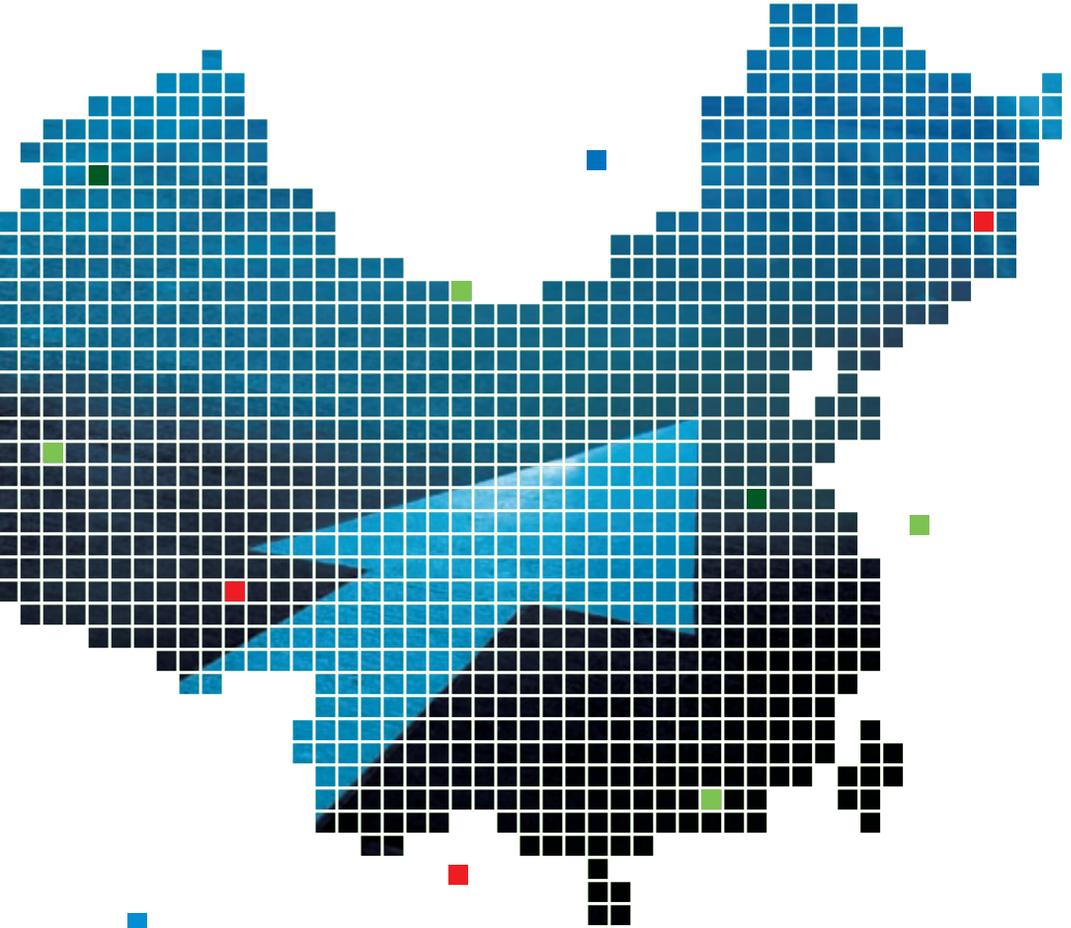




**VARITRONIX**



# A New Landscape

Interim Report 2010

Stock Code 710

Varitronix International Limited

# Chairman's Statement

## FINANCIAL HIGHLIGHTS

- Turnover: HK\$1,059 million (2009: HK\$824 million)
- Profit attributable to shareholders: HK\$70 million (2009: HK\$16 million)
- Interim dividend per share: 5.5 HK cents (2009: 1 HK cent)
- The Group's year-on-year financial results improved considerably, reflecting positive momentum amidst the economic recovery

On behalf of Varitronix International Limited (the "Company") and its subsidiaries (collectively "Varitronix" or the "Group"), I am pleased to present the Group's results for the period ended 30 June 2010.

