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VARITRONIX

VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

2013 FINAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

Highlights

HK\$ million	2013	2012
Turnover	2,604	2,222
EBITDA ¹	459	269
Profit attributable to shareholders	243	171
Cash balance	555	464
Basic earnings per share	74.7 HK cents	52.7 HK cents
Total dividend per share	50.0 HK cents	28.0 HK cents

¹ EBITDA means profit for the year plus the following to the extent deducted in calculating such profit for the year: finance costs, income tax, depreciation, impairment loss on non-listed available-for-sale equity securities, loss on disposal of non-listed available-for-sale equity securities and associated loans receivable and net gain on disposal of fixed assets.

On behalf of Varitronix International Limited (the "Company") and its subsidiaries ("Varitronix" or the "Group"), I present the Group's results for the year ended 31 December 2013.

During the year under review, turnover of HK\$2,604 million was recorded, representing an increase of 17% as compared to HK\$2,222 million in 2012. EBITDA¹ was HK\$459 million, the highest level in the Group's 35 years of history and also 71% higher than the HK\$269 million recorded for the previous year. Profit attributable to shareholders was HK\$243 million, compared to HK\$171 million in 2012, there was an increase of 42%. Gross profit margin for the year increased to 26% from 21% in 2012.

The Group was able to achieve satisfactory results in 2013. New production lines started operation in phases during the second half of 2013. Though difficulties and challenges arose during the ramp-up period, the Group managed to increase capacity for receiving more orders in the second half of the period under review, which brought about a positive impact on sales performance. During the year under review, the depreciation of the Japanese yen lowered the cost of certain raw materials. These factors, together with improved production efficiency and design of high value products, contributed to an improved gross profit margin.

As at 31 December 2013, the cash balance of the Group was HK\$555 million, compared to HK\$464 million at the end of 2012. The Group's gearing ratio, being total bank loans over net assets, was 17% as at 31 December 2013.

On 31 December 2013, the Company completed a transaction to sell its entire equity interest in Hydis Technologies Co., Ltd. ("Hydis") and the debt securities issued by Hydis to a wholly owned subsidiary of the majority shareholder of Hydis (the "Buyer") for a consideration of HK\$99.2 million. HK\$21.7 million of the consideration was paid in January 2014 and the remaining HK\$77.5 million is payable by the Buyer in five equal annual instalments starting from 1 July 2014 with a corporate guarantee issued by the ultimate holding company of the Buyer in favour of the Company.

Dividends

The Board of Directors (the "Board") has recommended a final dividend of 38.0 HK cents per share (2012: 20.0 HK cents). Together with the interim dividend of 12.0 HK cents (2012: 8.0 HK cents), the total dividend for 2013 amounted to 50.0 HK cents per share (2012: 28.0 HK cents), representing a dividend payout ratio of 67%, higher than the payout ratio of 53% in 2012. This year's level of dividend payment reflects the strength of our cash flow position.

Business Review

Automotive Display Business

For the year under review, the automotive display business generated revenue of HK\$1,819 million, an increase of 30% over that of 2012. The automotive display business represented 70% of the Group's total turnover.

Europe is still the largest contributor to the automotive display business. Although the economic situation has not yet been restored to past levels, the automotive manufacturing industry in Europe developed steadily in 2013. This was especially obvious in Germany. The country plays an important role in the automotive industry, with strong sales of mid to high end automobiles recorded, while in Southern Europe, mid to low end cars are more popular. Automotive display sales performance in Southern Europe continued to languish. Apart from monochrome display orders, the Thin Film Transistor (TFT) display business grew remarkably in the region. Most TFT orders were from Europe.

China is considered to be the market with the strongest growth momentum for the Group's automotive display business. It has recorded remarkable growth in the past few years. Most of the Group's customers are joint venture car manufacturers, which are characterised by stable unit price and order quantity. Recently, Chinese customers have tended to order higher value products from the Group, which has led to a notable growth in revenue. As the business in China has reached a certain scale, we will not expect the same dramatic growth as before. Instead, a sustaining growth pattern will be formed.

