



VARITRONIX



Powerful Drive

Interim Report 2011

Varitronix International Limited
Stock Code 710

CHAIRMAN'S STATEMENT

Financial Highlights

HK\$ million	Six months ended 30 June	
	2011	2010
Turnover	1,076	1,059
Profit attributable to shareholders	98	70
	30.38	21.72
Basic earnings per share	HK cents	HK cents
	11.0	5.5
Interim dividend per share	HK cents	HK cents

On behalf of Varitronix International Limited (the "Company") and its subsidiaries ("Varitronix" or the "Group"), I am pleased to present the Group's results for the six-month period ended 30 June 2011.

During the period under review, turnover of HK\$1,076 million was recorded, representing a 2% increase over the HK\$1,059 million reported for the same period in 2010. Profit from operations was HK\$111 million, and profit attributable to shareholders was HK\$98 million, representing an increase of 41% and 40% respectively as compared to the corresponding period in 2010.

Following the positive business development trend in 2010, the half-year result of 2011 was satisfactory with revenue from the automotive display business amounting to over 50% of the Group's overall turnover. The Group's gross profit margin was 26%, improved from the 19% recorded in the first half of 2010. In the first half of 2010, the revenue from the handset display business was booked into the accounts, whereas the revenue for the first half of 2011 was entirely derived from the automotive and industrial display business. Hence, the profit margin in the first half of 2011 improved.

After the devastating tsunami in Japan, the supply of certain materials from Japan was tight for a period of time, but the adverse effect experienced by the Group was smaller than expected. The primary reason is that the Group maintained close relationships with important Japanese suppliers and kept stock of critical materials according to our usual practice. In addition, our Japanese suppliers maintained disciplined management during the crisis and thus their operations resumed to a large extent within a reasonable period. Their professionalism and resilience deserves our respect.

Dividends

The Board of Directors (the "Board") has recommended an interim dividend of 11.0 HK cents per share (2010: 5.5 HK cents).



CHAIRMAN'S STATEMENT

Business Review

Automotive Display Business

For the six months ended 30 June 2011, the revenue generated by the automotive display business amounted to HK\$613 million, representing an increase of 9% as compared with the same period last year. This business amounted to 57% of the Group's total turnover. Europe was the main contributor to this business during the period under review. This is because when the Japanese automotive makers' capacity was adversely affected by the disaster, the European automotive manufacturers reacted quickly to expand their market share. Additionally, while the European manufacturers were intensely aware of the crisis, they were willing to raise their stock level and thus our European customers increased their order quantities. During the material shortage resulting from the disaster in Japan, the Group managed to secure the necessary materials for production, and this contributed directly to the growth of our business.

As stated in the Annual Report 2010, there was a surge of competition in the Korean automotive display business. Aggressive marketing initiatives by competitors led to our loss of business and revenue from this region dropped. In the face of this challenge, the Group has committed to improve quality by strengthening quality surveillance. In addition, the Group worked closely with its suppliers to improve the quality of raw materials, with the aim of rebuilding the confidence of our Korean customers by means of enhanced quality and customer service. Going forward, we will focus on the issue of quality and avoid cut-throat competition.

In the PRC automotive display market, the Group started its business several years ago on a small scale. Revenue derived from this market in the first half of 2011, contributing 5% of total turnover and representing an increase of 138% as compared with the corresponding period of last year. This market has become increasingly more important, representing a meaningful proportion of our business and becoming one of the growth engines of the Group.

In Japan, our customers are satisfied with the Group's quality performance after an initial period of cooperation and a good rapport has now been established. The Group views this as a good start for further development.

Industrial Display Business

The industrial display business generated revenue of HK\$463 million in the first half of 2011, contributing 43% of total turnover and representing an increase of 16% as compared with the corresponding period of last year. Europe and the America are the key markets for this business. Sales in Europe were particularly strong during the period under review with notable business growth among electricity meter and home appliance customers.

Industrial display sales in America recorded satisfactory growth as compared with the same period last year. Demand for displays used in electricity meters, medical products and industrial machinery increased generally. In the past few years, the US sales office has devoted much effort in expanding its business network with tangible results. The Group has succeeded in penetrating into the mid-western part of North America, the traditional key industrial area, leading to further development opportunities.

The Group received strong volume of orders for the production of 3D eyeglasses for 3D TV viewing, starting from mid-2010. The demand for such devices reduced in the first half of 2011 compared with the second half of 2010.