During the period under review, we recorded turnover of HK\$1,059 million, approximately 29% increase as compared to the HK\$824 million recorded during the same period last year. Profit from operations was HK\$79 million and profit attributable to shareholders was HK\$70 million, representing an increase of approximately 92% and 338% respectively as compared to the corresponding period in 2009.

The Board of Directors (the "Board") has recommended an interim dividend of 5.5 HK cents (2009: 1 HK cent) per share.

## BUSINESS REVIEW

The overall business environment in 2010 improved significantly as compared to 2009. The adverse impact of the global financial crisis has gradually eased and market conditions have been more favourable. Apart from a few European countries, the major economies around the world are well on

the road to recovery. As compared to 2009, Varitronix has achieved improved financial performance. Against a backdrop of more favourable macro-economic conditions, the Group has begun to benefit from the internal restructuring initiatives taken in 2009.

The Group's automotive display business accounts for a significant portion of total sales. This business experienced continued strong growth in the first half of 2010 as compared to the same period of 2009. Since the end of 2009, we have begun to see a noticeable recovery among our European customers.

Our Korean automotive business has experienced rapid growth over the past few years. It now represents an important part of our automotive display business. In the first half of this year, we continued to receive encouraging new orders from this market.

Mainland China is an emerging automotive market for the Group as revenue generated by this region continues to rise. Orders from this market mostly entered the mass production stage in the first half of this year. Compared with our businesses in more developed markets, the Mainland is characterised by a shorter order cycle and a higher demand for expedient service. Accordingly, we are fine-tuning our operating model to cater for this rapidly growing market.

In the automotive market in the United States, our products were mostly provided for heavy vehicle applications. During the first half of 2010, order quantities increased.



## Chairman's Statement

During the period under review, industrial customers in Europe increased their demand for display products for applications such as electronic payment devices, electricity meters, etc. The demand for displays for home appliances gradually returned to pre-crisis levels.

A few years ago, the Group's customers in the United States were mainly from the industrial and heavy vehicle sectors. Following a change in strategy, we have diversified into the medical product and electricity meter sectors. Customers in the United States are now more evenly distributed among the industrial, medical, electricity meter and the heavy vehicle markets. With a diversified customer portfolio in the United States market, our business will be more resilient against market volatility in the future and is well positioned for continued growth.

### PROSPECTS

The recovery of the European automotive market has been steady and further growth is expected in the second half of the year. As for the automotive market in Asia, new orders are still coming from Mainland China. However, demand is expected to slow down in the fourth quarter as the Mainland automotive market may cool down after many years of rapid growth. Korean automotive business also may enter into a consolidation period after an exceptional performance during the global financial crisis.

It is expected that our customers in Europe and America will maintain their level of demand for industrial displays for the rest of the year. The Group is also engaged in the design of TFT displays for industrial and medical products. As our customers begin to upgrade their requirements, we will be able to enhance our product offerings by expanding into the TFT display market for our existing customer base.

The Group has been involved in the development of 3D projection technology for many years. Originally implemented in 3D cinemas, we began to study the feasibility of applying this technology for use in 3D TV, together with our customers a few years ago. In the beginning of this year, the Group commenced the production of displays for 3D eyeglasses to be used with 3D TV. 3D TV has already been launched in America and Japan, and growing demand for 3D eyeglasses is anticipated. With 3D technology gaining in popularity, more and more design houses and manufacturers are now participating in the development of peripheral products related to 3D. We are targeting this growing market as a focus of development and will build on our technology in 3D displays to develop more products in this new field.

### CONCLUSION

During the period under review, the global economy has continued to recover and we believe the positive trend will continue in the coming months. As we are optimizing our product mix with a view to focusing on products with a higher profit margin, we are optimistic that the company's performance will continue to improve.

