of its operation, and one which will facilitate the growth of the company. In 2007, the manufacturing plants in the PRC and the office in Hong Kong provided frequent training opportunities to workers, clerical and other staff. The training content covered training for newcomers, technical skills, technical knowledge, quality compliance, an enterprise resources programme (ERP), language, team building, leadership and management, etc.

Plans for 2008

In terms of human resources management, the mission for 2008 is to ensure a steady supply of talents to fuel the growth of the Group's business. In addition to providing up-to-market compensation, internal policy will be strengthened and improved to enhance the loyalty and motivation of staff in general.

Recruitment of fresh university graduates will continue to be a key strategy of the Group to enrich the talent pool. In 2007, the manufacturing plants in the PRC recruited a batch of graduates serving well in different engineering teams. For 2008, we will continue implement this policy. The new batch of graduates will report for duty upon graduation in mid-2008. In Hong Kong, we will also aim to attract fresh university graduates by organising career talks at targeted universities and providing summer internship opportunities for students majoring in electronics engineering.

In order to promote the image of the Group amongst university students and foster the academic development of potential students, the Group has established the "Varitronix 30th Anniversary Scholarship" at The Hong

Above: The Varitronix Social Service Team received awards during the Annual Dinner for their service to the community in 2007.

Below: The Social Service Team held a Christmas Party for the friends of Po Leung Kuk Wong Yau Cheung Memorial Neighbourhood Elderly Centre.

Kong University of Science and Technology and at the South China University of Technology in Guangzhou, PRC. The Scholarship will strengthen the reputation of Varitronix in these universities.

In terms of training, it is the goal of the Human Resources Department to provide ample training to supervisors and managers so as to improve their management skills and stimulate their development of vision, with the aim of building up a strong leadership level. In addition, a recognition programme will be implemented to recognise employees who have made a special contribution or who have demonstrated particular attributes that are in line with the Group culture.

Social Responsibility

Social Service in 2007

In the Hong Kong corporate office, we emphasise the holistic development of staff. Besides assisting in their career development, we also encourage our employees to achieve personal growth. Community service is a way to widen the scope of our staff and help them to realise their potential. The social services provided by the Group were diversified in 2007.

As usual, the corporate office in Hong Kong participated in the Oxfam Trailwalker event. A total of three teams entered the 100km MacLehose Trail challenge. Staff members from sales offices in France and Switzerland joined one of the teams and successfully finished the trail without advance on-site training. More than 50 other staff members formed a powerful support team to provide food, beverages and mental support to our Varitronix Walkers. A total sum of HK$100,000 was generated from the sponsors and walkers as a donation to Oxfam Hong Kong.

Caring Company

The Group was awarded the title of Caring Company 2007/08 by The Hong Kong Council of Social Service in recognition of our community service and the commitment to being a good corporate citizen in 2007. The Group achieved qualifications for a number of criteria including "Volunteering and Giving", "Employee Friendly", "Employing the Vulnerable", and "Caring for the Environment".

Within the company, two Caring Ambassadors were selected to recognise individual members of staff actively involved in the organisation's community service programme. The Caring Ambassadors for 2007 were Ms Chan Mei Har from Warehouse and Mr Tan King Ho, Tommy of the Sales and Marketing Department. Their enthusiastic participation and valuable contribution to the social service activities of the Group was highly appreciated.

Outlook for 2008

To commemorate the 30th Anniversary of Varitronix, as well as setting up the "Varitronix 30th Anniversary Scholarship", management decided to make a donation to the Hong Kong Blind Union in order to help its visually impaired members.

In 2008, the Varitronix Social Service Team will also partner with the Hong Kong Blind Union to provide more services to the association. As a liquid crystal display manufacturer, we find it meaningful to serve visually impaired members in our society. We hope that our care and service will inspire a vision in their minds, and help them to reach out to other members of society. By forging a long-term partnership with a non-governmental organisation, the Varitronix Social Service Team members will be more committed and their knowledge and understanding of the beneficiaries will be deepened, helping them to experience the wonders of life from a different perspective.

Environmental Sustainability

Green Manufacturing

Our manufacturing plants and offices adopt comprehensive practices to reduce waste and recycle materials during the production process and other operations. Following the standards set out by ISO14001, Varitronix is dedicated to educating every staff member about environmental practices and ensuring the implementation of environmental protection measures.

On the manufacturing side, our products and packaging are designed to comply with the standards of environmental legislation and guidelines such as the Restriction of the Use of Certain Hazardous Substances (RoHS) and End of Life Vehicles (ELV) directives. There are also many other measures to control and reduce environmental pollution. We have wastewater treatment facilities to purify both industrial and urban water before releasing it into the environment. 60% of the water used is recycled and reused in watering, toilet flushing and manufacturing. Industrial gas usually carries hazardous particles. In our plants, industrial gas is treated with neutralising agents and goes through chemical processes in order to make it safe for the environment. Organic solvents are also transformed into environmentally friendly materials to prevent contamination of our natural environment and water source.

On the administration side, paper recycling boxes and waste recycling bins are placed in the office and plant areas to encourage staff and workers to handle waste in an environmentally responsible manner. Waste paper is exchanged with a waste collection company for useable recycled paper. The paper usage of each department is monitored with the aim of saving our forests.

Green Community

The Heyuan Municipal Government named the group’s manufacturing site in Heyuan, Guangdong Province, the “Greenery Pioneer in Heyuan” in October 2007. The award is to recognise the gardening and greenery effort of our Heyuan Plant, making the site a comfortable and soothing environment for the staff in general. In November 2007, Heyuan Plant’s environmental committee and a group of “Outstanding Workers” under the leadership of the Head of Production kicked off the first tree planting activity. Tree saplings were planted in the Wanluhu Lake Holiday & Tourism Scenic Area (萬綠湖風景區) to beautify the scenic recreational area. The activity was well received by the staff in Heyuan and a series of tree planting activities is planned in 2008.

Plans for 2008

The Group’s production units were accredited with the environmental ISO 14001 standard in 2005. The Group plans to apply for QC080000 certification. This certification ensures the adoption of environmentally friendly materials in the production process. To improve the efficient use of energy, the manufacturing plant in Heyuan is studying the feasibility of installing a system to restore and recycle the heat energy produced by the air-conditioning machines. The heat energy collected is fit for use in the water heaters in the dormitories within the plant. Once installed, this system will save not only the quantity of electricity consumed by the air-conditioning machines, but also the amount of diesel required by the water heaters.

Varitronix Trailwalkers gathered at the starting point in high spirits.

Colleagues formed a powerful support team to provide assistance to our Trailwalkers along the trail.

The female basketball team from Heyuan Plant was the 2nd runner-up in a public competition in Heyuan City.

Colleagues joined the tree planting activity in a famous scenic area in Heyuan.

Wall-climbing challenge during outward-bound training.

Leadership training was conducted for middle to senior managers from Hong Kong and the PRC.

Financial Review

Structure of Assets

As at 31 December 2007, the total assets of the Group amounted to HK$2,337 million (2006: HK$1,880 million), representing an increase of 24% as compared to last year. At year end, inventories increased by 62% to HK$545 million (2006: HK$337 million) while available-for-sale securities increased by 42% to HK$105 million (2006: HK$74 million).

Liquidity and Financial Resources

The Group maintains a strong financial position. As at 31 December 2007, the total shareholders' equity of the Group was HK$1.5 billion (2006: HK$1.3 billion). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 2.16 as at 31 December 2007 (2006: 2.73).

At the year end, the Group held a liquid portfolio of HK$777 million (2006: HK$737 million) of which HK$545 million (2006: HK$499 million) was in cash and cash equivalents and HK$232 million (2006: HK$238 million) in securities. The unsecured interest-bearing bank loans and overdrafts amounted to HK$149 million (2006: HK$45 million). The gearing ratio (bank loans and overdrafts over net assets) was 9.8% (2006: 3.4%).

The Group's inventory turnover ratio for the year was 5.9 times (2006: 6.5 times). Debtor turnover for the year was 46.9 days (2006: 67.9 days).

Cash Flows

In the year under review, the Group's cash generated from operations amounted to HK$256 million (2006: HK$246 million), representing an increase of 4.1% over last year. The increases in inventories and trade and other receivables reduced cash flow by HK$208 million and HK$73 million respectively but the reduction was partly offset by the increase in trade and other payables which raised cash flow by HK$182 million.

Net cash used in investing activities amounted to HK$164 million (2006: HK$67 million net cash from investing activities). There was an increase in payment for purchase of fixed assets to HK$148 million (2006: HK$51 million).

Net cash used in financing activities decreased to HK$16 million (2006: HK$200 million) due to decreases in repayment of bank loans and increases in bank loans borrowings.

Contingent Liabilities

As 31 December 2007, 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$154.9 million (2006: HK$50.7 million).

Commitments

At 31 December 2007, the Group had capital commitments of HK$0.1 million (2006: HK$9.7 million), representing purchase of property, plant and equipment not provided for in the financial statements. The total future minimum lease payments under non-cancellable operating leases for properties payable within one year amounted to HK$6.7 million (2006: HK$4.7 million).

Foreign Currency Exposure

The Group is exposed to foreign currency risk primarily through sales and purchases 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 Euros, United States dollars, Japanese Yen and Renminbi.

Staff

As at 31 December 2007, the Group employed approximately 5,664 persons around the world, of whom approximately 205 were in Hong Kong, 5,405 in the PRC and 54 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 the PRC.

Staff Retirement Schemes

The Group operates an MPF Scheme which was compulsory as enforced by The Mandatory Provident Fund Schemes Authority of Hong Kong. The MPF Scheme is a defined contribution retirement benefit scheme administrated by independent trustees. The employer and the employee have to contribute in total an amount equal to 10% of the relevant income (the "Relevant Income") of the employee to the MPF Scheme. Contributions from employer are 100% vested in the employees accounts as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions. The vesting for retirement scheme will remain unchanged.

In addition, the Group also operates a defined contribution retirement scheme, whose assets are separated from the Group. The scheme is formally established under trust and is approved by the Inland Revenue Department under Section 87A of the Inland Revenue Ordinance. This scheme is a Top-Up ORSO scheme and both the employer and the employee are required to contribute 5% of the excess of the employee's Relevant Income to the scheme.

The total retirement scheme cost charged to the Consolidated Income Statement for the year ended 31 December 2007 was HK$5,515,000 (2006: HK$4,472,000). Charges to administer the scheme are deducted from the employer's contributions. Forfeited contributions are used by the employer to offset against future contributions. The amount so utilised during the year ended 31 December 2007 was HK$202,000 (2006: HK$400,000) and at 31 December 2007, the balance available to reduce the level of contributions in future amounted to HK$454,000 (2006: HK$951,000).

Varitronix (Malaysia) Sdn. Bhd. operates a staff provident fund scheme under the Employees Provident Fund Act 1951. The employer and employee are required to contribute a certain percentage of the employee's basic monthly salary according to the Act. The total employer's contributions charged to the Consolidated Income Statement for the year was HK$38,000 (2006: HK$522,000).

Board of Directors and Senior Management

Directors' Biographical Information

Ko Chun Shun, Johnson

aged 56, was appointed Chairman of the Group in June 2005. He is also the Chairman of DVN (Holdings) Limited, China Windpower Group Limited and MAE Holdings Limited. The above companies are listed on the Hong Kong Stock Exchange. Mr Ko also served as an independent board member of Sports Supply Inc from 1996 to 2003 and of The DII Group, Inc from 1999 until April 2000 when it merged with Flextronics International Limited. These two companies are listed on NYSE and NASDAQ, respectively.