Prospects Automotive Display Business

European automakers benefited from the drop in production levels of their Japanese counterparts and were able to increase sales in the first half of this year. We believe this was a special and one-off event, which may not lead to sustained growth for the European automakers. At present, the Japanese manufacturers have resumed normal operations and they are ready to seize lost market share with aggressive plans. As the European automakers have generally accumulated a sufficient level of stock, and the regional economy remains fragile, the development prospect is uncertain. The Group will remain cautious.

China's automotive market has been experiencing rapid growth under the government's subsidy policy, but with the cancellation of subsidies and the introduction of a vehicle ownership control policy, statistics have shown that overall growth of auto sales in this market has been slowing down. However, China's automotive market has without doubt earned an important place on the world stage and, although its performance may not be as spectacular as before, it still possesses strong momentum for growth.

In fact, China already plays a leading role in the global automotive industry. When designing new automobiles, the needs of PRC customers are now always at the top of the automakers' checklist. Mainland factories set up by multinational carmakers have already been empowered with decision-making rights in design and purchasing. Over the years, the Group has built favourable relationships with international auto parts suppliers and also automakers. A strong customer base and a reliable support team has been built in China, which in turn puts us in a good position to further develop the Chinese automotive market. China will become an important focus for the Group in the future – we will direct our strengths toward developing the PRC high-end automotive market, which is characterised by a more stable operating environment, thereby exploring this market's growth potential to the fullest.

Industrial Display Business

Although certain countries in Europe are still being affected by volatile economic conditions, there remains steady demand for industrial products and equipment for the time being. The Group does not rule out the possibility of industrial production in Europe being negatively affected in the future under the disturbance of the debt crisis, and consequently the Group will be fully alert to market changes.

On the other hand, the Group possesses a stable industrial customer base in America, a market that in the first half of the year posted healthy demand in the industrial equipment category. We also expect further growth in the US Midwest, a developing market for the Group.

CHAIRMAN'S STATEMENT

Development of the TFT Business

In the past few years, the Group has placed much emphasis on developing TFT (Thin Film Transistor) display applications in the automotive and industrial sectors. In fact, a core focus of the Group has always been automotive and industrial products which, with their high quality expectations and low order numbers, display the exact opposite characteristics to those of the consumer market. In the first half of this year, one of the Group's key projects, our first TFT automotive display order, entered the mass production phase. The Group has already made plans to direct resources towards the development of the high-end TFT market. Our strategy is to provide an integrated service ranging from design to provision of materials tailored to customers' needs. The initial target will be our existing customers as they have already placed their trust in the Group. We have the ability to come up with high quality colour display solutions for them.

Conclusion

The Group continues to perform well following the favourable results in 2010, recording growth in both revenue and profit in the first half of 2011. At present, the debt crisis in some countries still causes anxiety. The drop in Japanese car production levels brought short-term advantages to the European automotive market, but may not lead to positive long-term effects. The Group will pay extra attention to the development trend of the European automotive industry, so as to make timely decisions responding to market changes.

Just like other manufacturers, the Group is facing rising operating costs, higher raw material prices brought about by inflation, rising wages and social security contributions due to national policies, and a rising Renminbi, which all continue to erode the Group's profits. To increase production efficiency and lower cost pressures, we will continue to bring in more automated processes to cut down on manual labour. However, this step is not enough to fully offset the result brought about by rising costs. The Group believes that only those manufacturers who can increase prices will excel under unfavourable conditions, and we have made it our aim to become one of them.

As the Group's factory in Heyuan is approaching its maximum production capacity and we expect a continued increase in customer demand in the long run, we are actively looking into further expansion. If implemented, new production capacity will be ready for mass production by end of 2012 or early 2013.

The disaster in Japan put pressure, at one point, on the supply of some of the Group's key raw materials, which made it clear that some Japanese-produced precision parts are not easily replaceable by products from other countries. The Group has always maintained a close relationship with its suppliers in Japan and will make greater effort in the future to help them through the crisis and to build an even stronger partnership with them.

Acknowledgements

I would like to thank our shareholders, customers and suppliers, as your support motivates us to continue striving for improvements. I would also like to thank all of our staff members whose tireless efforts and contributions serve as power to propel us forward and unite everyone in the Group to work towards a prosperous future.

