

VARITRONIX INTERNATIONAL LIMITED
STOCK CODE 710



FINANCIAL HIGHLIGHTS

HK\$ million	Six months ended 30 June	
	2012	2011
Turnover	1,060	1,076
Profit attributable to shareholders	34	98
Basic earnings per share	10.61	30.38
	HK cents	HK cents
Interim dividend per share	8.0	11.0
	HK cents	HK cents

On behalf of Varitronix International Limited (the "Company") and its subsidiaries ("Varitronix" or the "Group"), I present the Group's results for the six-month period ended 30 June 2012.

During the period under review, turnover of HK\$1,060 million was recorded, representing a 2% decrease from the HK\$1,076 million reported for the same period in 2011. Profit from operations was HK\$35 million, and profit attributable to shareholders was HK\$34 million, down 68% and 65% respectively, as compared to the corresponding period in 2011.

The drop in turnover for the first-half period was attributed to the worsening global economy. Despite significant growth in orders from the PRC and Japanese automotive display customers during the reporting period, the decrease of European orders affected the profit performance of the Group, as these European orders are usually higher in profit margin. Another reason for the decrease in profit is a provision for the decline in value of the Group's investment in Hydis Technologies Co., Ltd. in Korea, a company specializing in the manufacture of TFT panels.

DIVIDENDS

The Board of Directors (the "Board") has recommended an interim dividend of 8.0 HK cents per share (2011: 11.0 HK cents). The payout ratio is equal to 75% (2011: 36%).

BUSINESS REVIEW

Automotive Display Business

For the six months ended 30 June 2012, revenue generated by the automotive display business amounted to HK\$662 million, representing an increase of 8% as compared with the same period last year. The business contributed 63% to the Group's total turnover.

The Group's automotive display business in Europe was adversely affected by the debt crisis in the fourth quarter of 2011. This business showed encouraging signs of recovery at the beginning of 2012 with orders coming back. However, this trend could not be sustained in the second quarter of 2012, and a drop in automotive display turnover in the region followed. Of the automotive display orders received in the period under review, mono-colour displays occupied a large portion, with the remainder being TFT displays.

The South Korean automotive display business remained stable compared to the same period last year. Turnover generated from this area was approximately the same as last year.

Compared to the first half of 2011, automotive display turnover in the PRC demonstrated significant growth. Though PRC economic performance has weakened, it is still a growth market. The Group is pleased to have a strong sales team in the region, which succeeded in increasing our portion in this developing market.

In Japan, the Group managed to accelerate its development of the automotive market, recording satisfactory results for the first half of this year.

Industrial Display Business

The industrial display business generated revenue of HK\$398 million for the six months ended 30 June 2012, down 14% as compared with the corresponding period last year. This business amounted to 37% of total turnover.

The debt crisis broke out successively in a number of European countries and the situation worsened starting from the second quarter of this year. Under such conditions, the industrial display business failed to sustain its growth trend and experienced a notable decrease in sales. Further, we believe that the business recovery at the beginning of this year was due to the need for stock replenishment, and that this positive sign was short-term amid a contracting macroeconomic environment.

The United States is an important industrial display market for the Group. Its performance was stable during the reporting period. In Japan, the Group started to win some industrial display orders. The industrial display sector remains an area with good potential. The Group will further explore opportunities for the industrial display sector in this region.

PROSPECTS

Crippled by the Euro debt crisis, the European market is unlikely to improve significantly in the near term. As a result, sales of automotive and industrial display equipment in the region will be negatively impacted.

In Mainland China, the Group's display products are mainly used on popular high-end cars produced by Sino-foreign joint ventures. Though China's economic performance slipped, the sales of mid to high-end cars are less affected compared with low-cost cars. The Group's automotive display business in Mainland China is expected to see further scope for growth.

Over the past two years, in a bid to consolidate its presence in South Korea, the Group has been focused on improving its product quality and fine-tuning its service model to better meet the requirements of local customers. Internal improvement projects have yielded positive results to bolster customer confidence. In the foreseeable future, this market is expected to experience steady progress.

Following years of development efforts in Japan, the Group has made important progress in the first half of the year and started to supply to key customers in mass volume. The Group will continue to commit resources to Japan and lay a solid foundation by building customer networks in this market with tremendous potential.