However, during the first half of 2010, we witnessed a widespread shortage of electronic parts, and our production was negatively impacted by our inability to obtain parts on a timely basis. Our financial performance was also affected by a general increase in material costs. In the face of continued tight supply of electronic parts, we will handle our orders in a more flexible manner by making necessary adjustments to our production schedule and inventory management, coordinating more timely purchases of materials and increasing communication with our suppliers to mitigate the problems.

At the same time, minimum wage in Guangdong province has increased over 20% in May 2010, which in turn has raised our labour costs. The Group will closely monitor our labour cost situation and will strive to increase productivity to mitigate the increase in cost.

## **ACKNOWLEDGEMENT**

The world economy has emerged from the doldrums of the financial crisis and the pace of recovery has been a pleasant surprise. The initiatives we had undertaken during the economic downturn in 2009, such as

moving our production facilities in Shenzhen to Heyuan and discontinuing our under-performing businesses, have helped us to improve our competitive strengths. We are able to concentrate our resources on high-end display products so as to enhance our profitability. Although market sentiments have improved, we must remain cautious in terms of expansion. The European markets remain weak and there are many economic uncertainties ahead. With the prudent approach we have taken, I remain confident that the Group will make steady progress.

I am grateful to our shareholders and business partners for their support and to our colleagues for their hard work. With a coordinated effort, we have regained our growth momentum after the global financial crisis. I believe the Group's cash flow has returned to a more healthy state and the Board has decided to increase dividends to our shareholders in gratitude of their support.

**Ko Chun Shun, Johnson**  
*Chairman*

Hong Kong, dated 19 August 2010

# Consolidated Financial Statements

## CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

– unaudited

	Note	Six months ended 30 June	
		2010 HK\$'000	2009 HK\$'000
<b>Continuing operations</b>			
Turnover	3	1,059,408	824,164
Other operating income	4	45,606	59,259
Change in inventories of finished goods and work in progress		8,620	97,707
Raw materials and consumables used		(728,523)	(683,244)
Staff costs		(140,419)	(121,384)
Depreciation		(53,492)	(40,293)
Other operating expenses		(112,181)	(95,151)
Profit from operations		79,019	41,058
Finance costs	5(a)	(1,817)	(2,121)
Share of profits/(losses) of associates		798	(17,768)
Profit before taxation	5	78,000	21,169
Income tax	6	(6,551)	(3,122)
Profit for the period from continuing operations		71,449	18,047
<b>Discontinued operation</b>			
Loss for the period from discontinued operation	7	(1,368)	(2,479)
<b>Profit for the period</b>		<b>70,081</b>	<b>15,568</b>
<b>Attributable to:</b>			
Shareholders of the Company		70,233	15,811
Non-controlling interests		(152)	(243)
<b>Profit for the period</b>		<b>70,081</b>	<b>15,568</b>

	Note	Six months ended 30 June	
		2010 HK\$'000	2009 HK\$'000
<b>Dividends</b>			
Interim dividend declared during the period	8	17,788	3,234
<b>Earnings/(loss) per share</b>			
<b>Basic</b>			
– from continuing and discontinued operations	9	21.72 cents	4.89 cents
– from continuing operations		22.14 cents	5.66 cents
– from discontinued operation		(0.42) cents	(0.77) cents
<b>Diluted</b>			
– from continuing and discontinued operations		21.72 cents	4.89 cents
– from continuing operations		22.14 cents	5.66 cents
– from discontinued operation		(0.42) cents	(0.77) cents

The notes on pages 9 to 17 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010  
– unaudited

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
<b>Profit for the period</b>	<b>70,081</b>	15,568
<b>Other comprehensive income for the period (after tax and reclassification adjustments):</b>		
Foreign currency translation adjustments: exchange differences on translations of financial statements of overseas operations	(5,582)	9,107
Available-for-sales securities: net movement in the fair value reserve	(4,332)	3,147
<b>Total comprehensive income for the period from continuing operations</b>	<b>(9,914)</b>	12,254
<b>Discontinued operation</b>		
Foreign currency translation adjustments: exchange differences on translation of financial statements of overseas operation	(1,120)	(827)
<b>Total comprehensive income for the period</b>	<b>59,047</b>	26,995
<b>Attributable to:</b>		
Shareholders of the Company	59,199	27,174
Non-controlling interests	(152)	(179)
<b>Total comprehensive income for the period</b>	<b>59,047</b>	26,995

The notes on pages 9 to 17 form part of this interim financial report.

