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VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

2016 INTERIM RESULTS ANNOUNCEMENT

Chairman's Statement

Financial Highlights

HK\$ million	Six months ended 30 June 2016	Six months ended 30 June 2015
Revenue	1,119	1,283
Profit attributable to shareholders	4	280
Basic earnings per share	0.90 HK cents	85.37 HK cents

On behalf of Varitronix International Limited (the "Company") and its subsidiaries (collectively referred to as "Varitronix" or "the Group"), I present the Group's results for the period ended 30 June 2016.

During the period under review, the Group recorded a revenue of HK\$1,119 million, representing a 13% decrease from the HK\$1,283 million reported for the first half of 2015. Profit from operations of the Group was HK\$13 million, a 96% decrease year-on-year compared to HK\$294 million. The Group's profit attributable to shareholders was HK\$4 million, a decrease of 99 % compared to HK\$280 million for the same period in 2015.

Compared with the Group's results for the period ended 30 June 2015, there is a significant decline in revenue, which is mainly due to the decrease in sales of monochrome automotive displays in South Korea and the People's Republic of China ("PRC"). Moreover, during the first half of 2016, the Japanese yen appreciated, led to a higher purchase price of key materials sourced from Japan, resulted in realised and unrealised foreign exchange loss. In the first half of 2016, there was also no one-off gain from the disposal of interest in Data Modul AG like that in the same period in 2015. These, coupled with the Group's realised and unrealised loss from the net change in fair value of investment in listed trading securities, resulted in the Group's profit attributable to shareholders for the first half of 2016 having significantly decreased compared with the same period in 2015.

Dividends

The Board of Directors (the “Board”) resolved not to declare an interim dividend for the period ended 30 June 2016 (1H 2015: 15.0 HK cents).

Upon completion of the new shares subscription transaction between the Company and BOE Technology Group Co. Ltd. (“BOE”) at the end of April 2016, the Company declared and paid a special dividend of HK\$1.35 per share to the Company’s ordinary shareholders. The Group will further consider the final dividend policy for the year ending 2016 after reviewing the financial performance in the second half of 2016.

Business Review

Automotive Display Business

For the six months ended 30 June 2016, the average selling price of automotive displays has been adversely affected by the market environment and changes in product mix. Thus, the revenue generated by the automotive display business was HK\$732 million, representing a decrease of 19% compared to the same period last year. This business accounted for 65% of the Group’s total revenue.

During the first half year under review, there was an overcapacity of Thin Film Transistors (“TFT”) globally, which led to fierce competition and pressed down the average selling prices of TFT display and modules. The selling price of monochrome displays has also experienced a huge pressure and adjusted down accordingly. In the past, the mid-to-low end customers of the Group’s traditional automotive displays markets, such as Europe, widely adopted monochrome displays. Driven by the significant decrease in the selling price of the TFT display and modules, these customers switched to TFT modules products at an accelerated rate, which reduced the demand for the Group’s monochrome automotive displays. The general price pressure of monochrome automotive displays also narrowed down the profit margin. In the meantime, the Group’s sales in automotive TFT modules has continued to increase. As the selling price of those TFT modules was usually higher, the revenue generated by TFT modules was thus able to cover part of the losses incurred by the drop of monochrome displays business in Europe. However, since the Group did not have its own TFT panel production lines, the TFT business competitiveness was curtailed which limited the room for significant growth of TFT modules sales.

The PRC market has experienced the similar situation. As the price of TFT display and modules declined, most car manufacturers switched to TFT displays, which had adversely impacted on the Group’s sales in monochrome displays. In addition, the PRC economy slowed down, which in turn affected the business development and sales performance of automobile market.

The Korea automotive displays business faced fierce competition resulted in a continual decline in revenue. Customers stopped renewing certain orders of automotive monochrome displays, while new order quantities cannot cover the loss of revenue. The sales of automotive monochrome display in South Korea thus continued to be sluggish.

Fortunately, the Japanese market maintained steady growth in the first half of the year and the automotive display sales from Japan has recorded a remarkable growth on a year-on-year basis.

Industrial Display Business

The industrial display business generated a revenue of HK\$387 million for the six-month period under review, similar to that of last year. This business contributed 35% to the total revenue.

The industrial display business from Europe remained steady and recorded a slight growth. Although the average selling price of industrial displays is relatively lower than that of automotive displays, the demand for industrial displays remained stable which provide a sustainable revenue source for the Group. Orders of European electricity meters and white goods sectors were particularly strong.