Tsoi Tong Hoo, Tony

aged 43, was appointed as an Executive Director and Chief Executive Officer of the Group in March 2005. Mr Tsoi graduated from the University of Western Ontario, Canada with an Honours degree in Business Administration in 1986. He is a member of the Listing Committees of the Main and GEM Boards of the Hong Kong Stock Exchange. Mr Tsoi is a Non-executive Director of China Windpower Group Limited, which is listed on the Hong Kong Stock Exchange.

Ho Te Hwai, Cecil

aged 47, was appointed as an Executive Director and the Company Secretary in March 2005. He is also the Qualified Accountant of the Group. Mr Ho holds a Bachelor of Commerce degree from the University of British Columbia, Canada. He is a member of the Institute of Chartered Accountants of Canada and the Hong Kong Institute of Certified Public Accountants ("the HKICPA").

Lo Wing Yan, William

aged 47, was appointed as an Independent Non-executive Director effective July 2004. He is a member of the Audit Committee of the Company. Dr Lo holds an M Phil degree in Molecular Pharmacology and a PhD in Genetic Engineering, both from Cambridge University. He is an Executive Director, the Vice Chairman, Managing Director and the Chief Financial Officer of I.T Limited, which is listed on the Stock Exchange. He is also an Independent Non-executive Director of Nam Tai Electronics, Inc., which is listed on the New York Stock Exchange, and an Independent Non-executive Director of China Renji Medical Group Limited and South China Land Limited, both of which are listed on the Hong Kong Stock Exchange. Dr Lo is an Adjunct Professor of The School of Business of Hong Kong Baptist University and the Business Faculty of Hong Kong Polytechnic University. In 1999, he was appointed as a Justice of the Peace (JP) of Hong Kong. In 2003, he was appointed as Committee Member of Shantou People's Political Consultative Conference.

Yuen Kin

aged 53, was appointed as an Independent Non-executive Director of the Company in March 2005. He is a member of the Audit Committee of the Company. Mr Yuen holds a Master of Business Administration degree from the University of Toronto, Canada. He is a Chartered Accountant in Canada and is a FCPA in Hong Kong and FCCA in the United Kingdom. He is Managing Director of Sunray Trading Company Limited, a private company engaging in trading of construction materials and furniture. Mr Yuen is also an Independent Non-executive Director of Asian Union New Media (Group) Limited and MAE Holdings Limited, which are listed on the Hong Kong Stock Exchange.

Hou Ziqiang

aged 70, was appointed as an Independent Non-executive Director of the Company in March 2005. He is a member of the Audit Committee of the Company. Mr Hou is an Independent Non-executive Director of China Netcom Group Corporation (Hong Kong) Limited, which is listed on the Hong Kong Stock Exchange. Mr Hou graduated from Peking University in 1958 with a Bachelor's degree in Physics. From 1993 to 1997, Mr Hou was Director of the Institute of Acoustics of the Chinese Academy of Sciences. From 1988 to 1993, Mr Hou was Secretary General of the Chinese Academy of Sciences.

Senior Management's Biographical Information

Domenico Giovanni Antico

aged 39, is the Chief Marketing Officer of the Group. He has wide experience in project management, sales and marketing in the electronics and LCD industry. He joined the Group as Managing Director of Varitronix Italia in 1995 and was appointed Chief Marketing Officer of the Group in January 2008.

Koh Lai Yee, Ginny

aged 46, is the General Manager – Supply Chain. Ms Koh has over 12 years of experience in supply chain management specifically in the LCD industry. She holds a Postgraduate Diploma in Purchasing and Supply Management and is a Full Member of The Institute of Purchasing & Supply of Hong Kong. She first joined Varitronix in 1981 and rejoined the Group in 2006.

Ng Siu Keung, Ricardo

aged 45, is the General Manager – Manufacturing and Senior Manager – Information Service of the Group. Mr Ng accumulated over 18 years of experience in the information technology management and electronics manufacturing operation. He holds a Master degree in Business Administration. He joined the Group in 2006.

Park Soo Bin

aged 37, is the General Manager – Technical Group. Mr Park has over 12 years of experience in research and technical development relating to LCD products. He holds a Bachelor of Physics degree from Sogang University in South Korea. He joined the Group in 2006.

Lam Cheuk Yin, Kenneth

aged 33, is the Financial Controller of the Group. He has a Bachelor of Business Administration (Accountancy) from City University of Hong Kong, and is an Associate Member of the Hong Kong Institute of Certified Public Accountants (HKICPA). He joined the Group in 2005.

Ho Kay Pui

aged 61, is the Senior Advisor of the Group, specialising in the technical development of LCM products, and focusing on operational and production cost control. Mr Ho graduated from Hong Kong Polytechnic in 1973 with a Higher Certificate in Electrical Engineering. He joined the Group in 1982.

Chan Siu Wah

aged 38, is the Senior Manager – Human Resources & Public Relations of the Group. She holds a Bachelor of Arts degree from The Chinese University of Hong Kong. She joined the Group in 2005.

Corporate Governance Report

The Company is committed to achieving and maintaining a high standard of corporate governance. The Board recognizes that such commitment is essential in upholding the accountability and transparency and to achieve a balance of interests between the shareholders, customers, creditors, employees as well as other stakeholders.

To ensure compliance with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Board will continue to monitor and revise the Company Code to bring our corporate governance practices in line with the changes in the environment and requirements of the Code.

In the opinion of the Directors, the Company has complied with the code provisions of the Code throughout the year ended 31 December 2007.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of 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 year under review.

Board of Directors

The Company benefits from the professional management expertise of its Directors. Brief biographies of the Directors are set out in the "Board of Directors and Senior Management" section in the Company's 2007 Annual Report. The professional management expertise of the Directors ensures that the Board has the capabilities of sustaining the Company's continued success.

As at 31 December 2007, the Board comprised three Executive Directors and three Independent Non-executive Directors. All the Independent Non-executive Directors meet the guidelines for assessment of independence as set out in Rule 3.13 of the Listing Rules.

The Board meets at least four times a year with additional meetings arranged when necessary to review the financial performance, material investments and other matters of the Group that require the resolution of the Board.

The Board held four meetings in 2007. The attendance record of individual Directors are set out below:

Name of Director	Number of meetings held during the Director's term of office in 2007	Number of meetings attended
Executive Directors		
Dr. Chang Chu Cheng *(Chairman) (Note)*	1	1
Mr. Ko Chun Shun, Johnson *(Chairman)*	4	4
Mr. Tsoi Tong Hoo, Tony *(Chief Executive Officer)*	4	4
Mr. Ho Te Hwai, Cecil	4	4
Independent Non-executive Directors		
Dr. Lo Wing Yan, William	4	4
Mr. Yuen Kin	4	4
Mr. Hou Ziqiang	4	4

Note: Dr. Chang Chu Cheng retired as Chairman and director of the Company on 11 June 2007.

The Directors have no financial, business, family or other material/relevant relationships with each other except that:

(1) Messrs. Ko Chun Shun, Johnson and Tsoi Tong Hoo, Tony are directors of China WindPower Group Limited (formerly known as Hong Kong Pharmaceutical Holdings Limited) (stock code: 182), a company listed on the Main Board of the Stock Exchange; and

(2) Messrs. Ko Chun Shun, Johnson and Yuen Kin are directors of MAE Holdings Limited (stock code: 851), a company listed on the Main Board of the Stock Exchange.

In the Board's opinion, these relationships do not affect the Directors' independent judgment and integrity in executing their roles and responsibilities.

Chairman and Chief Executive Officer

The roles of the Chairman of the Board, Mr. Ko Chun Shun, Johnson and the Chief Executive Officer, Mr. Tsoi Tong Hoo, Tony are separated, with a clear division of responsibilities. The Chairman of the Board is responsible for formulating corporate strategies and overall business development planning. The Chief Executive Officer's duty is to oversee the execution of daily business activities. The division of responsibilities is to ensure a balance of power and authority.

Nomination of Directors

Since the full Board is involved in the appointment of new Directors, the Company has not established a nomination committee. New Directors are sought mainly through referrals. In evaluating whether an appointee is suitable to act as a Director of the Company, the Board will review the independence, experience and expertise of the appointee as well as personal ethics, integrity and time commitment of the appointee.

The Independent Non-executive Directors have been appointed for a fixed term expiring on 31 December 2008. All Directors are subject to retirement by rotation at least once every three years.

Remuneration Committee

The Remuneration Committee is responsible for setting and monitoring the remuneration policy for all Directors and senior management. The Remuneration Committee comprises Dr. Lo Wing Yan, William (the Committee Chairman), Mr. Hou Ziqiang and Mr. Ko Chun Shun, Johnson.

The Company's remuneration policy is to link remuneration packages for Executive Directors with the achievement of annual and long-term performance goals. By providing competitive and performance-linked compensation, the Company seeks to attract, motivate and retain key executives, which is essential to its long-term success.

The Remuneration Committee held two meetings in 2007, in which the Committee reviewed the Company's remuneration policy and fixed the remuneration packages for key executives.

The attendance record of the Committee members are set out below:

Name of committee member	**Number of meetings held during the committee member's term of office in 2007**	**Number of meetings attended**
Dr. Lo Wing Yan, William *(Chairman)*	2	2
Mr. Hou Ziqiang	2	2
Mr. Ko Chun Shun, Johnson	2	2

Corporate Governance Report

Audit Committee

The Audit Committee comprises three Independent Non-executive Directors: Dr. Lo Wing Yan, William (Chairman of the Audit Committee), Mr. Yuen Kin and Mr. Hou Ziqiang. It 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 final 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 external and internal auditors.

The Audit Committee held two meetings in 2007, in which the Committee reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters so as to ensure that an effective control environment is maintained.

The Audit Committee also made its recommendation to the Board for the reappointment of the external auditors and approved the remuneration and the terms of engagements of the external auditors.

The internal and external auditors have unrestricted access to the Audit Committee, which ensures that their independence remains unimpaired.

The attendance record of the Committee members are set out below:

Name of committee member	Number of meetings held during the committee member's term of office in 2007	Number of meetings attended
Dr. Lo Wing Yan, William *(Chairman)*	2	2
Mr. Yuen Kin	2	2
Mr. Hou Ziqiang	2	2

Auditors' Remuneration

Total auditors' remuneration in relation to statutory audit work of the Group amounted to HK$3,248,000 (2006: HK$2,685,000), of which a sum of HK$2,903,000 (2006:HK$2,324,000) was paid to the Group's principal auditors, KPMG.

Directors' Responsibility for the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable.

The reporting responsibilities of KPMG, the Company's auditors, are set out in the Report of the Independent Auditor on page 32 of this Annual Report.

Internal Control

To maintain sound and effective internal controls to safeguard shareholders' investment and the Company's assets, the Directors conducted a review of the effectiveness of the Company's system of internal control in 2007. The review covered financial, operational and compliance controls and risk management functions. To further strengthen its control system, the Company has established an Internal Audit Department to perform independent evaluations and reporting of the adequacy and effectiveness of the Company's controls, information system and operations.