## Consolidated Financial Statements

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010 – unaudited

Note	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
<b>Non-current assets</b>		
Fixed assets		
– Other property, plant and equipment	339,822	353,591
– Interest in leasehold land held for own use	5,572	5,648
	345,394	359,239
Interest in associates	100,327	99,384
Loans receivable	61,528	123,055
Other financial assets	179,237	182,798
Deferred tax assets	797	2,198
	687,283	766,674
<b>Current assets</b>		
Trading securities	196,848	144,613
Inventories	296,119	276,561
Trade and other receivables	10 484,294	512,501
Current taxation recoverable	707	1,285
Cash and cash equivalents	11 363,395	380,713
	1,341,363	1,315,673
<b>Assets of a disposal group classified as held for disposal</b>		
	17,926	22,895
	1,359,289	1,338,568
<b>Current liabilities</b>		
Bank loans	217,935	218,955
Trade and other payables	12 495,481	519,068
Current taxation payable	3,854	1,857
Dividends payable	3,234	-
	720,504	739,880

Note	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
<b>Liabilities relating to assets of a disposal group classified as held for disposal</b>		
	84,401	157,771
	804,905	897,651
<b>Net current assets</b>		
	554,384	440,917
<b>Total assets less current liabilities</b>		
	1,241,667	1,207,591
<b>Non-current liabilities</b>		
Bank loans	16,667	37,000
Other payables	4,104	4,104
Deferred tax liabilities	878	2,282
<b>NET ASSETS</b>		
	1,220,018	1,164,205
<b>CAPITAL AND RESERVES</b>		
Share capital	80,856	80,856
Reserves	1,125,609	1,068,524
Amounts recognised in other comprehensive income and accumulated in equity relating to a disposal group classified as held for disposal	4,906	6,026
Total equity attributable to shareholders of the Company	1,211,371	1,155,406
Non-controlling interests	8,647	8,799
<b>TOTAL EQUITY</b>		
	1,220,018	1,164,205

The notes on pages 9 to 17 form part of this interim financial report.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 – unaudited

	Attributable to shareholders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Fair value reserve HK\$'000	Capital reserve HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Amounts recognised in other comprehensive income and accumulated in equity relating to a disposal group classified as held for disposal HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
<b>2010</b>											
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
Total comprehensive income for the period	-	-	(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)
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 shareholders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Fair value reserve HK\$'000	Capital reserve HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Amounts recognised in other comprehensive income and accumulated in equity relating to a disposal group classified as held for disposal HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
<b>2009</b>											
At 1 January 2009	80,856	695,336	18,430	1,016	11,373	(30,273)	611,194	6,165	1,394,097	14,632	1,408,729
Total comprehensive income for the period	-	-	9,043	3,147	-	-	15,811	(827)	27,174	(179)	26,995
Dividends approved in respect of the previous year	-	-	-	-	-	-	(3,234)	-	(3,234)	-	(3,234)
At 30 June 2009	80,856	695,336	27,473	4,163	11,373	(30,273)	623,771	5,338	1,418,037	14,453	1,432,490

The notes on pages 9 to 17 form part of this interim financial report.