CONCLUSION

Due to a significant worsening of market conditions in the second quarter of 2012, export-oriented manufacturers have been affected by slowing sales. In response to the uncertainties surrounding the European and US economies, the Group will take measures to enhance its competitiveness in the near term through (1) stringent cost controls to improve cost effectiveness and production efficiency, (2) continued capital investments to optimize production equipment, and (3) continued efforts to develop markets for new products, such as TFT and touch-panel displays. Initial market response to such new products is positive. Sales and technical staff will pursue continued improvement to better meet customers' demands, with an aim of making a significant profit contribution in the future.

Facing slower business due to the current economic downturn, clients are in risk-averse mode in relation to their downstream suppliers. A common practice now is to confirm an order only when market acceptance is ascertained. Varitronix is no exception and we accept relatively late orders as customers seek to shorten delivery time. Unavoidably, our operating risk will be higher, and we need to be vigilant at all times for sudden changes in the business environment.

Construction work on a new factory is progressing, with new production lines scheduled for full operation in early 2013. The added capacity is expected to help the Group seize more business opportunities while shortening production lead time and hence speeding up cash flows.

ACKNOWLEDGEMENT

I wish to thank our shareholders, business partners and all staff for their long-term support. As always, the Group will remain committed to its business and hopes to make a contribution to the industry.

Ko Chun Shun, Johnson
Chairman

Hong Kong, 15 August 2012

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2012 – unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2012 \$'000	2011 \$'000
Turnover	3	1,059,858	1,076,487
Other operating loss	4	(39,350)	(7,262)
Change in inventories of finished goods and work in progress		(32,572)	9,947
Raw materials and consumables used		(650,482)	(667,451)
Staff costs		(152,905)	(146,486)
Depreciation		(37,213)	(46,730)
Other operating expenses		(112,231)	(107,067)
Profit from operations		35,105	111,438
Finance costs	5(a)	(1,496)	(885)
Share of profits less losses of associates		6,643	5,322
Profit before taxation	5	40,252	115,875
Income tax	6	(5,862)	(17,763)
Profit for the period		34,390	98,112
Attributable to:			
Equity shareholders of the Company		34,390	98,262
Non-controlling interests		-	(150)
Profit for the period		34,390	98,112

	Note	Six months ended 30 June	
		2012 \$'000	2011 \$'000
Dividends	7		
Interim dividend declared during the period		25,936	35,641
Earnings per share (in HK cents)	9		
Basic		10.61	30.38
Diluted		10.53	30.01

The notes on pages 9 to 15 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2012 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June		
	Note	2012 \$'000	2011 \$'000
Profit for the period		34,390	98,112
Other comprehensive income for the period:	8		
Foreign currency translation adjustments: exchange differences on translation of financial statements of operations outside Hong Kong		1,423	10,052
Available-for-sales securities: changes in fair value recognised during the period		634	516
Total comprehensive income for the period		36,447	108,680
Attributable to:			
Equity shareholders of the Company		36,447	108,830
Non-controlling interests		–	(150)
Total comprehensive income for the period		36,447	108,680

The notes on pages 9 to 15 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

 at 30 June 2012 – unaudited
 (Expressed in Hong Kong dollars)

		At 30 June 2012	At 31 December 2011
	Note	\$'000	\$'000
Non-current assets			
Fixed assets	10		
– Property, plant and equipment		271,543	264,723
– Interest in leasehold land held for own use		13,807	14,284
		285,350	279,007
Interest in associates		111,529	107,673
Loans receivable		72,991	71,918
Other financial assets	11	163,953	203,519
Deferred tax assets		237	237
		634,060	662,354
Current assets			
Trading securities		114,162	138,516
Inventories	12	342,488	335,675
Trade and other receivables	13	498,250	437,611
Current tax recoverable		2,335	2,845
Cash and cash equivalents	14	510,416	391,479
		1,467,651	1,306,126
Non-current assets classified as held for sale	19	7,005	–
		1,474,656	1,306,126