As the information displayed on industrial products is usually simpler, monochrome displays are still predominant. Industrial customers tend to favour display products that are reliable and precise, and monochrome displays can match their requirements, ensuring stable demand in this sector.

The industrial display business in the United States weakened slightly compared with last year. This was due to slow economic recovery and certain customers reduced or postponed their orders in the United States.

Prospects

Monochrome Display Business

Although the Group's current monochrome display business is under pressure from the expanding TFT market, monochrome display products still have room for growth in the mid-to-low automotive sectors and among industrial customers, benefited from its reliability and price competitiveness. The Group will seek to maintain steady development for its monochrome display business, while driving growth in the TFT business.

The demand for monochrome displays from Japanese cars remains steady. The Group has been increasing resources in the Japanese market to capture a larger market share. At the same time, Japanese customers have stringent product requirements and they seldom switch suppliers or product technologies. They are also relatively more willing to commit to a stable selling price to ensure product quality. As a result, the Group has ample room for growth in the monochrome automotive display business in Japan.

Due to global economic slowdown, growth in developing countries like India, Brazil and Russia was not as strong as expected. Once the economy improves, these markets will bring growth opportunities to the Group. Take India as an example, there is enormous potential for growth in its automobile market, especially for low-end cars at the early stage, presenting positive effects for our monochrome display business.

As for the industrial market, monochrome displays secure a leading position with steady demand in electricity meters and medical product sectors, but some white goods manufacturers have switched to adopt TFT displays.

TFT Business Strategy

In face of the ever growing TFT market, the Group will proactively seize opportunities for development. It has also formulated a series of strategies to expand the Group's market share.

The Group completed the new shares subscription transaction at the end of April 2016, BOE as the Group's major shareholder, currently holds approximately 54% of the Company's issued share capital. BOE is one of the world's major TFT display suppliers, which owns large-scale TFT panel production facilities. With BOE as the Group's strategic shareholder, the Group enjoys a preferential and stable supply of TFT panel, favourable TFT panel prices and technology support, all of which further consolidate the Group's TFT business.

BOE has accumulated many years' experience in TFT panel technology which is able to support the Group's TFT business. It includes supplying unique TFT panel designs to meet the products specifications of the Group's customers. In terms of TFT materials sourcing, the Group will also benefit from the synergy of bulk purchase of BOE with its suppliers. BOE has also invested abundant resources in building production lines of Active-matrix organic light-emitting diodes ("AMOLED"). This production platform buttresses the Group's research in related technologies as well as their application to automotive products.

Varitronix is BOE's major platform in developing automotive and industrial display businesses. BOE's earliest automotive customers were mainly the PRC after-market car manufacturers. This customer base will be gradually migrated to the Group, which becomes a new source of revenue. BOE's extensive market networks and human resources in the PRC and South Korea would serve to turn around the downward market trend in the PRC and South Korean markets.

Since the completion of the new shares subscription transaction, the Group's existing automotive and industrial customers have gained confidence in the Group's TFT module business. Besides receiving more requests for quotation of TFT projects, we have actually won certain number of new TFT projects, which will enter mass production stage in the latter half of 2017 and 2018.

Since the Group started design and production of TFT modules, we have been investing in the recruitment of expertise and equipment. With BOE as our strategic shareholder, we receive substantial resources to further expand our TFT module production facilities. The Group is now preparing to increase TFT module production lines and planning to increase its TFT module capacity by the first half of 2017, so as to accommodate the growth of TFT orders.

Technology Development

The Group's technology team has been continually upgrading TFT display products' capabilities, particularly in areas such as contrast ratio, brightness, responsiveness and colour gamut, in order to achieve the highest standards in automotive products.

In May, the Group participated in the Society of Information Display ("SID") in the United States and presented its large, curved and fluid TFT automotive display screen. Installing such display enhanced the uniqueness of car interior design, which was widely acclaimed by the market. This innovative automotive display product will enter production in 2018.

Automotive rear-view display is another product in the pipeline. When it is not in use, the display screen will look no different from any rear-view mirror. Once it is on, it has functions like displaying videos and GPS messages. As this product has no fixed shape, it can fit all rear-view mirror designs and display a wider range of information.

In the meantime, the Group is developing an automotive grade on-cell touch panel technology, which does not require affixing the touch panel glass onto the display. Hence, the touch screen will be thinner and more competitive. The development of this technology is expected to be completed by the end of the year.

The Group is developing Head Up Display ("HUD") system which includes not only display, but also light source, optical engine, driver board and software. An HUD demonstration unit has been successfully developed. The HUD demonstration units can also be connected to mobile phone through our self-developed apps. With the system, the driver can watch the real time mobile navigation on the head up display. When there is incoming phone call or new message in the mobile phone, the driver can immediately read the same image on the head up display. Hence, the driver would not lose his/her attention during driving and also would not miss any phone calls and messages.