Business Improvement Team Meeting

Business Improvement Team (BIT) Meeting is held once a month for the discussion about how to improve the Company's business and how to manage operational and business risks. The meetings are chaired by the Chief Executive Officer. In the meetings, department heads review the performance of their corresponding departments, alert the management about operational issues, receive comments on how to improve the performance and report the progress or results of improvement measures initiated in previous BIT meetings. Directors attend these meetings from time to time.

Communication with Shareholders

The Company attaches great importance to communicate with shareholders and a number of means, including regular group meetings and plant tours, to promote greater understanding and dialogue with investment community. The Company holds press conferences to announce its annual and interim results. Key executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

The Group's website www.varitronix.com contains an "investor and media relations" section which offers timely access to the Company's press releases, financial reports and major announcements.

The annual general meeting is an important opportunity for communicating with shareholders. The Company's Chairman, Executive Directors, Chairman of Audit Committee and Independent Non-executive Directors are available at the annual general meeting to answer questions from shareholders.

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

Principal Place of Business

The Company is 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 Group during the financial year are set out in note 26 to the financial statements.

Subsidiaries

Particulars of the Company's subsidiaries at 31 December 2007 are set out in note 13 to the financial statements.

Financial Statements

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 83.

Dividends

An interim dividend of 12.0 cents per share during the year under review was paid on 4 October 2007 (2006: interim dividend of 9.0 cents per share). The directors recommend the payment of a final dividend of 26.0 cents per share for the year ended 31 December 2007 (2006: final dividend of 24.0 cents per share).

Share Capital

Details of the movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK$24,876 (2006: HK$84,237).

Fixed Assets

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

Reserves

Details of movements in reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

Directors

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

Executive Directors:

Mr. Ko Chun Shun, Johnson, *Chairman*
Mr. Tsoi Tong Hoo, Tony
Mr. Ho Te Hwai, Cecil
Dr. Chang Chu Cheng (retired as Chairman and director on 11 June 2007)

Independent Non-executive Directors:

Dr. Lo Wing Yan, William
Mr. Yuen Kin
Mr. Hou Ziqiang

In accordance with the Bye-laws of the Company, Mr. Yuen Kin and Mr. Hou Ziqiang shall retire from office by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Interests or Short Position in Shares, Underlying Shares and Debentures

As at 31 December 2007, the interests of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), as required to be notified to the Company and 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 maintained by the Company under Section 352 of the SFO or as required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Number of shares in the Company held	Approx. % of the issued share capital of the Company
Ko Chun Shun, Johnson	Interest in controlled corporations	47,950,000 (Notes)	14.83

Notes:

(1) Rockstead Technology Limited and Omnicorp Limited, both wholly-owned by Mr. Ko Chun Shun, Johnson held 37,250,000 shares and 10,700,000 shares of the Company respectively.

(2) The above interests represented long positions.

Other than the aforesaid and as disclosed under the section headed "Share Option Schemes and Directors' and Chief Executives' Rights to Acquire Shares or Debentures" below, as at 31 December 2007, none of the directors, chief executives or any of their associates had any interests or short positions 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.

Share Option Schemes and Directors' and Chief Executives' Rights to Acquire Shares or Debentures

The Company had a Share Option Scheme for 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.

Report of the Directors

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 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 Schemes of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue.

The total number of shares available for issue under the Share Option Schemes at 31 December 2007 represents 5.04% (2006: 5.10%) of the issued share capital of the Company at that date. Further details of the Share Option Schemes are set out in note 24 on the financial statements.

Category	Date granted	Number of options at 1 January 2007	Number of options granted during the year	Number of options cancelled during the year	Number of options exercised during the year	Number of options at 31 December 2007	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										
Ko Chun Shun, Johnson	19 December 2005	3,000,000	–	–	–	3,000,000	19 December 2005 to 18 December 2015	HK$5.73	HK$5.65	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	HK$6.55	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	HK$5.65	N/A
Others										
Chang Chu Cheng (Note)	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
Employees	9 June 1999	166,750	–	(26,000)	–	140,750	9 July 1999 to 8 July 2009	HK$10.90	HK$15.00	N/A
	1 June 2000	371,000	–	(53,000)	–	318,000	1 July 2000 to 30 June 2010	HK$11.30	HK$13.40	N/A
	30 August 2001	121,500	–	–	–	121,500	30 August 2001 to 29 August 2011	HK$3.06	HK$3.68	N/A
	13 September 2002	137,000	–	(8,000)	–	129,000	13 September 2002 to 12 September 2012	HK$3.905	HK$3.85	N/A
	6 October 2003	239,500	–	(36,500)	–	203,000	6 October 2003 to 5 October 2013	HK$7.35	HK$7.35	N/A
	20 December 2004	2,166,000	–	(83,000)	–	2,083,000	20 December 2004 to 19 December 2014	HK$7.50	HK$7.50	N/A
		16,501,750	–	(206,500)	–	16,295,250				

Note: Dr. Chang Chu Cheng retired as Director and became Honorary Chairman on 11 June 2007. The 4,300,000 share options held by Dr. Chang were retained until the end of the expiry of the respective exercisable periods of the share option, and reclassified from the category 'Directors' to 'Others'.

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.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2007, other than the interests disclosed under the section headed "Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures" in respect of Mr. Ko Chun Shun, Johnson and Rockstead Technology Limited, so far as is known to the Directors and the chief executives of the Company, the following persons 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 of shareholder	Capacity	Number of shares in the Company held	Approx. % of the issued share capital
Cheah Cheng Hye	Beneficial owner	281,000	0.09
	Founder of a discretionary trust	26,854,974 (Note 1)	8.30
To Hau Yin	Interest of child under 18 or spouse	27,135,974 (Note 1)	8.39
Hang Seng Bank Trustee International Limited	Trustee	26,854,974 (Note 2)	8.30
Cheah Company Limited	Interest in controlled corporation	26,854,974 (Note 2)	8.30
Cheah Capital Management Limited	Interest in controlled corporation	26,854,974 (Note 2)	8.30
Value Partners Group Limited	Interest in controlled corporation	26,854,974 (Note 2)	8.30
Value Partners Limited	Investment manager	26,854,974 (Note 2)	8.30
Allianz SE	Interest in controlled corporation	16,259,000 (Note 3)	5.03
Dresdner Bank Aktiengesellschaft	Interest in controlled corporation	16,259,000 (Note 3)	5.03
Veer Palthe Voute NV	Investment manager	16,259,000 (Note 3)	5.03
OppenheimerFunds, Inc.	Investment manager	29,074,000	8.99
Oppenheimer Developing Markets Fund	Investment manager	22,530,000	6.97

Notes:

1. The share interest of To Hau Yin represents the same block of shares of Cheah Cheng Hye by virtue of interest of a child under 18 or spouse, Cheah Cheng Hye is the founder of The C.H. Cheah Family Trust.

2. These shares represent the same block of shares. Hang Seng Bank Trustee International Limited was deemed to be interested in the shares held by Value Partners Limited, which was 100% owned by Value Partners Group Limited, which was 35.65% owned by Cheah Capital Management Limited, which was 100% owned by Cheah Company Limited, and which was 100% owned by Hang Seng Bank Trustee International Limited.

3. These shares represent the same block of shares. Allianz SE was deemed to be interested in the shares held by Veer Palthe Voute NV which was 100% owned by Dresdner Bank Aktiengesellschaft, which was 81.10% owned by Allianz SE.

4. All the above interests represented long positions.

Report of the Directors

Directors' Service Contracts

Messrs. Ko Chun Shun, Johnson, Tsoi Tong Hoo, Tony and Ho Te Hwai, Cecil 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

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.

Pre-emptive Rights

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

Bank Loans

Particulars of bank loans of the Group at 31 December 2007 are set out in note 21 to the financial statements.

Properties

Particulars of the properties held by the Group are shown on pages 86 and 87 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 84 and 85 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, for the year under review, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

Major Customers and Suppliers

Revenue attributable to the five largest customers of the Group accounted for about 41% of the total income of the Group for the year.

Purchases attributable to the five largest suppliers of the Group accounted for about 45% 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 2007.

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

Ko Chun Shun, Johnson
Chairman

Hong Kong, 9 April 2008

Report of the Independent Auditor

Independent auditor's report to the shareholders of Varitronix International Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Varitronix International Limited (the "Company") set out on pages 33 to 83, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Company Act 1981 and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

9 April 2008

Consolidated Income Statement

for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Turnover	3	2,618,199	1,867,075
Other revenue	4	39,174	48,968
Other net income	4	31,741	29,320
Change in inventories of finished goods and work in progress		54,614	55,394
Raw material and consumables used		(1,847,899)	(1,284,973)
Staff costs		(294,434)	(228,405)
Depreciation		(83,511)	(80,815)
Other operating expenses		(232,631)	(206,565)
Profit from operations		285,253	199,999
Finance costs	5(a)	(3,422)	(3,297)
Share of loss of associate	14	(40)	–
Profit before taxation	5	281,791	196,702
Income tax	8(a)	(27,312)	(33,358)
Profit for the year		**254,479**	**163,344**
Attributable to:			
Equity shareholders of the Company	9/25(a)	260,367	173,228
Minority interests	25(a)	(5,888)	(9,884)
Profit for the year		**254,479**	**163,344**
Dividends payable to equity shareholders of the Company attributable to the year:	10		
Interim dividend declared during the year		38,811	29,108
Final dividend proposed after the balance sheet date		84,090	77,621
		122,901	**106,729**
Earnings per share			
Basic	11(a)	**80.5 cents**	**53.6 cents**
Diluted	11(b)	**80.5 cents**	**53.6 cents**

The notes on pages 40 to 83 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007		2006	
		$'000	$'000	$'000	$'000
Non-current assets					
Fixed assets	12				
– Investment properties			7,777		10,166
– Other property, plant and equipment			385,781		305,984
– Interest in leasehold land held for own use			19,516		19,469
			413,074		335,619
Interest in an associate	14		2,306		–
Loan receivable	15		52,048		–
Other financial assets	16		105,077		73,534
Deferred tax assets	23(b)		3,983		4,957
			576,488		414,110
Current assets					
Trading securities	17	127,269		164,184	
Inventories	18	545,323		337,137	
Trade and other receivables	19	541,126		464,697	
Current taxation recoverable	23(a)	1,794		888	
Cash and cash equivalents	20	544,987		498,688	
		1,760,499		1,465,594	
Current liabilities					
Bank loans	21	149,160		45,144	
Trade and other payables	22	660,151		478,036	
Current taxation payable	23(a)	4,308		14,214	
		813,619		537,394	
Net current assets			946,880		928,200
Total assets less current liabilities			1,523,368		1,342,310
Non-current liabilities					
Deferred tax liabilities	23(b)		195		240
NET ASSETS			**1,523,173**		**1,342,070**

	Note	2007		2006	
		$'000	$'000	$'000	$'000
CAPITAL AND RESERVES					
Share capital	25 (a)		80,856		80,856
Reserves			1,428,622		1,241,598
Total equity attributable to equity shareholders of the Company	25(a)		1,509,478		1,322,454
Minority interests	25(a)		13,695		19,616
TOTAL EQUITY			**1,523,173**		**1,342,070**

Approved and authorised for issue by the board of directors on 9 April 2008

Tsoi Tong Hoo, Tony
Director

Ko Chun Shun, Johnson
Director

The notes on pages 40 to 83 form part of these financial statements.