		At 30 June 2012	At 31 December 2011
	Note	\$'000	\$'000
Current liabilities			
Bank loans		179,497	153,511
Trade and other payables	15	361,004	363,751
Current tax payable		13,086	12,910
Dividends payable		50,250	–
		603,837	530,172
Net current assets		870,819	775,954
Total assets less current liabilities			
		1,504,879	1,438,308
Non-current liabilities			
Bank loans		80,000	–
Other payables		1,098	2,214
Deferred tax liabilities		155	155
NET ASSETS		1,423,626	1,435,939
CAPITAL AND RESERVES			
Share capital		81,049	81,036
Reserves		1,342,333	1,354,659
Total equity attributable to equity shareholders of the Company		1,423,382	1,435,695
Non-controlling interests		244	244
TOTAL EQUITY		1,423,626	1,435,939

The notes on pages 9 to 15 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2012 – unaudited

(Expressed in Hong Kong dollars)

	Attributable to shareholders of the Company								Non-controlling interests \$'000	Total equity \$'000
	Share capital \$'000	Share premium \$'000	Exchange reserve \$'000	Fair value reserve \$'000	Capital reserve \$'000	Other reserves \$'000	Retained profits \$'000	Total \$'000		
Balance at 1 January 2011	80,856	695,336	50,096	14,665	13,916	(32,665)	525,875	1,348,079	8,498	1,356,577
Changes in equity for 2011:										
Profit for the period	-	-	-	-	-	-	98,262	98,262	(150)	98,112
Other comprehensive income	-	-	10,052	516	-	-	-	10,568	-	10,568
Total comprehensive income	-	-	10,052	516	-	-	98,262	108,830	(150)	108,680
Equity settled share-based transactions	-	-	-	-	2,410	-	-	2,410	-	2,410
Dividends approved in respect of the previous year	-	-	-	-	-	-	(67,920)	(67,920)	-	(67,920)
Balance at 30 June 2011	80,856	695,336	60,148	15,181	16,326	(32,665)	556,217	1,391,399	8,348	1,399,747

	Attributable to shareholders of the Company								Non-controlling interests \$'000	Total equity \$'000
	Share capital \$'000	Share premium \$'000	Exchange reserve \$'000	Fair value reserve \$'000	Capital reserve \$'000	Other reserves \$'000	Retained profits \$'000	Total \$'000		
Balance at 1 January 2012	81,036	697,582	65,263	8,868	17,030	(2,345)	568,261	1,435,695	244	1,435,939
Changes in equity for 2012:										
Profit for the period	-	-	-	-	-	-	34,390	34,390	-	34,390
Other comprehensive income	-	-	1,423	634	-	-	-	2,057	-	2,057
Total comprehensive income	-	-	1,423	634	-	-	34,390	36,447	-	36,447
Issue of shares upon exercise of share options	13	157	-	-	(45)	-	-	125	-	125
Equity settled share-based transactions	-	-	-	-	1,365	-	-	1,365	-	1,365
Dividends approved in respect of the previous year	-	-	-	-	-	-	(50,250)	(50,250)	-	(50,250)
Balance at 30 June 2012	81,049	697,739	66,686	9,502	18,350	(2,345)	552,401	1,423,382	244	1,423,626

The notes on pages 9 to 15 form part of this interim financial report.

**CONDENSED CONSOLIDATED
CASH FLOW STATEMENT**

for the six months ended 30 June 2012 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2012	2011
	\$'000	\$'000
Operating activities		
Cash generated from operations	49,582	25,654
Tax paid		
– Hong Kong Profits Tax paid	(2,640)	(8,747)
– Tax paid outside Hong Kong	(2,536)	(4,847)
Net cash generated from operating activities	44,406	12,060
Net cash used in investing activities	(31,467)	(41,744)
Net cash generated from/(used in) financing activities	106,934	(52,633)
Net increase/(decrease) in cash and cash equivalents	119,873	(82,317)
Effect of foreign exchange rate changes	(936)	4,515
Cash and cash equivalents at 1 January	391,479	431,331
Cash and cash equivalents at 30 June	510,416	353,529

The notes on pages 9 to 15 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars otherwise indicated)

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 15 August 2012.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements of the Company, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This interim financial report is unaudited, but has been reviewed by the auditor of the Company, KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the board of directors is included on page 16.