Ko Chun Shun, Johnson

Chairman

Hong Kong, 18 August 2011

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

– unaudited

	Note	Six months ended 30 June	
		2011 HK\$'000	2010 HK\$'000
Turnover	3	1,076,487	1,059,408
Other operating (loss)/income	4	(7,262)	45,606
Change in inventories of finished goods and work in progress		9,947	8,620
Raw materials and consumables used		(667,451)	(728,523)
Staff costs		(146,486)	(140,419)
Depreciation		(46,730)	(53,492)
Other operating expenses		(107,067)	(112,181)
Profit from operations		111,438	79,019
Finance costs	5(a)	(885)	(1,817)
Share of profit of associates		5,322	798
Profit before taxation	5	115,875	78,000
Income tax	6	(17,763)	(6,551)
Profit for the period from continuing operations		98,112	71,449
Discontinued operation	7		
Loss for the period from discontinued operation		-	(1,368)
Profit for the period		98,112	70,081
Attributable to:			
Equity shareholders of the Company		98,262	70,233
Non-controlling interests		(150)	(152)
Profit for the period		98,112	70,081

	Note	Six months ended 30 June	
		2011 HK\$'000	2010 HK\$'000
Dividends	8		
Interim dividend declared during the period		35,641	17,788
Earnings/(loss) per share	9		
Basic			
- from continuing and discontinued operations		30.38 cents	21.72 cents
- from continuing operations		30.38 cents	22.14 cents
- from discontinued operation		0 cent	(0.42) cents
Diluted			
- from continuing and discontinued operations		30.01 cents	21.72 cents
- from continuing operations		30.01 cents	22.14 cents
- from discontinued operation		0 cent	(0.42) cents

The notes on pages 11 to 16 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

– unaudited

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Profit for the period	98,112	70,081
Other comprehensive income for the period (after tax and reclassification adjustments):		
Foreign currency translation adjustments: exchange differences on translation of financial statements of overseas operations	10,052	(5,582)
Available-for-sales securities: net movement in the fair value reserve	516	(4,332)
	10,568	(9,914)
Total comprehensive income for the period from continuing operations	108,680	60,167
Discontinued operation		
Foreign currency translation adjustments: exchange differences on translation of financial statements of an overseas operation	-	(1,120)
Total comprehensive income for the period	108,680	59,047
Attributable to:		
Equity shareholders of the Company	108,830	59,199
Non-controlling interests	(150)	(152)
Total comprehensive income for the period	108,680	59,047

The notes on pages 11 to 16 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011 – unaudited

		At 30 June 2011	At 31 December 2010
	Note	HK\$'000	HK\$'000
Non-current assets			
Fixed assets			
– Other property, plant and equipment		280,863	315,441
– Interest in leasehold land held for own use		14,069	5,588
		294,932	321,029
Interest in associates		107,139	101,905
Loans receivable		74,064	70,201
Other financial assets		210,598	186,083
Deferred tax assets		213	213
		686,946	679,431
Current assets			
Trading securities		240,195	232,856
Inventories		333,939	285,774
Trade and other receivables	10	485,140	471,745
Current taxation recoverable		1,321	1,224
Cash and cash equivalents	11	353,529	431,331
		1,414,124	1,422,930
Current liabilities			
Bank loans		126,332	177,842
Trade and other payables	12	466,009	529,552
Current taxation payable		36,347	32,081
Dividends payable		67,920	–
		696,608	739,475

		At 30 June 2011	At 31 December 2010
	Note	HK\$'000	HK\$'000
Net current assets		717,516	683,455
Total assets less current liabilities		1,404,462	1,362,886
Non-current liabilities			
Other payables		2,430	3,186
Deferred tax liabilities		2,285	3,123
NET ASSETS		1,399,747	1,356,577
CAPITAL AND RESERVES			
Share capital		80,856	80,856
Reserves		1,310,543	1,267,223
Total equity attributable to equity shareholders of the Company		1,391,399	1,348,079
Non-controlling interests		8,348	8,498
TOTAL EQUITY		1,399,747	1,356,577

The notes on pages 11 to 16 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011 – unaudited