Balance Sheet

at 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007		2006	
		$'000	$'000	$'000	$'000
Non-current assets					
Interest in subsidiaries	13		930,065		888,290
Current assets					
Trade and other receivables	19	12,482		290	
Cash and cash equivalents	20	733		299	
		13,215		589	
Current liabilities					
Trade and other payables		13,196		10,623	
Net current assets/(liabilities)			19		(10,034)
NET ASSETS			**930,084**		**878,256**
CAPITAL AND RESERVES					
Share capital	25(b)		80,856		80,856
Reserves			849,228		797,400
TOTAL EQUITY	25(b)		**930,084**		**878,256**

Approved and authorised for issue by the board of directors on 9 April 2008

Tsoi Tong Hoo, Tony
Director

Ko Chun Shun, Johnson
Director

The notes on pages 40 to 83 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2007 $'000	2006 $'000	2006 $'000
Total equity at 1 January			1,342,070		1,322,937
Net income for the year recognised directly in equity:					
Changes in fair value of available-for-sale securities	25(a)	3,124		19,772	
Exchange differences on translation of financial statements of overseas subsidiaries	25(a)	13,317		14,497	
Net income for the year recognised directly in equity			16,441		34,269
Transfer from equity:					
Transfer to profit or loss on disposal of available-for-sale securities	25(a)	7,676		(28,909)	
Transfer to profit or loss on reclassification to trading securities	25(a)	21,391	29,067	–	(28,909)
Net profit for the year	25(a)		254,479		163,344
			283,546		134,435
Total recognised income for the year			299,987		168,704
Attributable to:					
Equity shareholders of the Company		305,390		178,270	
Minority interests		(5,403)		(9,566)	
		299,987		**168,704**	
Movements in equity arising from capital transactions:					
Shares issued	25(a)	–		242	
Share premium arising from the issue of shares	25(a)	–		4,516	
Capital contribution by minority interests	25(a)	–		4,973	
Minority interests acquired by the Group	25(a)	(2,452)		(15,390)	
Increase in minority interests upon partial disposal of interest in a subsidiary		–		5,807	
Premium on acquisitions of minority interests		–		(30,321)	
			(2,452)		(30,173)
Dividends declared or approved during the year			(116,432)		(119,398)
Total equity at 31 December			**1,523,173**		**1,342,070**

The notes on pages 40 to 83 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Operating activities			
Profit before taxation		281,791	196,702
Adjustments for:			
– Depreciation		83,511	80,815
– Write back of impairment loss on fixed assets		(7,416)	–
– Impairment loss on available-for-sale securities		–	8,210
– Finance costs		3,422	3,297
– Dividend income from listed equity securities		(258)	(7,526)
– Interest income		(19,156)	(12,149)
– Transfer from equity on disposal of available-for-sale securities		7,676	(28,909)
– Share of loss of associate		40	–
– Discount on redemption of convertible notes		–	(3,740)
– Profit on disposal of fixed assets		(4,342)	(2,276)
– Foreign exchange gain		(10,485)	(1,751)
Operating profit before changes in working capital		334,783	232,673
Decrease in trading securities		72,017	29,081
Increase in inventories		(208,186)	(103,500)
Increase in trade and other receivables		(72,742)	(53,271)
Increase in loan receivable		(52,048)	–
Increase in trade and other payables		182,115	140,811
Cash generated from operations		255,939	245,794
Tax paid			
– Hong Kong Profits Tax paid		(25,207)	(28,101)
– Overseas tax paid		(11,989)	(10,189)
Net cash from operating activities		218,743	207,504

	Note	2007 $'000	2006 $'000
Investing activities			
Proceeds from disposal of fixed assets		7,183	14,754
Payment for purchase of fixed assets		(147,611)	(50,607)
Proceeds from disposal of available-for-sale securities		2,041	136,018
Payment for purchase of available-for-sale securities		(72,519)	(12,665)
Payment for acquisition of additional equity interest in a subsidiary		–	(39,904)
Payment for establishment of associate		(2,346)	–
Proceeds on disposal of subsidiaries	27	29,691	–
Dividends received		258	7,526
Interest received		19,156	12,149
Net cash (used in)/from investing activities		(164,147)	67,271
Financing activities			
New bank loans		263,707	147,520
Repayment of bank loans		(159,691)	(200,925)
Capital contribution by minority interest shareholders		–	4,973
Repayment of convertible notes		–	(26,520)
Interest paid		(3,422)	(3,146)
Proceeds on issue of shares		–	74
Dividends paid		(116,432)	(114,714)
Dividend paid to minority shareholders		–	(6,784)
Net cash used in financing activities		(15,838)	(199,522)
Net increase in cash and cash equivalents		38,758	75,253
Cash and cash equivalents at 1 January		498,688	415,845
Effect of foreign exchange rates changes		7,541	7,590
Cash and cash equivalents at 31 December	20	**544,987**	**498,688**

Note to the consolidated cash flow statement

Major non cash transaction

During the year, available-for-sale securities amounting to $42,059,000 have been transferred to trading securities. The corresponding investment revaluation reserve deficit of $21,391,000 has been recognised in profit or loss.

The notes on pages 40 to 83 form part of these financial statements.

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that available-for-sales securities, trading securities and derivative financial instruments are stated at their fair value as explained in note 1(e) and 1(f).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

(c) Interest in subsidiaries and controlled entities

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In accessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

1 Significant accounting policies (continued)

(c) Interest in subsidiaries and controlled entities (continued)

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)), unless the investment is classified as held for sale, in which case it is stated at the lower of its carrying amount and fair value less costs to sell. An investment in a subsidiary is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the investment is available for sale in its present condition.

(d) Associate

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale, in which case it is stated at the lower of its carrying amount and fair value less costs to sell. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(e) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(i)).

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 1(i)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(g) Investment properties and other property, plant and equipment

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(h)) to earn rental income, or for capital appreciation or for a currently undetermined future use.

Both investment properties and other items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation/amortisation and impairment losses (see note 1(i)).

When the Group holds a property interest held under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance lease. Lease payments are accounted for as described in note 1(h).

Depreciation is calculated to write off the cost of items of investment properties and property, plant and equipment, using the straight line method over their estimated useful lives as follows:

– Investment properties	33 years
– Leasehold land	Over the lease term
– Buildings	40 years
– Plant and machinery	2 to 7 years
– Tools and equipment	2 to 5 years
– Others	2 to 5 years

1 Significant accounting policies (continued)

(g) Investment properties and other property, plant and equipment (continued)

The useful life of an asset is reviewed annually.

Gains or losses arising from the retirement or disposal of an investment property or an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the lease term except where the property is classified as an investment property (see note 1(g)).

1 Significant accounting policies (continued)

(i) Impairment of assets

(i) Impairment of investments in debt and equity securities, derivative financial instruments and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired:

- investment in subsidiaries; and

- investment properties and other property, plant and equipments.

1 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(i)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

1 Significant accounting policies (continued)

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(i)), except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenue arising from the sale of goods is recognised on delivery of goods to customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of returns and any trade discounts.

(ii) Interest income is recognised as it accrues using the effective interest method.

(iii) Income from other securities is recognised when the Group's right to receive such income is established.

1 Significant accounting policies (continued)

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contribution plans and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised in profit or loss as incurred.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(p) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(p)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

1 Significant accounting policies (continued)

(p) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted on substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 Significant accounting policies (continued)

(q) Income tax (continued)

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Research and development

Research and development expenditure is recognised as an expense in the period in which it is incurred.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit or employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses and minority interests.

2 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 28.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 25(e).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 34).

3 Turnover

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.

Turnover represents the invoiced value of goods supplied to customers by the Group less returns and discounts.

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

4 Income

	2007 $'000	2006 $'000
Other revenue		
Dividend income from listed equity securities	258	7,526
Interest income from listed debt securities	963	1,648
Interest income from unlisted debt securities	1,325	287
Interest income from unlisted investment funds	429	852
Other interest income	16,439	9,362
Rental income under operating leases	7,098	429
Commission income	–	5,667
Consultancy fee income	–	17,246
Other income	12,662	5,951
	39,174	**48,968**
Other net income		
Profit on disposal of fixed assets	4,342	2,276
Transfer from equity on disposal of available-for-sale securities	(7,676)	28,909
Realised and unrealised gains/(losses) on trading securities	26,797	(14,508)
Unrealised loss on derivative financial instruments	(2,366)	–
Exchange gain	10,644	17,113
Discount on redemption of convertible notes	–	3,740
Impairment loss on available-for-sale securities	–	(8,210)
	31,741	**29,320**

5 Profit before taxation

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

	2007 $'000	2006 $'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	3,422	3,146
Interest on convertible notes	–	151
	3,422	**3,297**
(b) Other items:		
Cost of inventories	1,983,387	1,394,137
Auditors' remuneration - audit services	3,248	2,685
Write back of impairment loss on fixed assets	(7,416)	–
Research and development costs (note 35)	74,671	58,341
Rental charges under operating leases	8,148	6,256
Contributions to defined contribution retirement plan	5,515	4,472
Other retirement scheme costs	38	522
(c) Impairment losses:		
Trade and other receivables	5,468	3,629

6 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2006

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive Directors					
Dr. Chang Chu Cheng	–	2,054	2,000	13	4,067
Ko Chun Shun, Johnson	–	2,400	1,500	120	4,020
Tsoi Tong Hoo, Tony	–	2,400	4,000	120	6,520
Ho Te Hwai, Cecil	–	240	500	12	752
Non-executive Directors					
Dr. Lo Wing Yan, William	200	–	–	–	200
Yuen Kin	200	–	–	–	200
Hou Ziqiang	200	–	–	–	200
Total	**600**	**7,094**	**8,000**	**265**	**15,959**

Year ended 31 December 2007

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive Directors					
Dr. Chang Chu Cheng*	–	1,027	–	6	1,033
Ko Chun Shun, Johnson	–	2,400	2,000	120	4,520
Tsoi Tong Hoo, Tony	–	3,211	6,000	143	9,354
Ho Te Hwai, Cecil	–	260	700	12	972
Non-executive Directors					
Dr. Lo Wing Yan, William	200	–	–	–	200
Yuen Kin	200	–	–	–	200
Hou Ziqiang	200	–	–	–	200
Total	**600**	**6,898**	**8,700**	**281**	**16,479**

* Dr. Chang Chu Cheng retired as Director and became Honorary Chairman on 11 June 2007. The 4,300,000 share options held by Dr. Chang were retained until the end of the expiry of the respective exercisable periods of the share options.