The financial information relating to the financial year ended 31 December 2011 that is included in this interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 March 2012.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets* are relevant to the Group's financial statements.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars otherwise indicated)

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Amendments to HKFRS 7 Financial instruments: Disclosures

The amendments to HKFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

3. TURNOVER AND SEGMENT REPORTING

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

(a) Operating segment results

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

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

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

(b) Geographic information

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

3. TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Geographic information (continued)

(i) Group's revenue from external customers

	Six months ended 30 June	
	2012 \$'000	2011 \$'000
Europe	413,422	455,035
Hong Kong and the PRC (place of domicile)	312,839	257,450
America	147,382	138,531
Korea	122,838	157,124
Others	63,377	68,347
Consolidated turnover	1,059,858	1,076,487

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

	Six months ended 30 June	
	2012 \$'000	2011 \$'000
France	102,304	113,839
Germany	54,485	82,923
United Kingdom	40,516	29,197
Italy	33,148	36,351
Other European countries	182,969	192,725
	413,422	455,035

(ii) Group's specified non-current assets

	At 30 June	At 31 December
	2012 \$'000	2011 \$'000
Hong Kong and the PRC (place of domicile)	281,876	275,649
Germany	107,791	103,935
Korea	3,738	3,738
Others	3,474	3,358
	396,879	386,680

4. OTHER OPERATING LOSS

	Six months ended 30 June	
	2012 \$'000	2011 \$'000
Dividend income from listed equity securities	198	441
Interest income from listed debt securities	932	2,820
Interest income from unlisted debt securities	1,350	1,392
Other interest income	699	732
Net (loss)/gain on disposal of fixed assets	(325)	67
Impairment loss on other non-current financial assets (Note 11)	(40,000)	-
Net realised and unrealised losses on trading securities	(9,698)	(19,956)
Exchange gain, net	3,703	5,991
Other income	3,791	1,251
	(39,350)	(7,262)

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2012 \$'000	2011 \$'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	1,496	885
(b) Other item		
Cost of inventories	830,496	792,831

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars otherwise indicated)

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2012 \$'000	2011 \$'000
Current tax – Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the period	4,851	7,405
Over-provision in respect of prior years	(4,488)	(3)
	363	7,402
Current tax – Outside Hong Kong		
Provision for the period	5,296	10,361
Under-provision in respect of previous year	203	–
	5,499	10,361
	5,862	17,763

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2011: 16.5%) to the six months ended 30 June 2012. Taxation for subsidiaries outside Hong Kong is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant tax jurisdictions.

7. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the period

	Six months ended 30 June	
	2012 \$'000	2011 \$'000
Interim dividend declared of 8.0 HK cents (2011: 11.0 HK cents) per share	25,936	35,641

8. OTHER COMPREHENSIVE INCOME

There are no tax effects in respect of the components of other comprehensive income.

9. 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 \$34,390,000 (2011: \$98,262,000) and the weighted average number of shares of 324,171,578 shares (2011: 323,422,204 shares) in issue during the period, calculated as follows:

Weighted average number of ordinary shares (basic)

	Six months ended 30 June	
	2012	2011
Issued ordinary shares at 1 January	324,145,204	323,422,204
Effect of share options exercised	26,374	–
Weighted average number of ordinary shares (basic) at 30 June	324,171,578	323,422,204

9. EARNINGS PER SHARE (CONTINUED)

(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 \$34,390,000 (2011: \$98,262,000) and the weighted average number of shares of 326,503,286 shares (2011: 327,478,217 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2012	2011
Weighted average number of ordinary shares at 30 June	324,171,578	323,422,204
Effect of deemed issue of shares under the Company's share option schemes for nil consideration	2,331,708	4,056,013
Weighted average number of ordinary shares (diluted) at 30 June	326,503,286	327,478,217

10. FIXED ASSETS

During the six months ended 30 June 2012, the Group acquired items of fixed assets with a cost of \$52,765,000 (six months ended 30 June 2011: \$11,692,000). Items of fixed assets with a net book value of \$537,000 were disposed of during the six months ended 30 June 2012 (six months ended 30 June 2011: \$5,000). Items of fixed assets with a net book value of \$7,005,000 were reclassified into non-current assets classified as held for sale during the six months ended 30 June 2012 (six months ended 30 June 2011: Nil). Further details are set out in note 19.