Attributable to equity shareholders of the Company											
	Share capital	Share premium	Exchange reserve	Fair value reserve	Capital reserve	Other reserves	Retained profits	Amounts recognised in other comprehensive income and accumulated in equity relating to a discontinued operation	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2010	80,856	695,336	45,482	12,597	11,373	(32,665)	336,401	6,026	1,155,406	8,799	1,164,205
Changes in equity for 2010											
Profit for the period	-	-	-	-	-	-	70,233	-	70,233	(152)	70,081
Other comprehensive income	-	-	(5,582)	(4,332)	-	-	-	(1,120)	(11,034)	-	(11,034)
Total comprehensive income	-	-	(5,582)	(4,332)	-	-	70,233	(1,120)	59,199	(152)	59,047
Dividends approved in respect of the previous year	-	-	-	-	-	-	(3,234)	-	(3,234)	-	(3,234)
Balance at 30 June 2010	80,856	695,336	39,900	8,265	11,373	(32,665)	403,400	4,906	1,211,371	8,647	1,220,018

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

The notes on pages 11 to 16 form part of this interim financial report.

**CONDENSED CONSOLIDATED CASH
FLOW STATEMENT**

For the six months ended 30 June 2011

– unaudited

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Operating profit before changes in working capital	160,444	90,553
Net changes in working capital	(131,360)	(26,079)
Net changes in assets and liabilities relating to a discontinued operation	(3,430)	(70,833)
Tax paid	(13,594)	(3,980)
Net cash generated from/(used in) operating activities	12,060	(10,339)
Net cash (used in)/generated from investing activities	(41,744)	22,383
Net cash used in financing activities	(52,633)	(24,244)
Net decrease in cash and cash equivalents	(82,317)	(12,200)
Effect of foreign exchange rate changes	4,515	(5,118)
Cash and cash equivalents at 1 January	431,331	380,713
Cash and cash equivalents at 30 June	353,529	363,395
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	186,754	266,890
Deposits with banks and other financial institutions	166,775	96,505
	353,529	363,395

The notes on pages 11 to 16 form part of this interim financial report.

1. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial report for the six months ended 30 June 2011 has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed consolidated interim financial report should be read in conjunction with the consolidated annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies applied in preparing this interim financial report are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2010, as disclosed in the Annual Report and Financial Statements for 2010. A number of new and revised HKFRSs have become effective in 2011. None has material impact on the Group.

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.

(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 are derived from this business segment. The financial statements are 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 statements. Other information, being the total assets excluding deferred tax, loans receivable, other financial assets, trading securities, current tax recoverable and the interest in associates, all of which are managed on a central basis, are provided to the Board to assess the performance of the operating segment.

3. TURNOVER AND SEGMENT REPORTING (CONTINUED)

(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

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Hong Kong and the PRC (place of domicile)	257,450	309,424
Europe	455,035	331,157
Korea	157,124	258,961
America	138,531	106,031
Others	68,347	53,835
Consolidated turnover	1,076,487	1,059,408

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

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
France	113,839	66,864
Germany	82,923	79,614
Italy	36,351	32,674
United Kingdom	29,197	23,217
Other European countries	192,725	128,788
	455,035	331,157

(ii) Group's specified non-current assets

	At 30	At 31
	June	December
	2011	2010
	HK\$'000	HK\$'000
Hong Kong and the PRC (place of domicile)	365,072	317,199
Germany	102,827	97,533
Korea	4,372	4,372
Others	3,863	3,830
	476,134	422,934

4. OTHER OPERATING (LOSS)/INCOME

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Dividend income from listed equity securities	441	573
Interest income from listed debt securities	2,820	1,445
Interest income from unlisted debt securities	1,392	-
Other interest income	732	1,748
Net gain on sale of fixed assets	67	304
Net realised and unrealised (losses)/gains on trading securities	(19,956)	43,695
Unrealised gains on derivative financial assets	-	297
Exchange gain/(loss)	5,991	(6,803)
Other income	1,251	4,347
	(7,262)	45,606

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	885	1,817
(b) Other item:		
Cost of inventories	792,831	858,143

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the period	7,405	1,400
Over-provision in respect of prior years	(3)	(556)
	7,402	844
Current tax – Overseas		
Provision for the period	10,361	5,707
	17,763	6,551

The provision for Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the six months ended 30 June 2011. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

During the period, a subsidiary had reached an agreement with the Hong Kong Inland Revenue Department (the "IRD") to settle certain disputes for the years ended 31 December 2004 to 2009, and received from the IRD the revised or additional assessments for the aforesaid years. As disclosed in the Group's financial statements for the year ended 31 December 2010, the Group had made an additional tax provision in respect of the tax disputes. The Directors considered that no further provision is required.

