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VARITRONIX

VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

2014 FINAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

Highlights

HK\$ million	2014	2013
Turnover	2,613	2,604
EBITDA ¹	395	459
Profit attributable to shareholders	250	243
Cash and fixed deposits balance	575	555
Basic earnings per share	76.5 HK cents	74.7 HK cents
Total dividend per share	42.0 HK cents	50.0 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 and loss on disposal of non-listed available-for-sale equity securities and associated loans receivable.

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 2014.

During the year under review, turnover of HK\$2,613 million was recorded, similar to the HK\$2,604 million recorded in 2013. EBITDA¹ was HK\$395 million, 14% lower than the HK\$459 million recorded for the previous year. Profit attributable to shareholders was HK\$250 million, compared to HK\$243 million in 2013, representing an increase of 3%.

As at 31 December 2014, the cash and fixed deposits balance of the Group was HK\$575 million, compared to HK\$555 million at the end of 2013. The Group's gearing ratio, being total bank loans over net assets, was 13% as at 31 December 2014, lower than the 17% recorded in the previous year.

Dividends

The Board of Directors (the “Board”) has recommended a final dividend of 30.0 HK cents per share (2013: 38.0 HK cents). Together with the interim dividend of 12.0 HK cents (2013: 12.0 HK cents), the total dividend for 2014 amounted to 42.0 HK cents per share (2013: 50.0 HK cents), representing a dividend payout ratio of 55% (2013: 67%). This year’s level of dividend payment reflects the strength of the Group’s cash flow position.

Business Review

Looking back over 2014, economic performance varied in different regions across the world. The financial recovery in Europe did not occur as expected; in fact its economy exhibited a downward trend for the year. The financial figures denoted a progressive trend for the economy in the United States. China continued to be a growing economy, but its development pace was slower than before. Other countries in Asia such as South Korea and Japan showed no obvious sign of change. Macroeconomic developments impacted the Group’s overall business performance globally. Our performance in each country basically was in accordance with the local trend.

Automotive Display Business

For the year under review, the automotive display business generated revenue of HK\$1,816 million, a mild decrease of 0.2% over that of 2013. The automotive display business represented approximately 70% of the Group’s total turnover.

Within the review period, the economy in the Eurozone was far from satisfactory. The situation deteriorated notably in the second half of the year, and affected the order placements of automotive displays. The adoption of Thin Film Transistor (TFT) displays by European automotive customers has become common practice. This has not only accelerated sales of the Group’s TFT displays, but also helped to maintain the overall turnover of automotive displays at the similar level as in 2013.

Despite gentler economic growth in China, the sales of cars in 2014 rose 6.9% from 2013 (Source: Automotive Industry Association). This was a reflection of the continued steady development of the automotive industry, one of the pillar industries in mainland China. Hence, the Group’s automotive display sales were also stable in China.

In 2014, the Group’s automotive display business in South Korea shrank in scale, largely attributable to fierce competition in that market. Old orders are being phased out and new orders have not yet matured. It is believed that the Korean automotive display business will not be able to reach the past levels for another one or two years.

The Group’s automotive display business grew in other countries in Asia, such as Japan and India. As mentioned in the interim report, the Japanese market has started to reap a harvest with orders on a steady rise. The Group has gained trust from Japanese customers and built up a valuable rapport. The Japanese market’s importance to the Group will rise with time. In India, the turnover gradually increased. Nonetheless, the automotive industry there has only just started and the display technologies employed remained at an early development stage. This in turn affected the turnover of the Group as the value of each order was still low in the country.

The automotive market potential in the United States cannot be neglected. The Group has been catching up with the market opportunities in the past two years, and has succeeded in securing quite a number of customers and orders. The Group will continue its efforts toward expanding its market coverage in the country.

Industrial Display Business

Turnover from the industrial display business was HK\$797 million in 2014, representing an increase of 2% from the previous year. This business contributed approximately 30% of the total turnover of the Group.

In the year under review, the Group's industrial display business in Europe was mildly affected by the economic situation. Turnover was maintained at a similar figure as in 2013. In the past year, domestic sales in the European region, particularly in Southern Europe, were poor. This impacted the performance of the white goods and industrial equipment sectors. In view of this, our European sales teams made much effort in finding business opportunities in order to fill the gap of the lost business.