7 Five highest paid individuals' remuneration

The five highest paid individuals in the Group includes two (2006: three) Directors, whose emoluments are disclosed in note 6, and three (2006: two) others whose emoluments are as follows:

	2007 $'000	2006 $'000
Salaries and allowances	4,757	2,972
Retirement scheme contributions	75	59
	4,832	**3,031**

The emoluments of the three (2006: two) individuals with the highest emoluments are within the following bands:

	2007 Number of individuals	2006 Number of individuals
$1,000,001-$1,500,000	–	1
$1,500,001-$2,000,000	2	1
$2,000,001-$2,500,000	1	–

8 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2007 $'000	2006 $'000
Current tax – Provision for Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	12,927	14,998
Under-provision in respect of prior years	4,108	3,967
	17,035	18,965
Current tax – Overseas		
Tax for the year	9,381	12,039
Over-provision in respect of prior years	(33)	(281)
	9,348	11,758
Deferred tax		
Reversal of temporary differences (note 23(b))	929	2,635
	27,312	**33,358**

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

8 Income tax in the consolidated income statement (continued)

(a) Taxation in the consolidated income statement represents: (continued)

As disclosed in the Group's financial statements for the year ended 31 December 2006, a subsidiary has received from the Hong Kong Inland Revenue Department ("IRD") additional assessments relating to the years of assessment 1994/95 to 2004/05 for taxation totalling $163 million. These additional assessments relate to a dispute over the deductibility of certain sub-contracting charges for tax assessment purposes. The subsidiary formally objected to the additional assessments. After lengthy negotiations, meetings and discussions with the IRD, the subsidiary has reached an agreement with the IRD for settlement of the objection for the years of assessment 1994/95 to 2003/04. Based on the outcome, the directors considered that provisions made for the years of assessment 2004/05 to 2007/08, which we are still subject to agreement by the IRD, are sufficient.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2007 $'000	2006 $'000
Profit before tax	**281,791**	**196,702**
Notional tax on profit before tax calculated at the rates applicable to profits in the countries concerned	32,491	14,493
Tax effect of non-deductible expenses	27,662	25,011
Tax effect of non-taxable revenue	(37,680)	(15,440)
Tax effect of unused tax losses not recognised	764	5,608
Under-provision in prior years	4,075	3,686
Actual tax expense	**27,312**	**33,358**

9 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of $128,963,000 (2006: loss of $1,382,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2007 $'000	2006 $'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	128,963	(1,382)
Dividends from subsidiaries attributable to the profits of subsidiaries of the previous year, approved and paid during the year	39,297	46,992
Company's profit for the year (note 25(b))	**168,260**	**45,610**

10 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2007 $'000	2006 $'000
Interim dividend declared and paid of 12.0 cents (2006: 9.0 cents) per share	38,811	29,108
Final dividend proposed after the balance sheet date of 26.0 cents (2006: 24.0 cents) per share	84,090	77,621
	122,901	**106,729**

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2007 $'000	2006 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 24.0 cents (2006: 28.0 cents) per share	**77,621**	**90,290**

11 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 $260,367,000 (2006: $173,228,000) and the weighted average of 323,422,204 shares (2006: 322,928,481 shares) in issue during the year.

(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 $260,367,000 (2006: $173,228,000) and the weighted average number of shares of 323,608,859 shares (2006: 323,120,103 shares) after adjusting for the effects of all dilutive potential shares.

(c) Weighted average number of shares (diluted)

	2007 Number of shares	2006 Number of Shares
Weighted average number of shares used in calculating basic earnings per share	323,422,204	322,928,481
Effect of deemed issue of shares for no consideration arising from the Company's share option scheme	186,655	191,622
Weighted average number of shares used in calculating diluted earnings per share	**323,608,859**	**323,120,103**

12 Fixed assets

The Group

	Land and buildings held for own use $'000	Plant, machinery, tools and equipment $'000	Others $'000	Sub-total $'000	Investment properties $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost:							
At 1 January 2006	264,691	671,293	234,019	1,170,003	21,296	36,115	1,227,414
Exchange adjustments	6,187	10,911	8,309	25,407	–	793	26,200
Additions	707	29,478	20,422	50,607	–	–	50,607
Disposals	(9,782)	(40,756)	(88,931)	(139,469)	–	–	(139,469)
At 31 December 2006	261,803	670,926	173,819	1,106,548	21,296	36,908	1,164,752
At 1 January 2007	261,803	670,926	173,819	1,106,548	21,296	36,908	1,164,752
Exchange adjustments	7,519	12,610	3,841	23,970	–	1,020	24,990
Additions	–	138,714	8,897	147,611	–	–	147,611
Disposals	–	(24,964)	(13,527)	(38,491)	(4,995)	–	(43,486)
At 31 December 2007	269,322	797,286	173,030	1,239,638	16,301	37,928	1,293,867
Accumulated amortisation and depreciation and impairment losses:							
At 1 January 2006	117,674	517,402	195,525	830,601	10,684	16,482	857,767
Exchange adjustments	2,549	7,389	7,249	17,187	–	355	17,542
Charge for the year	5,100	55,390	19,277	79,767	446	602	80,815
Written back on disposals	(2,931)	(40,179)	(83,881)	(126,991)	–	–	(126,991)
At 31 December 2006	122,392	540,002	138,170	800,564	11,130	17,439	829,133
At 1 January 2007	122,392	540,002	138,170	800,564	11,130	17,439	829,133
Exchange adjustments	2,825	6,406	2,879	12,110	–	412	12,522
Charge for the year	4,752	60,142	17,614	82,508	442	561	83,511
Impairment loss	–	(7,987)	571	(7,416)	–	–	(7,416)
Written back on disposals	–	(24,129)	(9,780)	(33,909)	(3,048)	–	(36,957)
At 31 December 2007	129,969	574,434	149,454	853,857	8,524	18,412	880,793
Net book value:							
At 31 December 2007	**139,353**	**222,852**	**23,576**	**385,781**	**7,777**	**19,516**	**413,074**
At 31 December 2006	**139,411**	**130,924**	**35,649**	**305,984**	**10,166**	**19,469**	**335,619**

(Expressed in Hong Kong dollars unless otherwise indicated)

12 Fixed assets (continued)

The Group (continued)

(a) **Other fixed assets comprise mainly leasehold improvements, furniture, fixtures, office equipment and motor vehicles.**

(b) **The analysis of the net book value of properties is as follows:**

	2007 $'000	2006 $'000
In Hong Kong		
– medium-term leases	75,520	80,279
Outside Hong Kong		
– freehold	579	547
– long-term leases	28,247	26,895
– medium-term leases	53,157	51,883
– no specified lease term	9,143	9,442
	91,126	88,767
	166,646	**169,046**
Representing:		
Land and buildings held for own use	139,353	139,411
Investment properties	7,777	10,166
Interest in leasehold land held for own use under operating leases	19,516	19,469
	166,646	**169,046**

(c) **Investment properties of the Group are stated at cost less accumulated depreciation.**

(d) **Fixed assets leased out under operating leases**

The Group leases out investment properties and certain items of machinery under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date at which time all terms are renegotiated.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property. The fair value of the investment properties as at 31 December 2007, as determined by the directors of the Company by reference to recent market transactions in comparable properties, amounted to $27,219,000 (2006: $20,765,000). Investment properties have not been valued by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2007 $'000	2006 $'000
Within 1 year	16,092	320
After 1 year but within 5 years	–	160
	16,092	**480**

13 Interest in subsidiaries

	The Company	
	2007 $'000	2006 $'000
Unlisted shares, at cost	101,453	101,453
Amounts due from subsidiaries	828,612	786,837
	930,065	**888,290**

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

Details of these subsidiaries are as follows:

Name of Company	Place of incorporation/ operation	Particulars of issued/ registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Ample Bonus Limited	Hong Kong	10,000 ordinary shares of HK$1 each	100%	–	100%	Trading of liquid crystal display
Cadac Electronic (M) Sdn. Bhd.	Malaysia	276,002 ordinary shares of MYR1 each	100%	–	100%	Property investment
* Coway Technology Limited	British Virgin Islands/ Hong Kong	50,000 ordinary shares of US$1 each	100%	–	100%	Investment holding
* In Achieve Investments Limited	British Virgin Islands/ Hong Kong	1,000 ordinary shares of US$1 each	100%	–	100%	Investment holding
* Le Grove Investments Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	–	100%	Investment holding
Link Score Investment Limited	Hong Kong	100 ordinary shares of HK$1 each	100%	–	100%	Property investment and investment holding
* Liven Kingyip (BVI) Limited	British Virgin Islands/ Hong Kong	1,000 ordinary shares of US$1 each	68%	–	68%	Investment holding
* Liven Kingyip Communication Technology Limited	Hong Kong	10,000 ordinary shares of HK$1 each	68%	–	68%	Trading of electronic components
* Mcalpine Management Limited	British Virgin Islands/ United Kingdom	1,000 ordinary shares of US$1 each	100%	–	100%	Investment holding
* Midsino Group Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	–	100%	Investment holding
Polysources Properties Limited	Hong Kong	2 ordinary shares of HK$100 each 154 non-voting deferred shares of HK$100 each	100%	–	100%	Property investment
* Profit Concept Holdings Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	–	100%	Investment holding

(Expressed in Hong Kong dollars unless otherwise indicated)

13 Interest in subsidiaries (continued)

Name of Company	Place of incorporation/ operation	Particulars of issued/ registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
* Quest Industries Limited	British Virgin Islands/ The People's Republic of China	100 ordinary shares of US$1 each	100%	–	100%	Property investment
#* Shenzhen Liven Kingyip Communication Technology Limited	The People's Republic of China	HK$500,000	68%	–	68%	Trading of liquid crystal display
* Smart State Group Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	–	100%	Investment holding
* Starel Trading Limited	Republic of Cyprus/ United Kingdom	1,000 ordinary shares of Cyprus £1 each	100%	–	100%	Property investment
* Sun Yik Group Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	–	100%	Investment holding
* Varintelligent (BVI) Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	100%	–	Holding and licensing of trademarks
Varitronix Limited	Hong Kong	2 ordinary shares of HK$1,000 each 1,848 non-voting deferred shares of HK$1,000 each	100%	–	100%	Design, manufacture and sale of liquid crystal displays and related products
Varitronix Agencies Limited	British Virgin Islands/ Hong Kong	50,000 ordinary shares of US$1 each	100%	–	100%	Dormant
* Varitronix Asia Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	–	100%	Investment holding
* Varitronix (B.V.I.) Limited	British Virgin Islands/ Hong Kong	18,480 ordinary shares of US$1 each	100%	100%	–	Investment holding
* Varitronix (Canada) Limited	Canada	100 ordinary shares of C$1 each	100%	–	100%	Marketing and sales consultants
#* Varitronix Electronics (Shenzhen) Limited	The People's Republic of China	US$2,100,000	100%	–	100%	Manufacture of liquid crystal displays and related products
Varitronix Finance Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US$1 each	100%	–	100%	Provision of financial co-ordination services for group companies and holding of trading securities
Varitronix France SAS	France	2,500 ordinary shares of €15.25 each	100%	–	100%	Marketing and sales consultants

13 Interest in subsidiaries (continued)

Name of Company	Place of incorporation/ operation	Particulars of issued/ registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
* Varitronix GmbH	Germany	100,000 shares of €0.51 each	60%	–	60%	Marketing and sales consultants
#* Varitronix (Heyuan) Co. Ltd.	The People's Republic of China	RMB78,910,000	90.1%	–	90.1%	Manufacture of liquid crystal displays and related products
#* Varitronix (Heyuan) Display Technology Limited	The People's Republic of China	RMB192,919,473	100%	–	100%	Manufacture of liquid crystal displays and related products
Varitronix Investment Limited	British Virgin Islands/ Hong Kong	5,000 ordinary shares of US$1 each	100%	–	100%	Investment holding
* Varitronix Italia s.r.l.	Italy	12,912 ordinary shares of €1 each	100%	–	100%	In liquidation
* Varitronix Italy s.r.l.	Italy	12,000 ordinary shares of €1 each	100%	–	100%	Marketing and sales consultants
* Varitronix LEP Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	–	100%	Property investment
* Varitronix (Macao Commercial Offshore) Limited	Macau	MOP100,000	100%	–	100%	Trading of electronic components
Varitronix (Malaysia) Sdn. Bhd.	Malaysia	38,000,000 ordinary shares of MYR1 each	100%	–	100%	Design, manufacture and sale of liquid crystal displays and related products
* Varitronix Manufacturing (BVI) Limited	British Virgin Islands/ The People's Republic of China	100 ordinary shares of US$1 each	100%	–	100%	Subcontract and operate production plant in The People's Republic of China
* Varitronix Marketing Limited	British Virgin Islands/ United Kingdom	1,000 ordinary shares of US$1 each	100%	–	100%	Investment holding
* Varitronix Marketing (China) Limited	British Virgin Islands/ The People's Republic of China	1 ordinary share of US$1 each	100%	–	100%	Investment holding
* Varitronix OLED Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1 each	100%	–	100%	Investment holding
* Varitronix Optech Limited	Hong Kong	100,000 ordinary shares of HK$1 each	100%	–	100%	Dormant
# Varitronix Pengyuan Electronics Limited	The People's Republic of China	RMB15,000,000	100%	–	100%	Liquid crystal display business