7. DISCONTINUED OPERATION

As disclosed in the Group's financial statements for the year ended 31 December 2010, Varitronix Pengyuan Electronics Limited ("Varitronix Pengyuan") was placed into liquidation and at this time the Directors had recognised a disposal of this company. At the time of deconsolidating Varitronix Marketing (China) Limited ("Varitronix Marketing") and Varitronix Pengyuan from the Group, the Group had recognised a related liability of HK\$82,953,000 and no profit or loss on disposal. During the period, the related liability has been adjusted to HK\$80,928,900. Going forward, the Directors will follow up on the liquidation progress. They consider that the current liability recognised is sufficient to cover any future obligation which is likely to crystallise.

The results of the discontinued operation for the six months ended 30 June 2011 and 2010 are as follows:

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Other operating expenses	-	(1,368)
Loss for the period from discontinued operation attributable to equity shareholders of the Company	-	(1,368)

8. DIVIDENDS

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

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Interim dividend declared of 11.0 HK cents (2010: 5.5 HK cents) per share on 324,012,204 shares (2010: 323,422,204 shares)	35,641	17,788

9. EARNINGS/(LOSS) 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\$98,262,000 (2010: HK\$70,233,000) and the weighted average number of shares of 323,422,204 shares (2010: 323,422,204 shares) in issue during the period, calculated as follows:

	Six months ended 30 June			
	2011		2010	
	Profit attributable to equity shareholders HK\$'000	Weighted average no. of ordinary shares	Profit/(loss) attributable to equity shareholders HK\$'000	Weighted average no. of ordinary shares
Continuing operations	98,262	323,422,204	71,601	323,422,204
Discontinued operation	-	323,422,204	(1,368)	323,422,204
	98,262	323,422,204	70,233	323,422,204

(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\$98,262,000 (2010: HK\$70,233,000) and the weighted average number of shares of 327,478,217 shares (2010: 323,422,204 shares) after adjusting for the effects of all dilutive potential shares, calculated as follows:

	Six months ended 30 June			
	2011		2010	
	Profit attributable to equity shareholders HK\$'000	Weighted average no. of ordinary shares	Profit/(loss) attributable to equity shareholders HK\$'000	Weighted average no. of ordinary shares
Continuing operations	98,262	327,478,217	71,601	323,422,204
Discontinued operation	-	327,478,217	(1,368)	323,422,204
	98,262	327,478,217	70,233	323,422,204

9. EARNINGS/(LOSS) PER SHARE (CONTINUED)

(c) Weighted average number of shares (diluted)

	Six months ended 30 June	
	2011	2010
	Number of shares	Number of shares
Weighted average number of shares used in calculating basic earnings per share	323,422,204	323,422,204
Effect of deemed issue of shares for no consideration arising from the Company's share option scheme	4,056,013	-
Weighted average number of shares used in calculating diluted earnings per share	327,478,217	323,422,204

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts of HK\$658,000 (2010: HK\$681,000)) with the following ageing analysis as of the end of the reporting period:

	At 30 June 2011	At 31 December 2010
	HK\$'000	HK\$'000
Within 60 days of the invoice issue date	342,597	335,062
61 to 90 days after the invoice issue date	72,806	40,903
91 to 120 days after the invoice issue date	15,301	19,024
More than 120 days but less than 12 months after the invoice issue date	13,857	9,836
	444,561	404,825

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

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

11. CASH AND CASH EQUIVALENTS

	At 30 June 2011	At 31 December 2010
	HK\$'000	HK\$'000
Cash at bank and in hand	186,754	301,181
Deposits with banks and other financial institutions	166,775	130,150
Cash and cash equivalents in the consolidated statement of financial position and the condensed consolidated cash flow statement	353,529	431,331

12. 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 2011	At 31 December 2010
	HK\$'000	HK\$'000
Within 60 days of supplier invoice date	240,278	238,082
61 to 120 days after supplier invoice date	46,276	69,104
More than 120 days but within 12 months after supplier invoice date	4,619	19,216
More than 12 months after supplier invoice date	584	336
	291,757	326,738

All creditors and accrued charges of the Group are expected to be settled or recognised as income within one year or are repayable on demand.

13. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related party, except for disclosed elsewhere in these unaudited condensed consolidated interim financial report:

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Sales of goods to Data Modul AG (Notes)	39,684	28,771

Note:

Recurring transactions

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

14. CAPITAL COMMITMENTS

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

	At 30	At 31
	June	December
	2011	2010
	HK\$'000	HK\$'000
Contracted for	599	7,996
Authorised but not contracted for	-	95
	599	8,091

15. CONTINGENT LIABILITIES

Financial guarantees issued

As at 30 June 2011, the Company has issued guarantees to banks in respect of banking facilities granted to certain subsidiaries.