## Consolidated Financial Statements

### CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010  
– unaudited

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
<b>Operating profit before changes in working capital</b>	<b>90,553</b>	43,884
Net changes in working capital	(26,079)	(42,488)
Net changes in assets and liabilities relating to assets and liabilities of a disposal group classified as held for disposal	(70,833)	(1,824)
Tax paid	(3,980)	(2,580)
<b>Net cash used in operating activities</b>	<b>(10,339)</b>	(3,008)
Net cash generated from/ (used in) investing activities	22,383	(38,941)
Net cash used in financing activities	(24,244)	(93,095)
<b>Net decrease in cash and cash equivalents</b>	<b>(12,200)</b>	(135,044)
Effect of foreign exchange rate changes	(5,118)	1,424
Cash and cash equivalents at 1 January	380,713	483,880
<b>Cash and cash equivalents at 30 June</b>	<b>363,395</b>	350,260
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash at bank and in hand	266,890	201,251
Deposits with banks and other financial institutions	96,505	149,009
	<b>363,395</b>	350,260

The notes on pages 9 to 17 form part of this interim financial report.

# Notes to the Interim Financial Report

## 1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The unaudited condensed consolidated interim financial statements should be read in conjunction with the consolidated annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

## 2. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those set out in the Group’s consolidated annual financial statements for the year ended 31 December 2009, except for the adoption of new and revised HKFRSs issued by the HKICPA. The following new standards and amendments to standards, which are relevant to the Group, have been adopted for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), “Business combinations”. For any business combinations acquired on or

after 1 January 2010, they will be recognized in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised) and there is no requirement to apply this standard retrospectively on business combinations acquired before the effective date of the standard. Accordingly, no adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- Amendments to HKAS 27, “Consolidated and separate financial statements”. As from 1 January 2010, any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses are only allocated to the non-controlling interests if the non-controlling interests are under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

### 2. CHANGES IN ACCOUNTING POLICIES (continued)

- HKAS 1 (amendment), "Presentation of financial statements". The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of a current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.
- HKFRS 2 (amendments) clarify the scope of HKFRS 2 and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. The amendments also incorporate the guidance contained in currently effective HK(IFRIC) 11 and hence once the amendments are effective these two interpretations will be withdrawn. The Group has applied HKFRS 2 (amendments) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

### 3. TURNOVER AND SEGMENT REPORTING

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 operating 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 revenue 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	
	2010 HK\$'000	2009 HK\$'000
<b>Continuing operations</b>		
Hong Kong and the PRC (place of domicile)	309,424	286,535
Europe	331,157	293,341
Korea	258,961	179,371
North America	80,425	46,235
Others	79,441	18,682
	<b>1,059,408</b>	<b>824,164</b>
<b>Discontinued operation</b>		
The PRC	-	114,083
<b>Consolidated turnover</b>	<b>1,059,408</b>	<b>938,247</b>

#### (ii) Group's Specified Non-current Assets

	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
Hong Kong and the PRC (place of domicile)	343,203	354,845
Europe	98,104	95,782
Korea	3,602	3,602
Others	812	4,394
	<b>445,721</b>	<b>458,623</b>

### 4. OTHER OPERATING INCOME

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
<b>Continuing operations</b>		
Dividend income from listed equity securities	573	8,929
Interest income from listed debt securities	1,445	1,231
Profit/(loss) on disposal of fixed assets	304	(43)
Other interest income	1,748	4,629
Rental income under operating leases	-	7,907
Realised and unrealised gains on trading securities	43,695	16,566
Unrealised gains on derivative financial assets	297	11,696
Exchange (loss)/gain	(6,803)	7,562
Other income	4,347	782
	<b>45,606</b>	<b>59,259</b>
<b>Discontinued operation</b>		
Other interest income	-	83
Exchange loss	-	(252)
	-	(169)
	<b>45,606</b>	<b>59,090</b>

## Notes to the Interim Financial Report

### 5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
<b>(a) Finance costs:</b>		
<b>Continuing operations</b>		
Interest on bank advances and other borrowings repayable within five years	1,817	2,121
<b>Discontinued operation</b>		
Interest on bank advances and other borrowings repayable within five years	-	183
<b>(b) Other items:</b>		
<b>Continuing operations</b>		
Cost of inventories	858,143	683,724
Staff redundancy costs	10,528	9,423
<b>Discontinued operation</b>		
Cost of inventories	-	111,699