Our automotive display business in South Korea was back on a rising track in 2013. As the Group has endeavoured to improve product quality and customer service, we have successfully won more orders from existing customers. New automotive customers were also added during the year under review. Thus, the customer base was successfully diversified in South Korea, which led to a more balanced business development.

In Japan, sales for the automotive display business continued to grow and recorded a notable increase. Since its first mass production project was received, the Group has

gone through a period of collaboration with Japanese customers over the years, and has built up rapport and trust. We believe the contribution from the Japanese market will become more visible in future years.

Industrial Display Business

Turnover from the industrial display business was HK\$785 million. This business contributed 30% of the total turnover of the Group. Turnover of the industrial display business for the first half of 2013 decreased 16% as compared with the corresponding period in 2012. In the second half of 2013, sales performance improved rapidly and the total turnover for the whole of 2013 approximately corresponded to that of 2012.

The industrial display business can be seen as a barometer of the economy in Europe. As the economic situation in Europe became more stable in the second half of 2013, and the sovereign debt problem in some European countries was contained, orders from industrial customers increased accordingly. This is attributed to the quick response of our sales team. They grasped the business opportunities that arose in the favourable environment, and contributed to the sales growth in the second half of the year.

For the year under review, effort was made to reposition the business in the US to develop more high value product business. This has affected the growth of sales revenue for the time being. The industrial customer base of the US is broad, covering the industrial and medical sectors. It is expected our advantage in the US market will be further solidified after the repositioning exercise, and we will gain greater strength to expand the scope of business.

Prospects

Operating Strategy

The automotive industry plays a pivotal role in the economies of developed and developing countries. Both Europe and the US have experienced an economic downturn over the last couple of years, but their automotive industries have remained strong amid the economic uncertainties. Not only an economic contributor, the automotive industry can also be seen as an important driver of economic recovery. In the US for example, with economic data indicating a positive trend towards recovery, General Motors and Ford have recently posted stellar results, showing growth in both sales and profits. As the debt crisis in Europe gradually recedes, the automotive market is expected to grow even more strongly. The main business of Varitronix – the automotive display business – will continue to grow in line with the increasingly buoyant market. Varitronix saw considerable growth in the production ratio of high value display products last year. Given the excellent prospects for the automotive industry, we see upward potential for profit margins driven by our high value products that are expected to become more popular with customers in the future.

In the sale of automotive display products, we have observed that the automotive industries in emerging markets such as China, India and Brazil are rich in potential. With strong domestic demand in those economies, the prospects are excellent for the automotive industries there. Varitronix will take these countries as our target markets to increase sales and thus drive growth in turnover.

Industrial display products are another pillar of our business, characterised by the diversity of our industrial customers and our longstanding and stable relationships with them. We experienced an encouraging improvement in the growth rate of our industrial display products business in the second half of 2013, and we expect the favourable conditions to continue into 2014. Our sales team will work hard to initiate new projects,

with the aim of achieving growth in 2014.

Following a period of development, a number of TFT projects went into production in 2013. New projects will be launched in 2014 and beyond, bringing meaningful contributions to Varitronix. Given the growing demand in the automotive and industrial markets for TFT products, we expect the TFT business to account for a growing share of our revenue in the future.

With increasingly wider applications, touch panel displays are considered the Group's product segment with promising growth potential. There has also been an increase in the number of enquiries about touch panel display products from automotive and industrial customers. Varitronix will promote new touch panel applications with existing customers, while actively expanding the customer base for these products.

Market Development

Europe remains an important market for Varitronix, especially for the automotive display business, with growth prospects expected to be quite stable. With the slowly recovering economies of Europe, car makers will step up their efforts in overseas expansion. We expect continued growth in the sales of automotive display and TFT products in Europe. Manpower deployment has also been reinforced in the Group's European sales teams in anticipation of more orders.

