



BUSINESS REVIEW

Review of operations

2004 was a year marked with achievements for Varitronix. The Group recorded significant growth in business and advanced in aspects including market diversification, boosting our product portfolio, shipment of new products and R&D.

For the year ended 31 December 2004, the Group's turnover surged 57% to HK\$2,006 million, compared with HK\$1,275 million in 2003. Profit attributable to shareholders reached HK\$193 million, representing an increase of 28% from HK\$151 million last year, while basic earnings per share were HK62 cents (2003: HK49 cents). We also maintained a sound financial position with liquid portfolio of HK\$820 million as at 31 December 2004.

The Group accomplished a diversified revenue mix during the year under review. On top of achieving robust sales growth in telecommunication products in the PRC, we also recorded satisfactory growth in the consumer, industrial and automotive sectors, enabling us to maintain a balanced portfolio and geographically diversified.

The Hong Kong and PRC market performed exceptionally well. Turnover from it grew a significant 123% to HK\$941 million, surpassing Europe to become our largest market, accounting for 47% of our total turnover. It was mainly the strong demand for LCD displays in handsets in the PRC market fuelled the growth. Led by Korea, a fast-growing market for personal digital entertainment products, the rest of the Asian market also expanded and contributed 15% of our total turnover. Europe, which accounted for 32% of the Group total turnover, remained as our major market for automotive and industrial products which have higher margins. North America accounted for the remaining 4%.

In terms of product segments, we are pleased to report a remarkable growth in the telecommunication sector. Recently, with the price gap between CSTN-LCD and TFT-LCD narrowing, the latter has been gaining popularity in the market. And the Group shipped substantial amounts of TFT-LCD for handsets during the year. Our TFT-LCD assembly business also contributed to our growth in revenue.

At our persistent investment in the automotive sector, we secured solid businesses from clients who sell international renowned automotive brands and established a strong foothold in Europe. Our quality products not only meet the strict requirements on safety and reliability of this industry, but also won for us the TS 16949 accreditation, facilitating our further expansion of this business sector and also the introduction of automotive products to the Asian market. Additionally, also performed well, our industrial/consumer sector recorded double digit growth during the year. We have been focusing our efforts on expanding this sector by tailoring LCD products to meet specific customer requirements, thus has been able to enjoy higher profit margins. Our display solutions are well received by our Korean customers, adding to the growth momentum of the industrial/consumer sector.

The Group continues to expand its technology roadmap. Our effort in R&D assured our ability to deliver high quality LCD display colour solution to clients. During the year, we continued to develop innovative LCD products, such as micro-displays, zenithal bistable cholesteric displays, flexible displays and full colour OLED, enriching our product offerings and consolidating our leading position in the industry.

During the year, the average utilization rate of our production facilities remained high. Armed with the finest equipment and machinery, our Heyuan production complex has been running smoothly since it commenced operation in late 2003. Benefiting from economies of scale, the Group has improved operation yields and efficiency, and maintained gratifying profit margins.



PROSPECTS

Looking ahead to 2005, we believe it will be another prosperous year for the LCD industry. All our different business sectors, especially telecommunications and industrial/consumer, are registering good order flows. We will further strengthen our geographical diversification. Hong Kong and the PRC will continue to be our most substantial market where we see immense growth potential yet to be exploited, followed by Europe and other Asian markets. We will also strive to further penetrate the Korean market, where demands for personal digital entertainment systems and automotive products are booming.

The telecommunications market continues to be a growth driver. With colour displays fast replacing monochrome ones, we will expand product portfolio to include more colour solutions featuring different viewing sizes and features, etc. This will allow us to capture the most market opportunities while providing customers with comprehensive choices that meet their diverse requirements. In addition, we are confident that the narrowing cost differential between CSTN-LCD and TFT-LCD will translate into a robust increase in the sales of our TFT-LCD display.

Adhering to our established technology roadmap, we will continue our commitment to the research and development of next generation display solutions – “Zero Power” displays and micro-displays. We are also stepping up the development of full colour OLED and are keeping our eyes on the right opportunities to invest in other OLED manufacturers in Asia. Such investments will not only allow us to quickly enhance our access to and reach in the OLED market, but will also ensure we have the all-round capabilities to provide multiple solutions to fulfill different technology attributes.

Based on the current order situation and barring unforeseen circumstances, the Group expects to continue delivering encouraging performances in the coming year.

Last but not least, we are delighted to have Mr. Tony Tsoi Tong Hoo join us as our Chief Executive Officer. We believe with Mr. Tsoi's management and finance experience and insights, the Group will have greater success yet in exploring new areas for expansion and further developing our LCD and OLED businesses, and hence be able to deliver better returns to our shareholders.

Finally, on behalf of the directors, I would like to thank our staff for their dedication and efforts in the past year. I would also like to thank our customers, suppliers and shareholders for their continuous support.

Dr C. C. Chang
Chairman

Hong Kong, 18 April 2005



USB pen drive with BCD —
by courtesy of Carry Computer Eng. Co., Ltd.



ISTN Display