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

13 Interest in subsidiaries (continued)

Name of Company	Place of incorporation/ operation	Particulars of issued/ registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
* Varitronix (Shenzhen) Limited	British Virgin Islands/ The People's Republic of China	1 ordinary share of US$1 each	100%	–	100%	Investment holding
* Varitronix Shenzhen Linkscore Limited	The People's Republic of China	RMB500,000	100%	–	100%	Trading of electronic components
* Varitronix (Singapore) Pte Ltd.	Singapore	200,000 ordinary shares of SGD1 each	100%	–	100%	Research development centre
* Varitronix (Switzerland) GmbH	Switzerland	CHF30,000	100%	–	100%	Marketing and sales consultants
* Varitronix (U.K.) Limited	United Kingdom	100 ordinary shares of GBP10 each	100%	–	100%	Marketing and sales consultants
* VL Electronics, Inc.	United States	5,000 common stock of US$10 each	100%	–	100%	Marketing and sales consultants
Vogue Industries Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US$1 each	100%	100%	–	Investment holding

* *Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total assets and total turnover constituting approximately 27% (2006: 23%) and 11% (2006: 15%) respectively of the related consolidated totals.*

# *Name of company*	*Type of legal entity*
Shenzhen Liven Kingyip Communication Technology Limited	Wholly owned foreign enterprise
Varitronix Electronics (Shenzhen) Limited	Wholly owned foreign enterprise
Varitronix (Heyuan) Co. Ltd.	Sino-foreign co-operative joint venture
Varitronix (Heyuan) Display Technology Limited	Wholly owned foreign enterprise
Varitronix Pengyuan Electronics Limited	Sino-foreign equity joint venture

14 Interest in associate

	The Group	
	2007 $'000	2006 $'000
Share of net assets	804	–
Amount due from associate	1,502	–
	2,306	**–**

(a) Particulars of the associate

Set out below are the particulars of the associate, which is an unlisted corporate entity and principally affected the results or assets of the Group.

Name of associate	Place of incorporation and operation	Particulars of issued/ registered capital	Attributable equity interest % indirect	Principal activity
New On Technology Company Limited	Korea	40,000 ordinary shares of KRW 5,000 each	50%	Trading of electronic components

(b) Summary financial information on associate

	Assets $'000	Liabilities $'000	Equity $'000	Revenues $'000	(Loss) $'000
2007					
100 per cent	3,785	(2,178)	1,607	4,222	(79)
Group's effective interest	1,893	(1,089)	804	2,111	(40)

15 Loan receivable

During the year, a loan of $78,100,000 was advanced in consideration of a long term supply agreement entered into with a supplier of the Group. The loan bears interest at 5% per annum and is repayable within 3 years after 2007. The loan is repayable as follows:

	The Group	
	2007 $'000	2006 $'000
Within 1 year *	26,052	–
After 1 year but within 5 years	52,048	–
	78,100	**–**

* *The current portion of the loan receivable has been included in trade and other receivables.*

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Other non-current financial assets (at market value)

	The Group 2007 $'000	The Group 2006 $'000
Available-for-sale debt securities		
Listed outside Hong Kong	23,260	23,734
Unlisted	23,783	20,785
	47,043	44,519
Available-for-sale equity securities		
Listed		
– in Hong Kong	8,780	29,014
– outside Hong Kong	49,253	–
Unlisted	1	1
	58,034	29,015
Total available-for-sale securities	**105,077**	**73,534**

Movements in available-for-sale securities are as follows:

	2007 $'000	2006 $'000
At 1 January	73,534	185,325
Additions	72,519	12,665
Disposals	(2,041)	(136,018)
Transfer to investment revaluation reserve (note 25(a))	3,124	19,772
Transfer to trading securities	(42,059)	–
Impairment loss	–	(8,210)
Total	**105,077**	**73,534**

17 Trading securities (at market value)

	The Group 2007 $'000	The Group 2006 $'000
Debt securities		
Listed		
– outside Hong Kong	3,809	3,940
Equity securities		
Listed		
– in Hong Kong	123,460	31,638
– outside Hong Kong	–	109,887
	123,460	141,525
Unlisted investment funds	–	18,719
	123,460	160,244
Total	**127,269**	**164,184**

18 Inventories

(a) Inventories in the balance sheet comprise:

	The Group	
	2007 $'000	2006 $'000
Raw materials	321,222	167,650
Work in progress	98,939	60,104
Finished goods	125,162	109,383
	545,323	**337,137**

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2007 $'000	2006 $'000
Carrying amount of inventories sold	1,968,161	1,381,479
Write down of inventories	15,226	12,658
	1,983,387	**1,394,137**

19 Trade and other receivables

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Trade and bills receivables	359,282	364,325	–	–
Less: allowance for doubtful debts	(22,674)	(17,206)	–	–
	336,608	347,119	–	–
Other receivables	145,399	95,779	2	1
	482,007	442,898	2	1
Loan receivable	26,052	–	–	–
	508,059	442,898	2	1
Derivative financial instruments:				
– Derivatives	4,365	–	–	–
Deposits and prepayments	28,702	21,799	12,480	289
	541,126	**464,697**	**12,482**	**290**

All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Trade and other receivables (continued)

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	2006
	$'000	$'000
Within 60 days of the invoice issue date	304,848	278,040
61 to 90 days after the invoice issue date	19,445	47,915
91 to 120 days after the invoice issue date	8,459	9,114
More than 120 days but less than 12 months after the invoice issue date	3,856	12,049
More than 12 months after the invoice issue date	–	1
	336,608	**347,119**

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

(b) Impairment of trade debtors and bills receivables

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1 (i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
At 1 January	17,206	13,577	–	–
Impairment loss recognised	5,468	3,629	–	–
At 31 December	**22,674**	**17,206**	**–**	**–**

At 31 December 2007, the Group's and the Company's trade debtors and bills receivable of $22,801,000(2006: $23,545,000) and nil (2006: nil) respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $21,506,000 (2006: $14,491,000) and nil (2006: nil) respectively were recognised. The Group does not hold any collateral over these balances.

19 Trade and other receivables (continued)

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Within 60 days of the invoice issue date	304,766	274,867	–	–
61 to 90 days after the invoice issue date	19,408	45,395		
91 to 120 days after the invoice issue date	8,451	8,469	–	–
More than 120 days but less than 12 months after the invoice issue date	3,856	12,049	–	–
	31,715	65,913	–	–
	336,481	**340,780**	**–**	**–**

Receivables that were within 60 days of the invoice issue date and not impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were over 60 days of the invoice issue date but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20 Cash and cash equivalents

	The Group		The Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Deposits with banks and other financial institutions	187,508	152,607	–	–
Cash at bank and in hand	357,479	346,081	733	299
Cash and cash equivalents in the balance sheet and consolidated cash flow statement	**544,987**	**498,688**	**733**	**299**

21 Bank loans

Unsecured, interest-bearing bank loans are repayable as follows:

	The Group	
	2007 $'000	2006 $'000
Within 1 year or on demand	**149,160**	**45,144**

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

22 Trade and other payables

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	2006
	$'000	$'000
Within 60 days of supplier invoice date	311,477	275,516
61 to 120 days after supplier invoice date	153,094	36,040
More than 120 days but within 12 months after supplier invoice date	6,495	5,626
More than 12 months after supplier invoice date	1,652	–
	472,718	**317,182**

23 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The Group	
	2007	2006
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	12,927	14,998
Provisional Profits Tax paid	(11,420)	(277)
Balance of Profits Tax recoverable relating to prior years	(194)	(4,537)
Overseas tax	1,201	3,142
	2,514	**13,326**
Current tax recoverable	(1,794)	(888)
Current tax payable	4,308	14,214
	2,514	**13,326**

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation	Provisions	Others	Total
	$'000	$'000	$'000	$'000
At 1 January 2006	1,068	(7,970)	(450)	(7,352)
Charged to profit or loss (note 8(a))	357	2,278	–	2,635
At 31 December 2006	**1,425**	**(5,692)**	**(450)**	**(4,717)**

23 Income tax in the balance sheet (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

The Group (continued)

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows: (continued)

	Depreciation allowances in excess of the related depreciation $'000	Provisions $'000	Others $'000	Total $'000
At 1 January 2007	1,425	(5,692)	(450)	(4,717)
Charged to profit or loss (note 8(a))	479	–	450	929
At 31 December 2007	**1,904**	**(5,692)**	**–**	**(3,788)**

	The Group	
	2007 $'000	2006 $'000
Net deferred tax assets recognised on the balance sheet	(3,983)	(4,957)
Net deferred tax liabilities recognised on the balance sheet	195	240
	(3,788)	**(4,717)**

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $32,273,000 (2006: $39,565,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

24 Equity settled share-based transactions

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. The options under the first Share Option Scheme are exercisable for a period of ten years following the date of grant. A second Share Option Scheme of the Company for the employees of the Group was adopted on 22 June 2001 and terminated on 12 May 2003. The options under the second Share Option Scheme are exercisable for a period of ten years following the date of grant.

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. The directors of the Company are authorised, at their discretion, to invite any employee, director, including executive and non-executive directors, or business associate of any company in the Group, to take up options to subscribe for shares at a price determined by the board and notified to each grantee and which will not be less than the closing price of the shares on the Stock Exchange on the date of offer of the option granted to such grantee or the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option granted to such grantee or the nominal value of the shares, whichever is higher.

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 Equity settled share-based transactions (continued)

The maximum number of shares in respect of which options may be granted under the third Share Option Scheme and any other 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 options under the third Share Option Scheme are exercisable for a period of ten years from the date of grant.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors:			
– 22 July 2005	3,000,000	Immediate from the date of grant	10 years
– 19 December 2005	6,000,000	Immediate from the date of grant	10 years
Options granted to employees:			
– 9 June 1999	140,750	One month from the date of grant	10 years
– 1 June 2000	318,000	One month from the date of grant	10 years
– 30 August 2001	121,500	Immediate from the date of grant	10 years
– 13 September 2002	129,000	Immediate from the date of grant	10 years
– 6 October 2003	203,000	Immediate from the date of grant	10 years
– 20 December 2004	2,083,000	Immediate from the date of grant	10 years
Others:			
– 30 October 2002	1,000,000	Immediate from the date of grant	10 years
– 21 December 2004	300,000	Immediate from the date of grant	10 years
– 19 December 2005	3,000,000	Immediate from the date of grant	10 years

24 Equity settled share-based transactions (continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2007 Weighted average exercise price	2007 Number of options	2006 Weighted average exercise price	2006 Number of options
Outstanding at the beginning of the year	$6.250	16,501,750	$6.445	21,250,250
Forfeited during the year	$8.738	(206,500)	$7.140	(4,726,500)
Exercised during the year	N/A	–	$3.348	(22,000)
Outstanding at the end of the year	**$6.218**	**16,295,250**	**$6.250**	**16,501,750**
Exercisable at the end of the year		**16,295,250**		**16,501,750**

The weighted average share price at the date of exercise of shares options exercised during 2006 was $5.252.