The potential for growth in China will remain, and we expect steady expansion in the automotive display business. The Group's sales targets are still mid to high end automotive customers, and we will also step up efforts in marketing higher value products to these customers.

In Asia, and in South Korea in particular, Varitronix will adopt a steadfast defensive strategy. Learning from past experience, we will focus more on quality control and also maintain close communications with our customers to safeguard our hard-won customer base. In Japan, Varitronix sees 2014 as a key period for progress. We have already set up offices there, with the requisite manpower deployment, contact networks and customer base, and 2014 will be ripe for winning a substantial number of orders.

In the US market, industrial customers are still the main focus of our growth strategy, and we expect more marketing opportunities. After a round of repositioning in 2013, turnover is set to rebound in 2014. The US automotive industry is already showing positive prospects with the stabilising economy. Varitronix will prudently assess the opportunities in the US automotive industry, with the aim of developing the automotive display business, which has great potential in that market.

Growth Strategy

Our two new production lines have added to the Group's production capacity. There is still room for the application of monochrome display products. With regard to higher value products, Varitronix will continue to invest in equipment to enhance efficiency and performance, and support higher production capacity. These investments will improve our internal systems, customising them for designing and producing high value products, thereby increasing the share of these products in our product mix.

In the process of developing the automotive display business over the past few years, Varitronix has acquired a technological edge in design, production, quality control systems and after-sales service. All facets of our operation are geared towards meeting the stringent requirements of automotive parts. Based on our longstanding relationship with our automotive customers, we may go into developing other automotive parts apart

from display products. We will consider capitalising on the growth potential in this area through organic growth or acquisitions.

Acknowledgements

In 2013, Varitronix added further strength to its solid foundation for growth, thanks to the tremendous efforts of all of our colleagues. We look forward to an even stronger growth in 2014. Drawing on our strengths and traditions over the past 35 years, Varitronix will continue to be mobilised and agile, moving ahead with the times.

I would like to express my gratitude to all shareholders, customers, suppliers and business partners for supporting Varitronix over the years and contributing to the Group's healthy development. In appreciation of your support, we will remain committed to moving our business forward to achieve even greater success in the future.

Ko Chun Shun, Johnson

Chairman

Hong Kong, 20 March 2014

Consolidated statement of profit or loss
For the year ended 31 December 2013

	<i>Note</i>	2013 HK\$'000	<i>2012</i> HK\$'000
Turnover	3	2,604,172	2,222,380
Other operating (loss)/income	4	(18,456)	33,492
Change in inventories of finished goods and work in progress		102,023	(6,855)
Raw materials and consumables used		(1,654,315)	(1,416,377)
Staff costs		(384,707)	(332,940)
Depreciation		(83,698)	(86,528)
Other operating expenses		(252,790)	(229,642)
Profit from operations		312,229	183,530
Finance costs	5(a)	(2,446)	(2,096)
Share of profits less losses of associates		4,767	9,341
Profit before taxation	5	314,550	190,775
Income tax	6	(71,400)	(19,940)
Profit for the year		243,150	170,835
Attributable to:			
Equity shareholders of the Company		243,150	170,835
Non-controlling interests		-	-
Profit for the year		243,150	170,835
Dividends	7		
Interim dividend declared and paid during the year		39,171	25,936
Final dividend proposed after the end of the reporting period		124,140	65,143
		163,311	91,079
Earnings per share (in HK cents)	8		
Basic		74.7 cents	52.7 cents
Diluted		73.5 cents	52.4 cents

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2013

	<i>2013</i> HK\$'000	<i>2012</i> HK\$'000
Profit for the year	243,150	170,835
Other comprehensive income for the year (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustments: net movement in the exchange reserve	32,344	11,128
Available-for-sale securities: net movement in the fair value reserve	938	5,000
Other comprehensive income for the year	33,282	16,128
Total comprehensive income for the year	276,432	186,963
Attributable to:		
Equity shareholders of the Company	276,432	186,963
Non-controlling interests	-	-
Total comprehensive income for the year	276,432	186,963