The industrial customers are scattered geographically, and customer business is diversified. Sales people need to spend more time in analysing the business potential of each sector and in understanding each customer's needs. This is the nature and limitation of the industrial display business in general.

Having undergone a business portfolio restructure, the turnover from the US market rose remarkably in the first half of 2014. The rising trend continued in the second half of the year, and thus, turnover for the whole year demonstrated significant growth. The industrial display business is the key revenue stream in the US, and the economic recovery in the region presented more business opportunities. Sales people in the US successfully commenced a number of new projects within the year under review. The industrial display business growth in the US contributed to an increase in revenue for the overall industrial business of the Group.

Prospects

Market Development

Europe has been the most important market for the Group. The sluggish European economy in 2014 boded ill initially for the Group, but the Group's revenue in the year under review remained comparable with that of 2013, with a slight increase in overall profit. This performance is attributable to the hard work of everyone in the Group. However, the economic prospects of Europe have not yet shown any sign of improvement – a situation that may affect the Group's rate of growth in 2015.

Looking ahead into 2015, we believe that our European business will not significantly improve. An optimistic projection is that the continent's automotive display business may see limited growth, driven by the continued increase in orders for TFT displays. Still, if Europe's economy continues to slide, the Group's business will be negatively affected. In light of the current situation, we can see that though the end of Europe's economic decline is nowhere in sight, the production and sales of individual market sectors such as luxury sedans have not been affected. The growth outlook for automotive display orders in some countries, such as the United Kingdom and Germany, remains positive at the moment.

As for the growth of the industrial display business in Europe, the geographical dispersion and the different business natures of customers will mean that expansion in this area will not be as direct or effective as that for the automotive display business. Europe's advantage, however, lies in its vastness, diversity, and great potential for growth. The Group's sales teams will continue to work hard to open up markets so that the region's industrial display business will achieve growth in the coming year.

The upward trend in the United States will continue and the industrial display business is expected to lead the growth. US economic data reflect the overall rise in the economy, and this will multiply the positive effect when the Group's sales targets have been switched to high value industrial and medical equipment. We expect US sales to grow further in the coming year. The projects successfully pitched by our sales teams last year will ensure revenue streams in the next one to two years.

China's automotive display business will continue its stable growth. Vehicular restrictions in individual big cities imposed by local governments have affected the sales of low-end vehicles, but for the Group, our target market has been focused on passenger cars developed by joint ventures. Thus, the impact of the vehicular restrictions was smaller. Given the considerable scale of China's automotive display business and China's slowing pace of economic growth, revenue growth in the region is expected to slow down.

Japan will be the new impetus in our automotive display business. The Group is honoured to be able to serve the Japanese customers, who are known for their very high expectations of the display parts and rigorous control over their suppliers. Working with customers like these will enhance our quality and value. Orders from Japan have continued to increase in recent years, and the product technology is slowly moving from low-end to high-value, reflecting the gradual build-up of customers' trust in the Group.

Display Technology

Currently, the Group's display technology is mainly monochrome, accounting for more than 90% of total revenue. Customers trust the technology because it is very reliable and it enables the custom made design to fit their individual needs. It is also relatively inexpensive. Monochrome displays are mature products with limited growth possibilities. However, the Group has had many years of experience in both the design and production techniques of monochrome displays, and their quality is recognised by customers. The Group's leading position in the monochrome display market will continue to ensure a steady and substantial revenue stream for the Group in the future.

Development trends in the past year indicate that more high-end vehicle models are using TFT displays. The unique feature of TFT is its colour display, but its price is higher and it is less reliable than monochrome displays. The application of TFT displays in automobiles is mainly in the GPS navigation, temperature control and audio-visual equipment. The trend is expected to continue to grow in the next few years. The Group's TFT display revenues will see substantial growth from the current 6% contribution to revenue.

To this end, the Group is investing more resources in design, production and quality control to meet TFT manufacturing requirements. Hence, the Group will mostly invest in manpower and equipment improvement. Production capabilities and layout will also be modified to meet special manufacturing requirements for TFT in order to enhance production efficiency.