11. IMPAIRMENT LOSS ON OTHER NON-CURRENT FINANCIAL ASSETS

Included in other non-current financial assets is a 10.42% equity interest (the "Investment") in an unlisted entity (the "Investee") held by the Group. The Investment is classified as available-for-sale equity securities and was carried at cost of \$154,979,000. At the end of each reporting period, the Investment is reviewed to determine whether there is objective evidence of impairment. When preparing this interim financial report for the six months ended 30 June 2012, the Directors of the Company (the "Directors") became aware that the Investee incurred operating losses and failed to meet the business forecast for the period as a result of the adverse operating environment surrounding the Investee. The Directors considered that the existence of the above condition indicated that the Investment may be impaired. In view of this, the Directors has engaged a professional appraiser to estimate the future cash flows based on the revised business plan of the Investee, discounted at the current market rate of return for a similar financial asset (the "Estimated Future Cash Flows"). After comparing the carrying amount of the Investment and the Estimated Future Cash Flows of \$114,979,000, the Directors determined that it is appropriate to recognise an impairment loss of \$40,000,000 against the Investment at 30 June 2012. The impairment on other non-current financial assets carried at cost is not reversed.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars otherwise indicated)

12. INVENTORIES

During the six months ended 30 June 2012, there was nil (six months ended 30 June 2011: nil) inventory write-down recognised in the profit or loss. As a result of an increase in the estimated net realisable value of certain LCDs due to a change in customer preference, there was a reversal of write-down of inventories amounting to \$10,713,000 (six months ended 30 June 2011: \$14,160,000) which was recognised as a reduction in the cost of inventories in profit or loss for the six months ended 30 June 2012.

13. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts of \$1,959,000 (31 December 2011: \$1,885,000)) with the following ageing analysis as of the end of the reporting period:

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Within 60 days of the invoice issue date	332,206	294,504
61 to 90 days after the invoice issue date	78,686	70,090
91 to 120 days after the invoice issue date	30,718	27,981
More than 120 days but less than 12 months after the invoice issue date	27,880	16,298
	469,490	408,873

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

14. CASH AND CASH EQUIVALENTS

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Cash at bank and in hand	431,942	141,424
Deposits with banks and other financial institutions	78,474	250,055
Cash and cash equivalents in the consolidated statement of financial position and the condensed consolidated cash flow statement	510,416	391,479

15. TRADE AND OTHER PAYABLES

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

	At 30 June 2012 \$'000	At 31 December 2011 \$'000
Within 60 days of supplier invoice date	263,053	243,212
61 to 120 days after supplier invoice date	41,704	49,425
More than 120 days but within 12 months after supplier invoice date	3,103	3,161
More than 12 months after supplier invoice date	571	282
	308,431	296,080

16. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related party:

	Six months ended 30 June	
	2012	2011
	\$'000	\$'000
Sales of goods to Data Modul AG (Note)	31,403	39,684

Note:

Recurring transactions

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

17. COMMITMENTS

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

	At 30	At 31
	June	December
	2012	2011
	\$'000	\$'000
Contracted for	50,684	9,793
Authorised but not contracted for	287,236	354,000
	337,920	363,793

18. CONTINGENT LIABILITIES

Financial guarantees issued

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

As at the end of the reporting period, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued and the facilities drawn down by the subsidiaries is \$259,497,000 (31 December 2011: \$153,511,000).

19. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During the six months ended 30 June 2012, the Group entered into provisional sale and purchase agreements with independent third parties to sell certain buildings held for own use at an aggregate consideration of \$93,000,000. The transaction is expected to be completed by 30 November 2012. Further details are set out in the Company's announcement dated 15 June 2012. Accordingly, the Group reclassified such buildings with an aggregate carrying amount of \$7,005,000 to non-current assets held for sale at 30 June 2012.

Review report to the Board of Directors of Varitronix International Limited

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 4 to 15 which comprises the consolidated statement of financial position of Varitronix International Limited (the "Company") as of 30 June 2012 and the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

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

15 August 2012

INTERIM DIVIDEND

The Board has recommended declaring an interim dividend of 8.0 HK cents (2011: 11.0 HK cents) per share for the six months ended 30 June 2012. The interim dividend will be payable on or around Thursday, 4 October 2012 to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 21 September 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 September 2012 to Friday, 21 September 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the aforementioned interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 14 September 2012.

STAFF

As at 30 June 2012, the Group employed 4,738 staff around the world, of whom 179 were in Hong Kong, 4,519 in the People's Republic of China (the "PRC") and 40 were in overseas. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group operates an employee share option scheme and provides rent-free quarters to certain of its employees in Hong Kong and the PRC.