Consolidated statement of financial position

At 31 December 2013

	<i>Note</i>	2013 HK\$'000	2012 HK\$'000
Non-current assets			
Fixed assets			
— Property, plant and equipment		553,095	504,459
— Interest in leasehold land held for own use under operating leases		13,350	13,667
		566,445	518,126
Interest in associates		114,247	113,917
Loans receivable	9	62,000	82,848
Other financial assets	9	29,878	131,719
Deferred tax assets		725	479
		773,295	847,089
Current assets			
Trading securities		141,032	107,578
Inventories		464,292	367,450
Trade and other receivables	10	657,022	527,444
Other financial assets		41,600	-
Current tax recoverable		3,506	1,650
Cash and cash equivalents		555,148	464,178
		1,862,600	1,468,300
Current liabilities			
Trade and other payables	11	548,020	437,405
Bank loans		243,086	188,217
Current tax payable		51,919	8,745
		843,025	634,367
Net current assets		1,019,575	833,933
Total assets less current liabilities		1,792,870	1,681,022
Non-current liabilities			
Other payables		-	1,116
Bank loans		59,147	129,304
Deferred tax liabilities		5,539	1,534
NET ASSETS		1,728,184	1,549,068
CAPITAL AND RESERVES			
Share capital		81,621	81,049
Reserves		1,646,319	1,467,775
Total equity attributable to equity shareholders of the Company		1,727,940	1,548,824
Non-controlling interests		244	244
TOTAL EQUITY		1,728,184	1,549,068

Notes:

1. Basis of preparation

The final results set out in this announcement do not constitute the consolidated financial statements of the Group for the year ended 31 December 2013 but are extracted therefrom.

The Group's 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. The 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 (the "Listing Rules").

The accounting policies used in the preparation of the financial statements are consistent with those used in the financial statements for the year ended 31 December 2012.

2. Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, Presentation of financial statements — Presentation of items of other comprehensive income
- HKFRS 10, Consolidated financial statements
- HKFRS 12, Disclosure of interests in other entities
- HKFRS 13, Fair value measurement
- Amendments to HKFRS 7 — Disclosures — Offsetting financial assets and financial liabilities

Amendments to HKAS 1, Presentation of financial statements — Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly.

In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, Financial instruments: Presentation and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

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

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 and related products.

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues in 2013 (2012: Nil). In 2013 revenues from sales to this customer in terms of sales amount, including sales to entities which are known to the Group to be under common control with such customer, amounted to approximately HK\$265,913,000 (2012: HK\$188,681,000).

(a) Operating segment

The Group manages its business as a single unit and, accordingly, the design, manufacture and sale of liquid crystal displays and related products is the only reporting segment and virtually all of the turnover and operating profits is derived from this business segment. The financial information 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 the financial information. Other information, being the total assets excluding deferred tax assets, 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) Geographical 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.

(i) Group's revenue from external customers

	<i>2013</i> HK\$'000	<i>2012</i> HK\$'000
Hong Kong and the People's Republic of China ("PRC") (place of domicile)	913,846	674,728
Europe	947,475	857,730
America	304,436	290,195
Korea	242,894	256,442
Others	195,521	143,285
	1,690,326	1,547,652
Consolidated turnover	2,604,172	2,222,380

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

	<i>2013</i>	<i>2012</i>
	HK\$'000	HK\$'000
France	194,698	192,451
United Kingdom	112,053	91,375
Germany	93,048	116,795
Italy	67,492	73,212
Other European countries	480,184	383,897
	947,475	857,730

(ii) Group's specified non-current assets

	<i>2013</i>	<i>2012</i>
	HK\$'000	HK\$'000
Hong Kong and the PRC (place of domicile)	563,183	514,910
Germany	109,048	109,481
Korea	5,199	4,436
Others	3,262	3,216
	680,692	632,043