The Group has accumulated many years of experience in the design and production of TFT. Although we do not have our own TFT panel production line, we have reached strategic partnerships with various TFT panel suppliers. Another key point is that the Group focuses on the design and post-production of TFT products for automotive and industrial use. We do not need to adapt to the huge demand and price fluctuations of the consumer electronics market, which means we can be more flexible in coping with the special requirements of our automotive and industrial customers. This helps the Group locate its business niche in the TFT market.

The Group also produces touch panel products, which mostly go together as a package with TFT designs and are more popular in industrial applications. Automotive customers mainly use TFT displays in navigational, audio-visual or temperature control equipment, and these applications can also work well with touch panel functions. Therefore, touch panel sales are expected to expand in both the industrial and automotive directions.

Acknowledgements

Mr. Tony Tsoi, our Chief Executive Officer, has tendered his resignation to the Board. Mr. Tsoi's term will end on 31 March 2015, with our Chief Financial Officer, Ms. Samantha Ko, succeeding him.

Mr. Tsoi has led Varitronix from strength to strength. Under his leadership in the last several years, the Group has posted record performances. During his term, Mr. Tsoi decided to move our Shenzhen plant to Heyuan, consolidating our production plants in one spot. We withdrew from the mobile phone display business and concentrated our resources in developing automotive displays, making Varitronix a force in automotive-related industry. Mr. Tsoi also streamlined our overseas offices to enhance their operational efficiency. The production capacity of the Heyuan plant was expanded twice and a new plant was built. He also assembled an excellent management team whose members are young and independent.

In view of Mr. Tsoi's leadership qualities, the Federation of Hong Kong Industries awarded him the 2010 Young Industrialist Award. He also fostered a Varitronix culture and esprit de corps, promoting and supporting the Group's sports and social services activities.

I would like to extend my gratitude to Mr. Tsoi for his significant contribution to Varitronix. I wish him all the best in his future endeavours. May he continue to contribute his expertise to Hong Kong in the direction he chooses.

I would also like to sincerely thank the Board, shareholders, business partners and employees. Your support and contributions have helped maintain the Group's agility and momentum to cross the oceans in both good times and bad. I hope everyone will continue to give their support to the new CEO so that Varitronix will remain a shining beacon of light.

Ko Chun Shun, Johnson
Chairman

Hong Kong, 19 March 2015

Consolidated statement of profit or loss
For the year ended 31 December 2014

	<i>Note</i>	2014 HK\$'000	2013 HK\$'000
Turnover	3	2,613,058	2,604,172
Other operating income/(loss)	4	37,304	(18,456)
Change in inventories of finished goods and work in progress		(48,253)	102,023
Raw materials and consumables used		(1,536,793)	(1,654,315)
Staff costs		(418,218)	(384,707)
Depreciation		(107,542)	(83,698)
Other operating expenses		(266,907)	(252,790)
Profit from operations		272,649	312,229
Finance costs	5(a)	(4,858)	(2,446)
Share of profits less losses of associates		14,422	4,767
Profit before taxation	5	282,213	314,550
Income tax	6	(31,771)	(71,400)
Profit for the year		250,442	243,150
Attributable to:			
Equity shareholders of the Company		250,442	243,150
Non-controlling interests		-	-
Profit for the year		250,442	243,150
Dividends	7		
Interim dividend declared and paid during the year		39,343	39,171
Final dividend proposed after the end of the reporting period		98,375	124,239
		137,718	163,410
Earnings per share (in HK cents)	8		
Basic		76.5 cents	74.7 cents
Diluted		74.8 cents	73.5 cents

Consolidated statement of profit or loss and other comprehensive income*For the year ended 31 December 2014*

	<i>2014</i> HK\$'000	<i>2013</i> HK\$'000
Profit for the year	250,442	243,150
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	(27,462)	32,344
Available-for-sale securities: net movement in the fair value reserve	138	938
Other comprehensive income for the year	(27,324)	33,282
Total comprehensive income for the year	223,118	276,432
Attributable to:		
Equity shareholders of the Company	223,118	276,432
Non-controlling interests	-	-
Total comprehensive income for the year	223,118	276,432