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the total equity of the Group was HK\$1,424 million (31 December 2011: HK\$1,436 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 2.44 as at 30 June 2012 (31 December 2011: 2.46).

At the period end, the Group held a liquid portfolio of HK\$649 million (31 December 2011: HK\$553 million) of which HK\$510 million (31 December 2011: HK\$391 million) was in cash and cash equivalents and HK\$139 million (31 December 2011: HK\$162 million) in securities. The unsecured interest-bearing bank loans amounted to HK\$259 million (31 December 2011: HK\$154 million). The gearing ratio (bank loans over net assets) was approximately 18% (31 December 2011: 11%).

FOREIGN CURRENCY EXPOSURE

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

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

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

As at 30 June 2012, the interests and shorts positions of the Directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(a) Interests in shares of the Company

Name of Director	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
Ko Chun Shun, Johnson	Interest in controlled corporations	48,579,000 (Notes)	14.98

Notes:

- (1) Rockstead Technology Limited and Omnicorp Limited, both wholly-owned by Mr. Ko Chun Shun, Johnson held 37,879,000 shares and 10,700,000 shares of the Company respectively.
- (2) The above interests represented long positions.

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

(b) Interests in share options of the Company

Name of Director	Date of grant	Number of share options at 1 January 2012	Number of share options granted during the period	Number of share options at 30 June 2012	Exercisable period	Exercise price per share option
Ko Chun Shun, Johnson	19 December 2005	3,000,000	–	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73
	24 June 2010	1,900,000	–	1,900,000	(Note 1)	HK\$2.50
Tsoi Tong Hoo, Tony	22 July 2005	3,000,000	–	3,000,000	22 July 2005 to 21 July 2015	HK\$6.60
	24 June 2010	1,900,000	–	1,900,000	(Note 1)	HK\$2.50
Yuen Kin	24 June 2010	800,000	–	800,000	(Note 1)	HK\$2.50
Ho Te Hwai, Cecil	19 December 2005	3,000,000	–	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73
	24 June 2010	1,200,000	–	1,200,000	(Note 1)	HK\$2.50
Lo Wing Yan, William	24 June 2010	400,000	–	400,000	(Note 1)	HK\$2.50
Chau Shing Yim, David	24 June 2010	400,000	–	400,000	(Note 1)	HK\$2.50
Hou Ziqiang	24 June 2010	400,000	–	400,000	(Note 1)	HK\$2.50

Notes:

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

Saved as disclosed above, as at 30 June 2012, none of the Directors, chief executives or any of their associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Saved as disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the six months ended 30 June 2012 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their spouses or children under the age of 18 to acquire benefits by the means of the acquisition of the shares in or debentures of the Company or any other body corporate.

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

As at 30 June 2012, other than the interests disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above in respect of Mr. Ko Chun Shun, Johnson and Rockstead Technology Limited, so far as is known to the Directors and chief executives of the Company, the following company had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
FMR LLC	Interest in controlled corporation	19,000,000 (Note)	5.86
Hof Hoorneman Bankiers N.V.	Interest in controlled corporation	16,437,415 (Note)	5.07

Note: The above interests represented long positions.

Saved as disclosed above, as at 30 June 2012, there were no other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Section 336 of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

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

A third share option scheme of the Company was adopted on 12 May 2003 as an incentive to the Participates. This scheme shall be valid and effective for a period of ten years ending on 11 May 2013, after which no further share options will be granted. The Company can grant share options to the Participants for a consideration of HK\$1.0 for each grant payable by the Participants. The maximum number of shares in respect of which share options may be granted under the third share option scheme and any other schemes of the Company may not exceed 10% of the issued share capital of the Company at the date of approval of the third share option scheme. The maximum entitlement of each Participant in the total number of shares issued and to be issued upon exercise of share options granted under the 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 third share option scheme limit was subsequently refreshed by a resolution passed at the annual general meeting held on 2 June 2010. The maximum number of share options that can be granted by the Company was refreshed to 32,342,220 share options.

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

As at the date of this report, the total number of share options that can be granted was 20,905,720, representing 6.45% of the issued share capital of the Company. The total number of shares available for issue under the share option schemes as at 30 June 2012 represents 8.01% (2011: 8.35%) of the issued share capital of the Company at that date.