4. Other operating (loss)/income

	<i>2013</i>	<i>2012</i>
	HK\$'000	HK\$'000
Dividend income from listed equity securities	2,924	1,165
Interest income from listed debt securities	2,295	1,880
Interest income from non-listed debt securities	2,727	7,343
Other interest income	931	1,361
Net gain on disposal of fixed assets (note (a))	64	87,820
Impairment loss on non-listed available-for-sale equity securities (note 9(a))	(40,700)	(77,000)
Loss on disposal of non-listed available-for-sale equity securities and associated loans receivable (note 9(b))	(17,770)	-
Net realised and unrealised gain/(losses) on trading securities	2,246	(9,184)
Net exchange gain	11,447	18,678
Government grants	9,165	-
Other income	8,215	1,429
	(18,456)	33,492

(a) Net gain on disposal of fixed assets

During the year ended 31 December 2012, the Group disposed of certain properties to independent third parties at a consideration of HK\$95,356,000 which resulted in a net gain of HK\$86,918,000 included in net gain on disposal of fixed assets.

5. Profit before taxation

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

	2013 HK\$'000	2012 HK\$'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	4,725	5,694
Less: interest expense capitalised into construction in progress*	<u>(2,279)</u>	<u>(3,598)</u>
	<u>2,446</u>	<u>2,096</u>

* The borrowing costs have been capitalised at a rate of 1.30 - 1.73% (2012: 1.49 - 1.58%) per annum.

(b) Impairment losses recognised/(written-back)

Trade and other receivables in respect of:		
– allowance for doubtful debts	-	590
– allowance for sales returns provision	<u>1,042</u>	<u>(92)</u>

(c) Other items

Cost of inventories	1,916,528	1,751,141
Auditors' remuneration:		
– audit services fees	3,390	3,220
– non-audit services fees	300	300
Research and development costs	186,890	164,739
Operating lease charges: minimum lease payments		
– hire of assets (including property rentals)	6,283	3,036
Contributions to defined contribution retirement plans	21,558	17,652
Equity-settled share-based payment expenses	<u>1,273</u>	<u>2,227</u>

6. Income tax in the consolidated statement of profit or loss

Taxation in the consolidated statement of profit or loss represents:

	<i>2013</i>	<i>2012</i>
	HK\$'000	HK\$'000
Current tax - Hong Kong Profits Tax		
Provision for the year	44,546	7,113
Over-provision in respect of prior years	(264)	(5,263)
	44,282	1,850
Current tax - the PRC income taxes		
Provision for the year	21,541	10,477
Over-provision in respect of prior years	(3,394)	(1,656)
	18,147	8,821
Current tax - Jurisdictions outside Hong Kong and the PRC		
Provision for the year	6,327	8,135
Over-provision in respect of prior years	(1,115)	(3)
	5,212	8,132
Deferred tax		
Origination and reversal of temporary differences	3,759	1,137
	71,400	19,940

The provision for Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year. Taxation for subsidiaries with operations outside Hong Kong and the PRC is charged at the appropriate current rates of taxation ruling in the relevant countries.

7. Dividends

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

	<i>2013</i>	<i>2012</i>
	HK\$'000	HK\$'000
Interim dividend declared and paid of 12.0 HK cents (2012: 8.0 HK cents) per share	39,171	25,936
Final dividend proposed after the end of reporting period of 38.0 HK cents (2012: 20.0 HK cents) per share	124,140	65,143
	163,311	91,079

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	<i>2013</i> HK\$'000	<i>2012</i> HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 20.0 HK cents (2012: 15.5 HK cents) per share	65,143	50,250

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of HK\$243,150,000 (2012: HK\$170,835,000) and the weighted average number of shares of 325,607,204 shares (2012: 324,183,560 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	<i>2013</i> Number of shares	<i>2012</i> Number of shares
Issued ordinary shares at 1 January	324,195,204	324,145,204
Effect of share options exercised	1,412,000	38,356
Weighted average number of ordinary shares at 31 December	325,607,204	324,183,560