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the option is used as in input into this model.

No new options were granted during 2007 and 2006.

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

25 Capital and reserves

(a) The Group

	Attributable to equity shareholders of the Company									
	Share capital (note c) $'000	Share premium (note d(i)) $'000	Exchange reserve (note d(iii)) $'000	Fair value revaluation reserve (note d(iv)) $'000	Capital reserve (note d(v)) $'000	Other reserves (note d(vi)) $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
2006										
At 1 January 2006	80,614	690,820	(5,358)	(11,568)	13,334	1,982	519,321	1,289,145	33,792	1,322,937
Final dividends approved in respect of the previous year	–	–	–	–	–	–	(90,290)	(90,290)	–	(90,290)
Shares issued under share option scheme	6	68	–	–	–	–	–	74	–	74
Allotment of shares from scrip dividends	236	4,448	–	–	–	–	–	4,684	–	4,684
Available-for-sale securities:										
– changes in fair value	–	–	–	19,772	–	–	–	19,772	–	19,772
– transfer to profit or loss on disposal	–	–	–	(28,909)	–	–	–	(28,909)	–	(28,909)
Capital contribution by minority interest shareholder	–	–	–	–	–	–	–	–	4,973	4,973
Acquisition of minority interests	–	–	–	–	–	(30,321)	–	(30,321)	(15,390)	(45,711)
Increase in minority interests upon partial disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	5,807	5,807
Redemption of convertible notes	–	–	–	–	(1,961)	–	1,961	–	–	–
Profit for the year	–	–	–	–	–	–	173,228	173,228	(9,884)	163,344
Interim dividends declared in respect of the current year	–	–	–	–	–	–	(29,108)	(29,108)	–	(29,108)
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	14,179	–	–	–	–	14,179	318	14,497
At 31 December 2006	**80,856**	**695,336**	**8,821**	**(20,705)**	**11,373**	**(28,339)**	**575,112**	**1,322,454**	**19,616**	**1,342,070**
2007										
At 1 January 2007	80,856	695,336	8,821	(20,705)	11,373	(28,339)	575,112	1,322,454	19,616	1,342,070
Final dividends approved in respect of the previous year	–	–	–	–	–	–	(77,621)	(77,621)	–	(77,621)
Available-for-sale securities:										
– changes in fair value	–	–	–	3,124	–	–	–	3,124	–	3,124
– transfer to profit or loss on disposal	–	–	–	7,676	–	–	–	7,676	–	7,676
Transfer to trading securities	–	–	–	21,391	–	–	–	21,391	–	21,391
Acquisition of minority interests	–	–	–	–	–	(1,934)	–	(1,934)	(518)	(2,452)
Profit for the year	–	–	–	–	–	–	260,367	260,367	(5,888)	254,479
Interim dividends declared in respect of the current year	–	–	–	–	–	–	(38,811)	(38,811)	–	(38,811)
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	12,832	–	–	–	–	12,832	485	13,317
At 31 December 2007	**80,856**	**695,336**	**21,653**	**11,486**	**11,373**	**(30,273)**	**719,047**	**1,509,478**	**13,695**	**1,523,173**

25 Capital and reserves (continued)

(b) The Company

	Share capital (note c) $'000	Share premium (note d(i)) $'000	Contributed surplus (note d(ii)) $'000	Capital reserve (note d(v)) $'000	Retained profits $'000	Total $'000
At 1 January 2006	80,614	690,820	51,636	11,373	112,843	947,286
Final dividends approved in respect of the previous year	–	–	–	–	(90,290)	(90,290)
Shares issues under share option scheme	6	68	–	–	–	74
Allotment of shares from scrip dividends	236	4,448	–	–	–	4,684
Profit for the year	–	–	–	–	45,610	45,610
Interim dividend declared in respect of the current year	–	–	–	–	(29,108)	(29,108)
At 31 December 2006	**80,856**	**695,336**	**51,636**	**11,373**	**39,055**	**878,256**
At 1 January 2007	80,856	695,336	51,636	11,373	39,055	878,256
Final dividends approved in respect of the previous year	–	–	–	–	(77,621)	(77,621)
Profit for the year	–	–	–	–	168,260	168,260
Interim dividend declared in respect of the current year	–	–	–	–	(38,811)	(38,811)
At 31 December 2007	**80,856**	**695,336**	**51,636**	**11,373**	**90,883**	**930,084**

25 Capital and reserves (continued)

(c) Share capital

(i) Authorised and issued share capital

	2007		2006	
	No. of shares '000	Amount $'000	No. of shares '000	Amount $'000
Authorised:				
Ordinary shares of $0.25 each	**400,000**	**100,000**	**400,000**	**100,000**
Issued and fully paid:				
At 1 January	323,422	80,856	322,455	80,614
Shares issued under share option scheme	–	–	22	6
Allotment of shares from scrip dividends	–	–	945	236
At 31 December	**323,422**	**80,856**	**323,422**	**80,856**

(ii) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price HK$	2007 Number	2006 Number
9 July 1999 to 8 July 2009	10.900	140,750	166,750
1 July 2000 to 30 June 2010	11.300	318,000	371,000
30 August 2001 to 29 August 2011	3.060	121,500	121,500
13 September 2002 to 12 September 2012	3.905	129,000	137,000
31 October 2002 to 30 October 2012	4.605	1,000,000	1,000,000
6 October 2003 to 5 October 2013	7.350	203,000	239,500
20 December 2004 to 19 December 2014	7.500	2,083,000	2,166,000
21 December 2004 to 20 December 2014	7.450	300,000	300,000
22 July 2005 to 21 July 2015	6.600	3,000,000	3,000,000
19 December 2005 to 18 December 2015	5.730	9,000,000	9,000,000
		16,295,250	**16,501,750**

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 24 to the financial statements.

(iii) Shares issued under share option scheme

Shares issued under the share option scheme during the previous year were exercised to subscribe for 22,000 ordinary shares in the Company at a consideration of $74,000 of which $6,000 was credited to share capital and the balance of $68,000 was credited to the share premium account.

25 Capital and reserves (continued)

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by sections 150 and 157 of the Company's Articles of Association and the Companies Act 1981 of Bermuda.

(ii) Contributed surplus

The excess value of the shares of the subsidiaries acquired pursuant to the Group reorganisation scheme in 1991 over the nominal value of the new shares of the Company issued in exchange is credited to the contributed surplus account. Under the Companies Act 1981 of Bermuda (as amended) and the Bye-laws of the Company, the contributed surplus is distributable to shareholders. However, the directors have no current intention to distribute this surplus.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(s).

(iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 1(e) and (i).

(v) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(o).

(vi) Other reserves

Other reserves comprise statutory reserves required in respect of the PRC incorporated subsidiaries.

(vii) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to shareholders of the Company was $142,519,000 (2006: $90,691,000).

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

25 Capital and reserves (continued)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the net debt-to-adjusted capital ratio at the lower end of the range 10% to 30%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-adjusted capital ratio at 31 December 2007 and 2006 was as follows:

		The Group		The Company	
	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current liabilities					
Trade and other payables	22	660,151	478,036	13,196	10,623
Bank loans	21	149,160	45,144	–	–
Total debt		809,311	523,180	13,196	10,623
Add: Proposed dividends		84,090	77,621	84,090	77,621
Less: Cash and cash equivalents	20	(544,987)	(498,688)	(733)	(299)
Net debt		**348,414**	**102,113**	**96,553**	**87,945**

25 Capital and reserves (continued)

(e) Capital management (continued)

The net debt-to-adjusted capital ratio at 31 December 2007 and 2006 was as follows: (continued)

	Note	The Group		The Company	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
Total equity		1,523,173	1,342,070	930,084	878,256
Less: Proposed dividends		(84,090)	(77,621)	(84,090)	(77,621)
Adjusted capital		**1,439,083**	**1,264,449**	**845,994**	**800,635**
Net debt-to-adjusted capital ratio		**24%**	**8%**	**11%**	**11%**

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26 Segment reporting

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.

Business segment

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.

Geographical segments

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.

	Hong Kong and PRC		Rest of Asia		Europe		North America		Others		Total	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Revenue from external customers	1,368,112	743,609	317,226	260,653	771,024	703,303	127,755	109,667	34,082	49,843	2,618,199	1,867,075
Segment assets	1,960,060	1,407,648	82,577	158,372	203,492	152,091	85,081	155,748				
Capital expenditure incurred during the year	146,237	49,753	–	5	1,341	812	33	37				

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

	2007 $'000	2006 $'000
France	195,647	176,939
Germany	174,032	156,069
United Kingdom	93,578	118,023
Other European countries	307,767	252,272
	771,024	**703,303**

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.

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

27 Disposal of subsidiaries

During 2007, the Group disposed of all of its interest in subsidiaries satisfied in cash.

	2007
	$'000
Trading securities	3,361
Inventories	39,254
Other assets	5,103
Cash at bank and in hand	2,179
Trade and other payables	(5,430)
Current taxation recoverable	92
	44,559
Less: cash of the subsidiaries disposed of	(2,179)
Cash consideration	42,380
Less: balance not received during year, included in other receivables at year end	(12,689)
Net cash inflow in respect of the disposal of the subsidiaries	**29,691**

28 Financial instruments

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. Customers are generally granted credit terms of 30-90 days. Normally, the Group does not obtain collateral from customers.

Bank deposits and cash at bank are placed with reputable banks.

At the balance sheet date, the Group has a certain concentration of credit risk as 5% (2006: 5%) and 9% (2006: 16%) of the total accounts receivable and other receivables was due from the Group's largest customers and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of accounts receivable and other receivables in the balance sheet.

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as investment of surplus cash, raising of loans and settlement of suppliers' invoices beyond certain limits.

28 Financial instruments (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, if floating, based on rates current at the balance sheet date) and the earliest date that the Group and the Company can be required to pay:

The Group

	2007						2006					
	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000
Bank loans	149,160	(163,605)	(42,836)	(37,748)	(81,042)	(1,979)	45,144	(46,982)	(42,818)	(4,164)	–	–
Trade and other payables	660,151	(660,151)	(657,490)	(2,661)	–	–	478,036	(478,036)	–	–	–	–
	809,311	**(823,756)**	**(700,326)**	**(40,409)**	**(81,042)**	**(1,979)**	**523,180**	**(525,018)**	**(42,818)**	**(4,164)**	**–**	**–**

	2007					2006				
	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000
Derivatives settled gross:										
Forward foreign exchange contracts										
– outflow	(6,573)	(3,912)	(2,661)	–	–	–	–	–	–	–

The Company

	2007						2006					
	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000
Trade and other payables	13,196	(13,196)	(13,196)	–	–	–	10,623	(10,623)	(10,623)	–	–	–

(c) Interest rate risk

Bank deposits and cash, and bank loans are the major types of the Group's financial instruments subject to interest rate risk.