SHARE OPTION SCHEMES (CONTINUED)

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

Date of grant	Number of share options at 1 January 2012	Number of share options granted during the period	Number of share options cancelled/lapsed during the period	Number of share options exercised during the period	Number of share options at 30 June 2012	Exercisable period	Exercise price per share option
Directors							
22 July 2005	3,000,000	-	-	-	3,000,000	22 July 2005 to 21 July 2015	HK\$6.60
19 December 2005	6,000,000	-	-	-	6,000,000	19 December 2005 to 18 December 2015	HK\$5.73
24 June 2010	7,000,000	-	-	-	7,000,000	(Note 1)	HK\$2.50
Employees (Note 2)							
30 August 2001	0	-	-	-	0	30 August 2001 to 29 August 2011	HK\$3.06
13 September 2002	14,000	-	-	-	14,000	13 September 2002 to 12 September 2012	HK\$3.905
6 October 2003	83,500	-	-	-	83,500	6 October 2003 to 5 October 2013	HK\$7.35
20 December 2004	197,000	-	-	-	197,000	20 December 2004 to 19 December 2014	HK\$7.50
24 June 2010	3,810,000	-	-	(50,000)	3,760,000	(Note 1)	HK\$2.50
Others (Note 2)							
30 August 2001	0	-	-	-	0	30 August 2001 to 29 August 2011	HK\$3.06
13 September 2002	85,000	-	-	-	85,000	13 September 2002 to 12 September 2012	HK\$3.905
30 October 2002	1,000,000	-	-	-	1,000,000	31 October 2002 to 30 October 2012	HK\$4.605
6 October 2003	42,500	-	-	-	42,500	6 October 2003 to 5 October 2013	HK\$7.35
20 December 2004	1,500,000	-	-	-	1,500,000	20 December 2004 to 19 December 2014	HK\$7.50
21 December 2004	300,000	-	-	-	300,000	21 December 2004 to 20 December 2014	HK\$7.45
19 December 2005	3,000,000	-	-	-	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73
	26,032,000	-	-	(50,000)	25,982,000		

SHARE OPTION SCHEMES (CONTINUED)

Notes:

1. Exercisable period:
 - (i) the first 20% of the share options shall be exercisable from 1 July 2011 to 30 June 2016;
 - (ii) the second 20% of the share options shall be exercisable from 1 July 2012 to 30 June 2016;
 - (iii) the third 20% of the share options shall be exercisable from 1 July 2013 to 30 June 2016;
 - (iv) the fourth 20% of the share options shall be exercisable from 1 July 2014 to 30 June 2016; and
 - (v) the remaining 20% of the share options shall be exercisable from 1 July 2015 to 30 June 2016.
2. Dr. Chang Chu Cheng ("Dr. Chang") retired as Director and become 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, and reclassified from the category "Directors" to "Others".
An Employee became the financial advisor of the Company with effect from 9 April 2008. The 1,627,500 share options held by the financial advisor were retained until the end of the expiry of the respective exercisable periods of the share options, and reclassified from the category "Employees" to "Others".
3. The consideration for the share options granted was HK\$1.0.
4. The above interests represented long positions.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2012.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 of the Listing Rules throughout the period ended 30 June 2012.

All other information on the CGP Code has been disclosed in the corporate governance report contained in the 2011 annual report of the Company issued in March 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the period under review.

AUDIT COMMITTEE

As at the date of this report, the Audit Committee of the Company comprises the three Independent Non-executive Directors, Dr. Lo Wing Yan, William J.P. (Chairman of the Audit Committee), Mr. Chau Shing Yim, David and Mr. Hou Ziqiang. It has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the interim results for the six months ended 30 June 2012 of the Company now reported on.

The interim financial report for the six months ended 30 June 2012 have been reviewed by the Company auditors, KPMG, Certified Public Accountants, in accordance with Hong Kong Standard on Review Engagements 2410 “Review on Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company is responsible for setting and monitoring the remuneration policy for all Directors and senior management. It is headed by Dr. Lo Wing Yan, William J.P., an Independent Non-executive Director of the Company. The other members of the Remuneration Committee are Mr. Hou Ziqiang, an Independent Non-executive Director of the Company, and Mr. Ko Chun Shun, Johnson, an Executive Director of the Company.

DIRECTORS

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