As at 30 June 2011, 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 30 June 2011 under the guarantees issued and the facilities drawn down by the subsidiaries was HK\$126,332,000 (31 December 2010: HK\$177,842,000).

INTERIM DIVIDEND

The Board has recommended declaring an interim dividend of 11.0 HK cents (2010: 5.5 HK cents) per share for the six months ended 30 June 2011. The interim dividend will be payable on or around Tuesday, 4 October 2011 to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 23 September 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 19 September 2011 to Friday, 23 September 2011 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the aforementioned interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 16 September 2011.

STAFF

As at 30 June 2011, the Group employed 4,609 staff around the world, of whom 164 were in Hong Kong, 4,406 in the People's Republic of China (the "PRC") and 39 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 2011, the total equity of the Group was HK\$1,400 million (31 December 2010: HK\$1,357 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 2.03 as at 30 June 2011 (31 December 2010: 1.92).

At the period end, the Group held a liquid portfolio of HK\$648 million (31 December 2010: HK\$694 million) of which HK\$354 million (31 December 2010: HK\$431 million) was in cash and cash equivalents and HK\$294 million (31 December 2010: HK\$263 million) in securities. The unsecured interest-bearing bank loans and overdrafts amounted to HK\$126 million (31 December 2010: 178 million). The gearing ratio (bank loans and overdrafts over net assets) was 9% (31 December 2010: 13%).

FOREIGN CURRENCY EXPOSURE

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

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

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

As at 30 June 2011, the interests and shorts positions of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(a) Interests in shares of the Company

Name of Director	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
Ko Chun Shun, Johnson	Interest in controlled corporations	48,579,000 (Notes)	15.02

Notes:

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

(b) Interests in share options of the Company

Name of Director	Date of grant	Number of share options at 1 January 2011	Number of share options granted during the period	Number of share options at 30 June 2011	Exercisable period	Exercise price per share option
Ko Chun Shun, Johnson	19 December 2005	3,000,000	-	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73
	24 June 2010	1,900,000	-	1,900,000	(Note 1)	HK\$2.50
Tsoi Tong Hoo, Tony	22 July 2005	3,000,000	-	3,000,000	22 July 2005 to 21 July 2015	HK\$6.60
	24 June 2010	1,900,000	-	1,900,000	(Note 1)	HK\$2.50
Yuen Kin	24 June 2010	800,000	-	800,000	(Note 1)	HK\$2.50
Ho Te Hwai, Cecil	19 December 2005	3,000,000	-	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73
	24 June 2010	1,200,000	-	1,200,000	(Note 1)	HK\$2.50
Lo Wing Yan, William	24 June 2010	400,000	-	400,000	(Note 1)	HK\$2.50
Chau Shing Yim, David	24 June 2010	400,000	-	400,000	(Note 1)	HK\$2.50
Hou Ziqiang	24 June 2010	400,000	-	400,000	(Note 1)	HK\$2.50

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

(b) Interests in share options of the Company (continued)

Notes:

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

Saved as disclosed above, as at 30 June 2011, none of the Directors, chief executive or any of their associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Saved as disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the six months ended 30 June 2011 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their spouses or children under the age of 18 to acquire benefits by the means of the acquisition of the shares in or debentures of the Company or any other body corporate.

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

As at 30 June 2011, other than the interests disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above in respect of Mr. Ko Chun Shun, Johnson and Rockstead Technology Limited, so far as is known to the Directors and chief executives of the Company, the following company had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
FMR LLC	Interest in controlled corporation	19,000,000 (Note)	5.87

Note: The above interests represented long positions.

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

Saved as disclosed above, as at 30 June 2011, there were no other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Section 336 of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

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

A third share option scheme of the Company was adopted on 12 May 2003 as an incentive to the Participates. This scheme shall be valid and effective for a period of ten years ending on 11 May 2013, after which no further share options will be granted. The Company can grant share options to the Participants for a consideration of HK\$1.0 for each grant payable by the Participants. The maximum number of shares in respect of which share options may be granted under the third share option scheme and any other schemes of the Company may not exceed 10% of the issued share capital of the Company at the date of approval of the third share option scheme. The maximum

entitlement of each Participant in the total number of shares issued and to be issued upon exercise of share options granted under the third share option scheme and any other share option schemes of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue. The third share option scheme limit was subsequently refreshed by a resolution passed at the annual general meeting held on 2 June 2010. The maximum number of share options that can be granted by the Company was refreshed to 32,342,220 share options.