Consolidated statement of financial position

At 31 December 2014

	Note	2014 HK\$'000	2013 HK\$'000
Non-current assets			
Fixed assets			
— Property, plant and equipment		486,455	553,095
— Interest in leasehold land held for own use under operating leases		<u>12,200</u>	<u>13,350</u>
		498,655	566,445
Interest in associates		124,627	114,247
Loans receivable		46,500	62,000
Other financial assets		29,569	29,878
Deferred tax assets		<u>725</u>	<u>725</u>
		<u>700,076</u>	<u>773,295</u>
Current assets			
Trading securities		158,919	141,032
Inventories		383,789	464,292
Trade and other receivables	9	603,822	657,022
Other financial assets		19,840	41,600
Current tax recoverable		9,707	3,506
Fixed deposits with banks		38,370	-
Cash and cash equivalents		<u>536,501</u>	<u>555,148</u>
		<u>1,750,948</u>	<u>1,862,600</u>
Current liabilities			
Trade and other payables	10	411,695	548,020
Bank loans		184,362	243,086
Current tax payable		<u>13,010</u>	<u>51,919</u>
		<u>609,067</u>	<u>843,025</u>
Net current assets		<u>1,141,881</u>	<u>1,019,575</u>
Total assets less current liabilities		1,841,957	1,792,870
Non-current liabilities			
Bank loans		44,395	59,147
Deferred tax liabilities		<u>5,461</u>	<u>5,539</u>
NET ASSETS		<u>1,792,101</u>	<u>1,728,184</u>
CAPITAL AND RESERVES			
Share capital		81,979	81,621
Reserves		<u>1,709,878</u>	<u>1,646,319</u>
Total equity attributable to equity shareholders of the Company		1,791,857	1,727,940
Non-controlling interests		<u>244</u>	<u>244</u>
TOTAL EQUITY		<u>1,792,101</u>	<u>1,728,184</u>

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 2014 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. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap.622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that 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 2013.

2. Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of which the following amendments are relevant to the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities
- Amendments to HKAS 32, Offsetting financial assets and financial liabilities
- Amendments to HKAS 36, Recoverable amount disclosures for non- financial assets

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non- financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset and cash-generating unit whose recoverable amount is based on fair value less costs of disposal. The initial adoption in 2014 does not have any impact on these financial statements as the Group does not have any impaired non-financial assets as at 31 December 2014.

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 2014 (2013: one). In 2014 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\$276,681,000 (2013: HK\$265,913,000).

(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

	2014	2013
	HK\$'000	HK\$'000
The People's Republic of China ("PRC") (place of domicile)	923,550	913,846
Europe	942,295	947,475
America	315,827	304,436
Korea	206,008	242,894
Others	225,378	195,521
	1,689,508	1,690,326
Consolidated turnover	2,613,058	2,604,172

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

	2014	2013
	HK\$'000	HK\$'000
France	150,636	194,698
Germany	115,815	93,048
United Kingdom	115,162	112,053
Italy	68,146	67,492
Other European countries	492,536	480,184
	942,295	947,475

(ii) Group's specified non-current assets

	2014	2013
	HK\$'000	HK\$'000
The PRC (place of domicile)	495,931	563,183
Germany	119,349	109,048
Korea	5,278	5,199
Others	2,724	3,262
	623,282	680,692

4. Other operating income/(loss)

	2014 HK\$'000	2013 HK\$'000
Dividend income from listed equity securities	585	2,924
Interest income from listed debt securities	971	2,295
Interest income from non-listed debt securities	167	2,727
Other interest income	2,917	931
Net gain on disposal of fixed assets	-	64
Impairment loss and loss on disposal on non-listed available-for-sale equity securities and associated loans receivable (note (a))	-	(58,470)
Net realised and unrealised gain on trading securities	14,438	2,246
Net exchange gain	18,858	11,447
Government grants	-	9,165
Other (loss)/income	(632)	8,215
	<u>37,304</u>	<u>(18,456)</u>