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of HK\$243,150,000 (2012: HK\$170,835,000) and the weighted average number of shares of 330,912,087 shares (2012: 325,748,687 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	<i>2013</i> Number of shares	<i>2012</i> Number of shares
Weighted average number of ordinary shares at 31 December	325,607,204	324,183,560
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	5,304,883	1,565,127
Weighted average number of ordinary shares (diluted) at 31 December	330,912,087	325,748,687

9. Investment in non-listed available-for-sale equity securities and associated loans receivable

(a) Impairment loss on investment in equity in Hydys

During the year ended 31 December 2012, the Directors became aware that Hydys Technologies Co., Ltd. (“Hydis”) incurred operating loss which indicated a failure to meet the business forecast for the period. The Directors considered that there was an adverse operating environment against Hydys which indicated that the investment might be impaired. The Company engaged an external professional appraiser to estimate the future cash flows based on a revised business plan of Hydys, discounted at the prevailing market rate of return for similar financial assets (the “Estimated Future Cash Flows”). After comparing the carrying amount of the equity investment in Hydys of HK\$154,979,000 and the Estimated Future Cash Flows at 31 December 2012, the Company recognised an impairment loss of HK\$77,000,000.

During the six-month ended 30 June 2013, the Company reassessed the Estimated Future Cash Flows at 30 June 2013 and recognised an additional impairment loss of HK\$40,700,000.

(b) Disposal of investments in Hydys

On 31 December 2013, the Company completed a transaction to sell its entire equity interest in Hydys and the debt securities issued by Hydys to a wholly owned subsidiary of the majority shareholder of Hydys (the “Buyer”) for a consideration of US\$12,800,000 (equivalent to HK\$99,200,000). US\$2,800,000 (equivalent to HK\$21,700,000) of the consideration is payable in January 2014 and the remaining US\$10,000,000 (equivalent to HK\$77,500,000) is payable by the Buyer in 5 equal annual instalments starting from 1 July 2014 with a corporate guarantee issued by the ultimate holding company of the Buyer in favour of the Company. Further details in relation to this transaction are set out in the Company’s joint announcements with Alco Holdings Limited dated 13 September 2013 and 31 October 2013.

The Company initially recognised the consideration receivable at present value discounted at the prevailing market rate of return for similar financial assets and recorded a loss on disposal of HK\$17,770,000 after comparing the consideration and the carrying amounts of the investments in Hydys. The consideration receivable is included in “Loans receivable”.

10. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	<i>2013</i>	<i>2012</i>
	HK\$'000	HK\$'000
Within 60 days of the invoice issue date	397,379	348,397
61 to 90 days after the invoice issue date	115,501	75,333
91 to 120 days after the invoice issue date	58,260	27,836
More than 120 days but less than 12 months after the invoice issue date	15,822	13,128
	586,962	464,694

Trade debtors and bills receivable are generally due within 60 to 90 days from the date of billing.

11. 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:

	<i>2013</i>	<i>2012</i>
	HK\$'000	HK\$'000
Within 60 days of supplier invoice date	351,786	254,039
61 to 120 days after supplier invoice date	92,484	63,079
More than 120 days but within 12 months after supplier invoice date	6,920	3,630
More than 12 months after supplier invoice date	1,106	323
	452,296	321,071

12. Capital commitments

Capital commitments outstanding at the end of the reporting period not provided for in the financial information were as follows:

	<i>2013</i>	<i>2012</i>
	HK\$'000	HK\$'000
Contracted for	31,331	87,506
Authorised but not contracted for	27,948	5,639
	59,279	93,145

13. Contingent liabilities

Financial guarantees issued

As at the end of the reporting period, the Company has issued guarantees to banks in respect of 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 HK\$302,233,000 (2012: HK\$317,521,000).