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

As at the date of this report, the total number of share options that can be granted was 20,642,220, representing 6.38% of the issued share capital of the Company. The total number of shares available for issue under the share option schemes as at 30 June 2011 represents 8.35% (2010: 8.35%) of the total issued share capital of the Company at that date.

SHARE OPTION SCHEMES (CONTINUED)

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

Date of grant	Number of share options at 1 January 2011	Number of share options granted during the period	Number of share options cancelled/lapsed during the period	Number of share options at 30 June 2011	Exercisable period	Exercise price per share option
Directors						
22 July 2005	3,000,000	-	-	3,000,000	22 July 2005 to 21 July 2015	HK\$6.60
19 December 2005	6,000,000	-	-	6,000,000	19 December 2005 to 18 December 2015	HK\$5.73
24 June 2010	7,000,000	-	-	7,000,000	(Note 1)	HK\$2.50
Employees (Note 2)						
30 August 2001	13,500	-	-	13,500	30 August 2001 to 29 August 2011	HK\$3.06
13 September 2002	14,000	-	-	14,000	13 September 2002 to 12 September 2012	HK\$3.905
6 October 2003	83,500	-	-	83,500	6 October 2003 to 5 October 2013	HK\$7.35
20 December 2004	197,000	-	-	197,000	20 December 2004 to 19 December 2014	HK\$7.50
24 June 2010	4,700,000	-	-	4,700,000	(Note 1)	HK\$2.50
Others (Note 2)						
30 August 2001	83,000	-	-	83,000	30 August 2001 to 29 August 2011	HK\$3.06
13 September 2002	85,000	-	-	85,000	13 September 2002 to 12 September 2012	HK\$3.905
30 October 2002	1,000,000	-	-	1,000,000	31 October 2002 to 30 October 2012	HK\$4.605
6 October 2003	42,500	-	-	42,500	6 October 2003 to 5 October 2013	HK\$7.35
20 December 2004	1,500,000	-	-	1,500,000	20 December 2004 to 19 December 2014	HK\$7.50
21 December 2004	300,000	-	-	300,000	21 December 2004 to 20 December 2014	HK\$7.45
19 December 2005	3,000,000	-	-	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73
	27,018,500	-	-	27,018,500		

SHARE OPTION SCHEMES (CONTINUED)

Notes:

1. Exercisable period:
 - (i) the first 20% of the share options shall be exercisable from 1 July 2011 to 30 June 2016;
 - (ii) the second 20% of the share options shall be exercisable from 1 July 2012 to 30 June 2016;
 - (iii) the third 20% of the share options shall be exercisable from 1 July 2013 to 30 June 2016;
 - (iv) the fourth 20% of the share options shall be exercisable from 1 July 2014 to 30 June 2016; and
 - (v) the remaining 20% of the share options shall be exercisable from 1 July 2015 to 30 June 2016.
2. Dr. Chang Chu Cheng ("Dr. Chang") retired as Director and become Honorary Chairman on 11 June 2007. The 4,300,000 share options held by Dr. Chang were retained until the end of the expiry of the respective exercisable periods of the share options, and reclassified from the category "Directors" to "Others".

An Employee became the financial advisor of the Company with effect from 9 April 2008. The 1,710,500 share options held by the financial advisor were retained until the end of the expiry of the respective exercisable periods of the share options, and reclassified from the category "Employees" to "Others".
3. No share option was exercised during the period.
4. The consideration for the share options granted was HK\$1.0.
5. The above interests represented long positions.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2011.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 of the Listing Rules throughout the period ended 30 June 2011.

All other information on the CGP Code has been disclosed in the corporate governance report contained in the 2010 annual report of the Company issued in March 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

As at the date of this report, the Audit Committee of the Company comprises the three Independent Non-executive Directors, Dr. Lo Wing Yan, William J.P. (Chairman of the Audit Committee), Mr. Chau Shing Yim, David and Mr. Hou Ziqiang. It has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2011 of the Company now reported on.

REMUNERATION COMMITTEE

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

DIRECTORS

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