- (a) During the year ended 31 December 2013, the Company completed a transaction to sell its entire equity interest in a non-listed equity securities and associated loans receivable at a consideration of US\$12,800,000 (equivalent to HK\$99,200,000). An impairment loss of HK\$40,700,000 and a loss on disposal of HK\$17,770,000 had been recognised. US\$2,800,000 (equivalent to HK\$21,700,000) of the consideration was payable in January 2014 and the remaining US\$10,000,000 (equivalent to HK\$77,500,000) is receivable by five equal annual instalments starting from 1 July 2014 and has been recognised as loans receivable. Further details of transaction are set out in the Company's announcements dated 13 September 2013 and 31 October 2013. As at 31 December 2014, the Company has received US\$2,800,000 (equivalent to HK\$21,700,000) and US\$2,000,000 (equivalent to HK\$15,500,000) according to the repayment schedule.

5. Profit before taxation

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

	2014 HK\$'000	2013 HK\$'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	4,858	4,725
Less: interest expense capitalised into construction in progress*	-	(2,279)
	<u>4,858</u>	<u>2,446</u>

* The borrowing costs had been capitalised at a rate of 1.30 - 1.73% per annum during the year ended 31 December 2013.

	2014 HK\$'000	2013 HK\$'000
(b) Impairment losses (reversed)/recognised		
Trade and other receivables in respect of:		
– allowance for doubtful debts	(63)	-
– allowance for sales returns provision	(2,836)	1,042
	<u> </u>	<u> </u>
(c) Other items		
Cost of inventories	2,003,916	1,916,528
Auditors' remuneration:		
– audit services fees	3,027	3,390
– non-audit services fees	300	300
Research and development costs	190,029	186,890
Operating lease charges: minimum lease payments		
– hire of assets (including property rentals)	6,663	6,283
Contributions to defined contribution retirement plans	25,651	21,558
Equity settled share-based payment expenses	705	1,273
	<u> </u>	<u> </u>

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

Taxation in the consolidated statement of profit or loss represents:

	2014 HK\$'000	2013 HK\$'000
Current tax - Hong Kong Profits Tax		
Provision for the year	17,458	44,546
Over-provision in respect of prior years	(7,268)	(264)
	<u> </u>	<u> </u>
	10,190	44,282
Current tax - the PRC income taxes		
Provision for the year	17,265	21,541
Over-provision in respect of prior years	(5,027)	(3,394)
	<u> </u>	<u> </u>
	12,238	18,147
Current tax - Jurisdictions outside Hong Kong and the PRC		
Provision for the year	9,824	6,327
Over-provision in respect of prior years	(403)	(1,115)
	<u> </u>	<u> </u>
	9,421	5,212
Deferred tax		
Origination and reversal of temporary differences	(78)	3,759
	<u> </u>	<u> </u>
	31,771	71,400
	<u> </u>	<u> </u>

The provision for Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 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>2014</i> HK\$'000	<i>2013</i> HK\$'000
Interim dividend declared and paid of 12.0 HK cents (2013: 12.0 HK cents) per share	39,343	39,171
Final dividend proposed after the end of reporting period of 30.0 HK cents (2013: 38.0 HK cents) per share	<u>98,375</u>	<u>124,239</u>
	<u>137,718</u>	<u>163,410</u>

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>2014</i> HK\$'000	<i>2013</i> HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 38.0 HK cents (2013: 20.0 HK cents) per share	<u>124,239</u>	<u>65,143</u>

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\$250,442,000 (2013: HK\$243,150,000) and the weighted average number of shares of 327,261,561 shares (2013: 325,607,204 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	<i>2014</i> Number of shares	<i>2013</i> Number of shares
Issued ordinary shares at 1 January	326,485,204	324,195,204
Effect of share options exercised	<u>776,357</u>	<u>1,412,000</u>
Weighted average number of ordinary shares at 31 December	<u>327,261,561</u>	<u>325,607,204</u>