Conclusion and Acknowledgement

In the first half of 2016, global economy was weak. In the face of an uncertain market environment, the Group's management strove to control costs, including materials and labour costs, within the expected range. During this period, the Group stayed united, and identified stronger partnerships with strategic shareholders as a pragmatic and feasible strategy, so as to strengthen our existing TFT business. The Group's management focused on completing the new shares subscription transaction in the first half of the year, working towards expanding its TFT business.

I would like to take this opportunity to sincerely thank the Group's colleagues, the Board, shareholders and business partners, whose full support made possible the collaboration between BOE and Varitronix. Looking ahead, with the Group's strong support and backup, I believe we can bring about win-win success.

Yao Xiangjun
Chairman

Hong Kong, 30 August 2016

Consolidated statement of profit or loss
For the six months ended 30 June 2016 – unaudited

	Note	Six months ended 30 June	
		2016	2015
		HK\$'000	HK\$'000
Revenue	4	1,119,043	1,283,161
Other operating (loss) /income	5	(53,845)	164,577
Change in inventories of finished goods and work in progress		(98,725)	5,731
Raw materials and consumables used		(584,472)	(759,228)
Staff costs		(204,009)	(220,353)
Depreciation		(50,388)	(51,326)
Other operating expenses		(114,491)	(128,278)
Profit from operations		13,113	294,284
Finance costs	6(a)	(933)	(1,938)
Share of profits less losses of associates		-	4,180
Profit before taxation	6	12,180	296,526
Income tax	7	(7,921)	(16,117)
Profit for the period attributable to the equity shareholders of the Company		4,259	280,409
Earnings per share (in HK cents)	8		
Basic		0.90	85.37
Diluted		0.90	84.45
Dividends	9(b)		
Interim dividend declared after the end of the reporting period		-	49,611

Consolidated statement of profit or loss and other comprehensive income
For the six months ended 30 June 2016 – unaudited

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Profit for the period	4,259	280,409
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Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustments: net movement in exchange reserve	(15,639)	(12,142)
Available-for-sale securities: net movement in fair value reserve	(28)	430
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Other comprehensive income for the period	(15,667)	(11,712)
	=====	=====
Total comprehensive income for the period attributable to the equity shareholders of the Company	(11,408)	268,697
	=====	=====

Consolidated statement of financial position
At 30 June 2016– unaudited

	Note	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Non-current assets			
Fixed assets			
- Property, plant and equipment		369,082	401,604
- Interest in leasehold land held for own use under operating leases		10,474	11,004
		<u>379,556</u>	<u>412,608</u>
Interest in associates		4,891	4,747
Loans receivable		31,000	31,000
Other financial assets		27,998	57,353
Deferred tax assets		725	725
		<u>444,170</u>	<u>506,433</u>
Current assets			
Trading securities		41,371	160,891
Inventories		383,281	472,995
Trade and other receivables	10	503,584	530,296
Other financial assets		29,323	-
Current tax recoverable		2,006	515
Fixed deposits with banks		201,760	-
Cash and cash equivalents		2,014,733	767,393
		<u>3,176,058</u>	<u>1,932,090</u>
Current liabilities			
Trade and other payables	11	277,272	376,288
Bank loans		26,671	136,395
Current tax payable		8,232	3,862
Dividends payable		553,258	-
		<u>865,433</u>	<u>516,545</u>
Net current assets		<u>2,310,625</u>	<u>1,415,545</u>
Total assets less current liabilities		<u>2,754,795</u>	<u>1,921,978</u>
Non-current liabilities			
Bank loans		-	8,879
Deferred tax liabilities		8,164	7,663
NET ASSETS		<u>2,746,631</u>	<u>1,905,436</u>
CAPITAL AND RESERVES			
Share capital	9	183,764	82,782
Reserves		2,562,867	1,822,654
TOTAL EQUITY		<u>2,746,631</u>	<u>1,905,436</u>

Notes:

1. Independent review

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 Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board is included in the interim financial report to be sent to shareholders. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.

2. 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 HKICPA. It was authorised for issuance on 30 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements.

3. Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

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

Annual Improvements to HKFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS34 *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report. Then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statement.

Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group’s interim financial report.

4. Revenue 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.

(a) Operating segment results

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 revenue and operating profits is derived from this business segment. The 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 revenue which is consistent with that in the interim financial report. 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) 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.