The bank deposits and cash comprise mainly bank deposits with fixed interest rates ranging from 2% to 4.5% (2006: 2% to 4.8%) per annum and the maturity dates of these bank deposits are within 1 year.

The bank loans bear interest at 0.50% per annum over the 7-day HIBOR and are repayable within 1 year. Other details of the bank loans are set out in note 21.

28 Financial instruments (continued)

(d) Currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2007				2006			
	United States Dollars '000	Euros '000	Japanese Yen '000	Renminbi '000	United States Dollars '000	Euros '000	Japanese Yen '000	Renminbi '000
The Group								
Trade and other receivables	31,326	868	–	–	19,642	1,277	–	–
Cash and cash equivalents	34,724	553	3,638	1,196	22,059	3,120	–	–
Trade and other payables	(31,404)	(71)	(557,830)	(18,603)	(14,476)	–	(495,009)	(10,638)
Bank loans	(9,723)	–	(991,016)	–	–	–	(189,624)	–
	24,923	**1,350**	**(1,545,208)**	**(17,407)**	**27,225**	**4,397**	**(684,633)**	**(10,638)**
The Company								
Cash and cash equivalents	**58**	**–**	**–**	**–**	**3**	**–**	**–**	**–**

The following table indicates the approximate change in the Group's profit for the year and other components of consolidated equity in response to reasonable possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

	2007		2006	
	Increase in foreign exchange rate	Effect on profit after tax and retained profits $'000	Increase in foreign exchange rate	Effect on profit after tax and retained profits $'000
The Group				
Euros	10%	1,539	11%	4,969
Japanese Yen	12%	(12,964)	7%	(3,136)
Renminbi	9%	(1,676)	7%	(745)
The Company				
United State Dollars	–	–	–	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

28 Financial instruments (continued)

(d) Currency risk (continued)

It is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit after tax for the year and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

(e) Fair values

No disclosure of fair value is required as all the Group's financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

29 Commitments

(a) Capital commitments representing purchase of property, plant and equipment not provided for in the financial statements were as follows:

	The Group	
	2007 $'000	2006 $'000
Contracted for	**125**	**9,663**

(b) At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases for properties are payable as follows:

	The Group	
	2007 $'000	2006 $'000
Within 1 year	6,746	4,728
After 1 year but within 5 years	9,071	4,351
	15,817	**9,079**

30 Contingent liabilities

Financial guarantees issued

As at the balance sheet date, the Company has issued guarantees to banks in respect of a banking facility granted to certain subsidiaries.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued and the facility drawn down by the subsidiaries was $154,954,000 (2006: $50,692,000).

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

31 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors is disclosed in note 6 and certain of the highest paid employees is disclosed in note 7.

32 Subsequent event

(a) On 15 November 2007, the Company joined the consortium and submitted the Bid Letter to acquire 11% interest in BOE Hydis Technology Co. Ltd ("BOE Hydis"), a company incorporated in Korea. A Memorandum of Understanding has been entered on 21 November 2007 for the acquisition at the bid price of KRW260 billion (approximately $2,194 million) of which the Company's share account to KRW28,600 million, approximately $241 million. The 5% of the bid price has been paid upon receipt of the notification from BOE Hydis that the consortium has been selected as one of the preferred bidders. Another 5% of the bid price has been paid on 27 February 2008 upon execution of agreement ("Definitive Agreement"). The remaining 90% of the bid price is required to be paid within 45 days from the execution of the Definitive Agreement.

(b) During the year, Varitronix Limited entered into sales and purchase agreements for sale of certain of its properties at total consideration of around $98 million. The transactions have been or will be completed in 2008. The estimated gain on disposal of properties is around $29 million.

(c) On 28 August 2007, Varitronix (Malaysia) Sdn. Bhd. entered into a sale and purchase agreement for sale of its land and factory building in Malaysia at a consideration of Ringgit Malaysia 10,750,000 (approximately $25,370,000). According to the agreement, the transaction will be completed upon obtaining the approval from the State Authority of Malaysia.

33 Accounting estimates and judgements

Key sources of estimation uncertainty

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

(a) Impairment of assets

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management evaluates impairment provisions in accordance with the accounting policy set out in note 1(i). A considerable level of judgement is exercised when assessing impairment provisions. Any increase or decrease in the estimated impairment provisions would affect the net profit in the current and future years.

(b) Provision for inventories

The Group reviews the carrying amounts of the inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value as in accordance with accounting policy set out in note 1(l). Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net asset value.

33 Accounting estimates and judgements (continued)

(c) Depreciation

Investment property, other property, plant and equipment are depreciated on a straight line basis over the estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, HKFRS 8, Operating segments, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

35 Comparative figures

The basis used to calculate research and development expenditure as disclosed in note 5(b) has been expanded in 2007, as the directors believe it more accurately reflects costs incurred in research and development. The comparative figure disclosed for 2006 has been adjusted to conform with the current year's basis of calculation.

Five Year Summary

(Expressed in Hong Kong dollars)

	Year ended 31 December				
	2003	2004	2005	2006	2007
	$'000	$'000	$'000	$'000	$'000
Results:					
Turnover	**1,274,788**	**2,006,331**	**1,979,807**	**1,867,075**	**2,618,199**
Profit/(loss) from operations	197,295	249,169	(166,530)	199,999	285,253
Finance costs	(2,913)	(5,245)	(6,785)	(3,297)	(3,422)
Share of losses of associate	(11,706)	–	–	–	(40)
Profit/(loss) before taxation	182,676	243,924	(173,315)	196,702	281,791
Income tax	(14,440)	(28,102)	(31,004)	(33,358)	(27,312)
Profit/(loss) for the year	**168,236**	**215,822**	**(204,319)**	**163,344**	**254,479**
Attributable to:					
Equity shareholders of the Company	151,241	192,712	(178,976)	173,228	260,367
Minority interests	16,995	23,110	(25,343)	(9,884)	(5,888)
Profit/(loss) for the year	**168,236**	**215,822**	**(204,319)**	**163,344**	**254,479**
Assets and liabilities:					
Fixed assets	414,662	412,077	369,647	335,619	413,074
Intangible assets	28,672	27,050	–	–	–
Goodwill	30,022	28,340	–	–	–
Interest in associate	5,289	–	–	–	2,306
Loan receivable	–	–	–	–	52,048
Other financial assets	171,610	60,489	185,325	73,534	105,077
Deferred tax assets	77	1,423	8,725	4,957	3,983
Net current assets	858,043	1,115,559	790,722	928,200	946,880
Total assets less current liabilities	1,508,375	1,644,938	1,354,419	1,342,310	1,523,368
Convertible notes	(31,200)	(31,200)	(30,109)	–	–
Deferred tax liabilities	(10,576)	(6,800)	(1,373)	(240)	(195)
NET ASSETS	**1,466,599**	**1,606,938**	**1,322,937**	**1,342,070**	**1,523,173**

	Year ended 31 December				
	2003	2004	2005	2006	2007
	$'000	$'000	$'000	$'000	$'000
Capital and reserves					
Share capital	77,574	79,059	80,614	80,856	80,856
Reserves	1,349,644	1,471,971	1,208,531	1,241,598	1,428,622
Total equity attributable to equity shareholders of the Company	1,427,218	1,551,030	1,289,145	1,322,454	1,509,478
Minority interests	39,381	55,908	33,792	19,616	13,695
Total equity	**1,466,599**	**1,606,938**	**1,322,937**	**1,342,070**	**1,523,173**
Earnings/(loss) per share (HK cents)					
Basic	49.4	61.7	(56.2)	53.6	80.5
Diluted	49.2	61.3	(56.2)	53.6	80.5

Note to the five year summary

In 2005, the Group adopted a number of new and revised HKFRSs issued by the HKICPA as part of its ongoing programme to align HKFRSs with International Accounting Standards. Under the transitional arrangements, a number of the new standards were adopted prospectively, such as HKAS 32, Financial Instruments: Disclosure and Presentation and HKAS 39, Financial Instruments: Recognition and Measurement whilst Amendments to HKFRS 2, Share-based payments were adopted retrospectively but using applicable transitional provisions. In the above analysis, the figures for 2004 and earlier years have only been restated to the extent that the new accounting policies were adopted retrospectively.

Properties Held by the Group

	Location	Existing use	Percentage holding
1.	Tseung Kwan O Town Lot No. 39 Kowloon.	Warehouse	100%
2.	4th Floor and the attached flat roofs, Liven House, Nos. 61-63 King Yip Street, Kwun Tong, Kowloon.	Office and Warehouse	100%
3.	9th Floor, Liven House, Nos. 61-63 King Yip Street, Kwun Tong, Kowloon.	Office	100%
4.	10th Floor & 11th Floor, Liven House, Nos. 61-63 King Yip Street, Kwun Tong, Kowloon.	Office	100%
5.	Flat G, 22nd Floor, Tower 1, Yue Man Centre, Nos. 300 and 302 Ngau Tau Kok Road, Kwun Tong, Kowloon.	Staff quarters	100%
6.	Flat B, 13th Floor, Tower 1, Yue Man Centre, Nos. 300 and 302 Ngau Tau Kok Road, Kwun Tong, Kowloon.	Staff quarters	100%
7.	Rooms 1004, 10th Floor, Tower B Hunghom Commercial Centre, No. 37 Ma Tau Wai Road, Kowloon.	Leased	100%
8.	Plot 40, Phase 4, Bayan Lepas Free Trade Zone, 11900 Bayan Lepas, Penang, Malaysia.	Vacant	100%

	Location	Existing use	Percentage holding
9.	Sri Penang 6-2, Lega Road, Penang, Malaysia.	Vacant	100%
10.	Dongpu Town, Yuancheng District, Heyuan City, Guangdong, The People's Republic of China.	Industrial	90.1%
11.	Tangliaoxiacun, Xintang, Administrative Region, Dongpu Town, Yuancheng District, Heyuan City, Guangdong, The People's Republic of China.	Industrial	100%
12.	128 Heyuan Road, Yuancheng District Heyuan City, Guangdong, The People's Republic of China.	Industrial	100%
13.	Flat C601-604, 6th Floor, Block 10, Nam Wai Centre, Buket, Baoan County, Guangdong Province, The People's Republic of China.	Staff quarters	100%
14.	Unit 3 Milbanke Court, Milbanke Way, Bracknell, Berkshire, United Kingdom.	Office	100%

Note: The above properties are either freehold, held on long or medium-term leases or have no specified lease term.

Corporate Information

Honorary Chairman
Chang Chu Cheng

Board of Directors
Ko Chun Shun, Johnson *(Chairman)*
Tsoi Tong Hoo, Tony
Ho Te Hwai, Cecil
Lo Wing Yan, William*
Yuen Kin*
Hou Ziqiang*

* *Independent Non-executive Directors*

Company Secretary
Ho Te Hwai, Cecil

Qualified Accountant
Ho Te Hwai, Cecil

Audit Committee
Lo Wing Yan, William *(Chairman)*
Yuen Kin
Hou Ziqiang

Remuneration Committee
Lo Wing Yan, William *(Chairman)*
Hou Ziqiang
Ko Chun Shun, Johnson

Independent Auditors
KPMG
Certified Public Accountants

Solicitors
Baker & McKenzie

Principal Bankers
Hang Seng Bank Limited
HSBC Private Bank (Suisse) S.A.
Standard Chartered Bank (Hong Kong) Limited

Registered Office
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business
9/F., Liven House
61-63 King Yip Street
Kwun Tong, Kowloon
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