(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\$250,442,000 (2013: HK\$243,150,000) and the weighted average number of shares of 334,655,668 shares (2013: 330,912,087 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	<i>2014</i>	<i>2013</i>
	Number of shares	Number of shares
Weighted average number of ordinary shares at 31 December	327,261,561	325,607,204
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<u>7,394,107</u>	<u>5,304,883</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u>334,655,668</u>	<u>330,912,087</u>

9. 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>2014</i>	<i>2013</i>
	HK\$'000	HK\$'000
Within 60 days of the invoice issue date	388,079	397,379
61 to 90 days after the invoice issue date	92,688	115,501
91 to 120 days after the invoice issue date	53,843	58,260
More than 120 days but less than 12 months after the invoice issue date	<u>33,142</u>	<u>15,822</u>
	<u>567,752</u>	<u>586,962</u>

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

10. 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>2014</i>	<i>2013</i>
	HK\$'000	HK\$'000
Within 60 days of supplier invoice date	249,309	351,786
61 to 120 days after supplier invoice date	77,284	92,484
More than 120 days but within 12 months after supplier invoice date	5,578	6,920
More than 12 months after supplier invoice date	<u>808</u>	<u>1,106</u>
	<u>332,979</u>	<u>452,296</u>

11. Capital commitments

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

	<i>2014</i> HK\$'000	<i>2013</i> HK\$'000
Contracted for	9,707	31,331
Authorised but not contracted for	<u>21,531</u>	<u>27,948</u>
	<u>31,238</u>	<u>59,279</u>

12. 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\$228,757,000 (2013: HK\$302,233,000).

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.

13. Non-adjusting event after the reporting period

On 28 January 2015, the Group entered into an agreement to sell the Group's entire interest in Data Modul at a consideration of Euro19,393,990. Upon completion of the sale, Data Modul will cease to be an associate of the Group.

Upon completion of the disposal, the Group expects to record a gain on the disposal (before deducting the related transaction costs) of approximately HK\$53,000,000 in profit or loss based on a retranslation of the aggregate consideration at the applicable foreign exchange rate as of 19 March 2015. Further details are set out in the Company's announcement dated 28 January 2015.

DIVIDEND

The Board has recommended declaring a final dividend of 30.0 HK cents (2013: 38.0 HK cents) per share as compared to interim dividend of 12.0 HK cents (2013: 12.0 HK cents) per share representing a total of 42.0 HK cents (2013: 50.0 HK cents) per share for the year ended 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 28 May 2015 to Wednesday, 3 June 2015 (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 “2015 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 Wednesday, 27 May 2015.

Subject to the shareholders approving the recommended final dividend at the 2015 AGM of the Company, such dividend will be payable on or around Thursday, 9 July 2015 to shareholders whose names appear on the register of members of the Company on Friday, 12 June 2015. To determine eligibility for the final dividend, the register of members of the Company will be closed from Tuesday, 9 June 2015 to Friday, 12 June 2015 (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 Monday, 8 June 2015.

OTHERS

Staff

As at 31 December 2014, the Group employed 4,833 staff around the world, of whom 170 were in Hong Kong, 4,622 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 2014, the total equity of the Group was HK\$1,792 million (2013: HK\$1,728 million). The Group’s current ratio, being the proportion of total current assets against total current liabilities, was 2.87 as at 31 December 2014 (2013: 2.21).

At the year end, the Group held a liquid portfolio of HK\$783 million (2013: HK\$768 million) of which HK\$575 million (2013: HK\$555 million) was in cash and fixed deposits balance and HK\$208 million (2013: HK\$213 million) in securities. The unsecured interest-bearing bank loans amounted to HK\$229 million (2013: HK\$302 million). The gearing ratio (bank loans over net assets) was 13% (2013: 17%).

The Group's inventory turnover ratio (cost of inventories over average inventories balance) for the year was 4.7 times (2013: 4.6 times). Debtor turnover days (trade receivables over turnover times 365) for the year was 79 days (2013: 82 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 and Renminbi.

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 2014.

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 2014.

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 2014 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 2014 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, 19 March 2015

As at the date of this announcement, the Board comprises seven Directors, of whom Mr. Ko Chun Shun, Johnson, Mr. Tsoi Tong Hoo, Tony, Ms. Ko Wing Yan, Samantha 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.