(i) Group's revenues from external customers

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
The People's Republic of China ("PRC") (place of domicile)	342,705	429,754
Europe	476,114	498,652
America	119,769	157,830
Korea	53,001	98,178
Others	127,454	98,747
	<u>776,338</u>	<u>853,407</u>
Consolidated revenue	<u>1,119,043</u>	<u>1,283,161</u>

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

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Germany	73,280	57,292
United Kingdom	66,971	63,998
France	65,901	74,902
Italy	34,491	33,603
Other European countries	235,471	268,857
	476,114	498,652

(ii) Group's specified non-current assets

	At 30 June	At 31 December
	2016	2015
	HK\$'000	HK\$'000
The PRC (place of domicile)	376,141	409,013
Korea	4,891	4,747
Others	3,415	3,595
	384,447	417,355

5. Other operating (loss)/ income

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interest income from listed debt securities	698	418
Other interest income	2,609	1,521
Net gain on disposal of an associate (Note)	-	48,828
Net realised and unrealised (losses)/ gains		
on trading securities	(37,538)	104,420
Net exchange (loss)/gain	(22,426)	8,125
Gain on disposal of fixed assets	26	-
Other income	2,786	1,265
	(53,845)	164,577

Note: On 14 April 2015, the Group disposed of its entire interest in Data Modul AG, the then associate of the Group at a consideration of EUR19,393,990 (equivalent to approximately HK\$160,258,000). A gain on disposal of HK\$48,828,000 was recognised in the statement of profit or loss for the period ended 30 June 2015.

6. Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	<u>933</u>	<u>1,938</u>
(b) Other items		
Cost of inventories	<u>878,356</u>	<u>972,567</u>

7. Income Tax

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Current tax - Hong Kong Profits Tax	(189)	6,338
Current tax - The PRC income taxes	5,237	1,964
Current tax - Jurisdictions outside Hong Kong and the PRC	2,373	4,315
Deferred taxation	<u>500</u>	<u>3,500</u>
	<u>7,921</u>	<u>16,117</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2015: 16.5%) to the six months ended 30 June 2016. The provision for the PRC Corporate Income Tax is calculated by applying a reduced tax rate of 15% which is applicable for Varitronix (Heyuan) Display Technology Limited ("Varitronix Heyuan"), a subsidiary of the Group designated as high and new technology enterprise by the PRC tax authority. Withholding tax is levied on dividend distributions arising from profit of the Group's subsidiaries operating in the PRC earned after 1 January 2008 based on an applicable tax rate of 5%. Taxation for subsidiaries operating outside Hong Kong and the PRC is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant jurisdictions.

8. 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 HK\$4,259,000 (2015: HK\$280,409,000) and the weighted average number of shares of 472,265,917 shares (2015: 328,447,691 shares) in issue during the period, calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June	
	2016	2015
Issued ordinary shares at 1 January	331,125,204	327,915,204
Effect of issuance of new shares	140,659,341	-
Effect of share options exercised	481,372	532,487
	<u>472,265,917</u>	<u>328,447,691</u>
Weighted average number of ordinary shares at 30 June	<u>472,265,917</u>	<u>328,447,691</u>

(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 HK\$4,259,000 (2015: HK\$280,409,000) and the weighted average number of shares of 474,080,073 shares (2015: 332,043,701 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2016	2015
Weighted average number of ordinary shares at 30 June	472,265,917	328,447,691
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	1,814,156	3,596,010
	<u>474,080,073</u>	<u>332,043,701</u>
Weighted average number of ordinary shares (diluted) at 30 June	<u>474,080,073</u>	<u>332,043,701</u>

9. Capital, reserves and dividends

(a) Share Capital

On 28 April 2016, pursuant to the subscription agreement (“the Subscription”) that was entered into by the Company and BOE Technology Group Co., Ltd (“the Subscriber”) on 3 February 2016, 400,000,000 ordinary shares of the Company were allotted and issued as fully paid to the Subscriber at an issue price of HK\$3.50 per share totalling HK\$1,400,000,000, of which HK\$100,000,000 was credited to the share capital and the balance of HK\$1,300,000,000 was credited to the share premium account.

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the period

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interim dividend declared after the end of the reporting period: Nil (2015: 15.0 HK cents) per share	-	49,611
	<u> </u>	<u> </u>

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

(ii) Dividends payable to equity shareholders of the Company declared during the period

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year declared during the period of 30.5 HK cents (2015: 30.0 HK cents) per share	101,960	98,878
Special dividend declared during the period of HK\$1.35 (2015: Nil) per share (Note)	451,298	-
	<u> </u>	<u> </u>
	553,258	98,878
	<u> </u>	<u> </u>

Note: Upon completion of the Subscription on 28 April 2016, a special dividend of HK\$1.35 per share to ordinary shareholders of the Company was declared and approved at the special general meeting during the period. No special dividend was paid to the Subscriber whom has agreed to waive its entitlement. Special dividend of HK\$451,298,000 was payable as at 30 June 2016.

10. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad debt and doubtful debts of HK\$2,958,000 (31 December 2015: HK\$3,343,000)) with the following ageing analysis as of the end of the reporting period:

	At 30 June 2016	At 31 December 2015
	HK\$'000	HK\$'000
Within 60 days of the invoice issue date	316,726	363,767
61 to 90 days after the invoice issue date	86,799	72,944
91 to 120 days after the invoice issue date	31,576	25,510
More than 120 days but less than 12 months after the invoice issue date	19,562	16,650
	<u> </u>	<u> </u>
	454,663	478,871
	<u> </u>	<u> </u>

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

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Within 60 days of supplier invoice date	171,336	232,976
61 to 120 days after supplier invoice date	51,099	73,023
More than 120 days but within 12 months after supplier invoice date	4,204	6,917
More than 12 months after supplier invoice date	553	427
	<u>227,192</u>	<u>313,343</u>

12. 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 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Contracted for	2,317	10,974
Authorised but not contracted for	98,861	24,351
	<u>101,178</u>	<u>35,325</u>

13. 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 is 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\$26,671,000 (31 December 2015: HK\$145,274,000).

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30 June 2016 (2015: 15.0 HK cents).

OTHERS

Staff

As at 30 June 2016, the Group employed 4,832 staff around the world, of whom 161 were in Hong Kong, 4,630 in the People's Republic of China (the "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 30 June 2016, the total equity of the Group was HK\$2,747 million (31 December 2015: HK\$1,905 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 3.67 as at 30 June 2016 (31 December 2015: 3.74).

At the period end, the Group held a liquid portfolio of HK\$2,315 million (31 December 2015: HK\$986 million) of which HK\$2,216 million (31 December 2015: HK\$767 million) was in cash and fixed deposits balance and HK\$99 million (31 December 2015: HK\$219 million) in securities. The unsecured interest-bearing bank loans amounted to HK\$27 million (31 December 2015: HK\$145 million). The gearing ratio (bank loans over net assets) was 1% (31 December 2015: 8%).

The Group's inventory turnover ratio (annualized cost of inventories over average inventories balance) for the six months ended 30 June 2016 was 4.1 times (31 December 2015: 4.4 times). Debtor turnover days (trade receivables over turnover times 182) for the six months ended 30 June 2016 was 74 days (31 December 2015: 70 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 is not engaged 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 period ended 30 June 2016.

CORPORATE GOVERNANCE

In the opinion of the directors of the Company (the "Directors"), the Company has complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules throughout the period ended 30 June 2016.

All other information on the Code has been disclosed in the corporate governance report contained in the 2015 annual report of the Company issued in February 2016.

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 period under review.

AUDIT COMMITTEE

The Audit Committee of the Company (the "AC") comprises 3 Independent Non-executive Directors: Mr. Fung, Yuk Kan Peter (Chairman of the AC), Mr. Chu, Howard Ho Hwa 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, risk management and internal control systems. It is also responsible for reviewing the interim and annual results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting and internal control matters and to this end has unrestricted access to both the Company's internal and external auditors.

The AC has reviewed the interim results for the six months ended 30 June 2016 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 Mr. Fung, Yuk Kan Peter (Chairman of the RC), Mr. Yao Xiangjun, Ms. Ko Wing Yan, Samantha, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang. Among the 5 members of the RC, 3 members are Independent Non-executive Directors.

NOMINATION COMMITTEE

The Nomination Committee of the Company (the “NC”) comprises Mr. Yao Xiangjun (Chairman of the NC), Mr. Su Ning, Mr. Fung, Yuk Kan Peter, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang. Among the 5 members of the NC, 3 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 Board and the Chief Executive Officer.

By order of the Board
Varitronix International Limited
Yao Xiangjun
Chairman

Hong Kong, 30 August 2016

As at the date of this announcement, the Board comprises nine Directors, of whom Mr. Yao Xiangjun, Ms. Ko Wing Yan, Samantha and Mr. Su Ning are Executive Directors, Ms. Yang Xiaoping, Mr. Dong Xue and Mr. Yuan Feng are Non-executive Directors, and Mr. Fung, Yuk Kan Peter, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang are Independent Non-executive Directors.