The Company has not recognised any deferred income in respect of the guarantees as their fair value cannot be reliably measured using observable market data.

DIVIDEND

The Board has recommended declaring a final dividend of 38.0 HK cents (2012: 20.0 HK cents) per share as compared to interim dividend of 12.0 HK cents (2012: 8.0 HK cents) per share representing a total of 50.0 HK cents (2012: 28.0 HK cents) per share for the year ended 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 27 May 2014 to Tuesday, 3 June 2014 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming AGM (the “2014 AGM”), 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 (“Computershare”), of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Monday, 26 May 2014.

Subject to the shareholders approving the recommended final dividend at the 2014 AGM of the Company, such dividend will be payable on or around Wednesday, 9 July 2014 to shareholders whose names appear on the register of members of the Company on Friday, 13 June 2014. To determine eligibility for the final dividend, the register of members of the Company will be closed from Monday, 9 June 2014 to Friday, 13 June 2014 (both days inclusive), during which period no shares can be registered. In order to qualify for the aforementioned final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with Computershare, of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Friday, 6 June 2014.

OTHERS

Staff

As at 31 December 2013, the Group employed 4,861 staff around the world, of whom 173 were in Hong Kong, 4,647 in the People’s Republic of China (“PRC”) and 41 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 31 December 2013, the total equity of the Group was HK\$1,728 million (2012: HK\$1,549 million). The Group’s current ratio, being the proportion of total current assets against total current liabilities, was 2.21 as at 31 December 2013 (2012: 2.31).

At the year end, the Group held a liquid portfolio of HK\$768 million (2012: HK\$601 million) of which HK\$555 million (2012: HK\$464 million) was in cash and cash equivalents and HK\$213 million (2012: HK\$137 million) in securities. The unsecured interest-bearing bank loans amounted to HK\$302 million (2012: HK\$318 million). The gearing ratio (bank loans over net assets) was 17% (2012: 20%).

The Group’s inventory turnover ratio for the year was 4.6 times (2012: 5.0 times). Debtor turnover days for the year was 82 days (2012: 76 days).

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 United State Dollars, Euros, Japanese Yen, Renminbi and Korean Won.

The Group does 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.

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 year ended 31 December 2013.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2013.

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.

AUDIT COMMITTEE

The Audit Committee of the Company (the "AC") comprises 3 Independent Non-executive Directors: Dr. Lo Wing Yan, William (Chairman of the AC), Mr. Chau Shing Yim, David and Mr. Hou Ziqiang. The AC 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 annual results of the Group prior to recommending them to the Board for approval.

The AC 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 final results for the year ended 31 December 2013 of the Company now reported on.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company (the "RC") is responsible for setting and monitoring the remuneration policy for all Directors and senior management of the Group. The RC comprises Dr. Lo Wing Yan, William (Chairman of the RC), Mr. Hou Ziqiang and Mr. Ko Chun Shun, Johnson. Among the 3 members of the RC, 2 members are Independent Non-executive Directors.

NOMINATION COMMITTEE

The Nomination Committee of the Company (the “NC”) comprises Dr. Lo Wing Yan, William (Chairman of the NC), Mr. Hou Ziqiang and Mr. Ko Chun Shun, Johnson. Among the 3 members of the NC, 2 members are Independent Non-executive Directors.

The roles and functions of the NC include reviewing the structure, size and composition of the Board at least annually, making recommendations on any proposed changes to the Board to complement the Company’s corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the Independent Non-executive Directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for the Directors, in particular the Chairman of the Board and the Chief Executive Officer.

SCOPE OF WORK OF KPMG

The figures in respect of the preliminary announcement of the Group’s results for the year ended 31 December 2013 have been compared by the Company’s auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group’s financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in respect of this announcement was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditor on this announcement.

By order of the Board
Varitronix International Limited
Ko Chun Shun, Johnson
Chairman

Hong Kong, 20 March 2014

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