### 6. INCOME TAX

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for Hong Kong Profits Tax for the period	1,400	838
Over-provision in respect of prior years	(556)	-
	844	838
<b>Current tax – Overseas</b>		
Provision for the period	5,707	2,284
	6,551	3,122

The provision for Hong Kong Profits Tax is calculated at the rate of 16.5% (2009: 16.5%) of the estimated assessable profits for the six months ended 30 June 2010. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

## 7. DISCONTINUED OPERATION

On 30 December 2009, the Group passed a written resolution to proceed with a voluntary winding-up of a wholly-owned subsidiary, Varitronix Marketing (China) Limited, which in turn held a 99% equity interest in Varitronix Pengyuan Electronics Limited ("Varitronix Pengyuan"). The remaining 1% equity interest in Varitronix Pengyuan is held by Varitronix Shenzhen Linkscore Limited, an indirect wholly-owned subsidiary of the Group. As a result of the voluntary winding-up, the Group's business operations in the design, manufacture, and sale of TFT-LCDs for the mobile phone market in Mainland China were discontinued. Further details in relation to this transaction are set out in the Company's announcement dated 30 December 2009.

The results of the discontinued operation for the six months ended 30 June 2010 and 2009 are as follows:

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Turnover (Note 3)	-	114,083
Other operating loss (Note 4)	-	(169)
Changes in inventories of finished goods (Note 5(b))	-	(111,699)
Staff costs	-	(74)
Depreciation	-	(210)
Other operating expenses	(1,368)	(4,227)
Loss from operation	(1,368)	(2,296)
Finance costs (Note 5(a))	-	(183)
Loss for the period from discontinued operation attributable to shareholders of the Company	(1,368)	(2,479)

## 8. DIVIDENDS

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Interim dividend declared	17,788	3,234

## 9. EARNINGS/(LOSS) PER SHARE

### (a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of the Company of HK\$70,233,000 (2009: HK\$15,811,000) and the weighted average number of shares of 323,422,204 shares (2009: 323,422,204 shares) in issue during the period, calculated as follows:

	Six months ended 30 June			
	2010		2009	
	Profit/(loss) attributable to shareholders HK\$'000	Weighted average no. of ordinary shares	Profit/(loss) attributable to shareholders HK\$'000	Weighted average no. of ordinary shares
Continuing operations	71,601	323,422,204	18,290	323,422,204
Discontinued operation	(1,368)	323,422,204	(2,479)	323,422,204
	<b>70,233</b>	<b>323,422,204</b>	<b>15,811</b>	<b>323,422,204</b>

### (b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share is based on the profit attributable to shareholders of the Company of HK\$70,233,000 (2009: HK\$15,811,000) and the weighted average number of shares of 323,422,204 shares (2009: 323,422,204 shares) after adjusting for the effects of all dilutive potential shares, calculated as follows:

	Six months ended 30 June			
	2010		2009	
	Profit/(loss) attributable to shareholders HK\$'000	Weighted average no. of ordinary shares	Profit/(loss) attributable to shareholders HK\$'000	Weighted average no. of ordinary shares
Continuing operations	71,601	323,422,204	18,290	323,422,204
Discontinued operation	(1,368)	323,422,204	(2,479)	323,422,204
	<b>70,233</b>	<b>323,422,204</b>	<b>15,811</b>	<b>323,422,204</b>

## 9. EARNINGS PER SHARE (continued)

### (c) Weighted average number of shares (diluted)

	Six months ended 30 June	
	2010 Number of shares	2009 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	-	-
Weighted average number of shares used in calculating diluted earnings per share	323,422,204	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) with the following ageing analysis as of the balance sheet date:

	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
Within 60 days of the invoice issue date	375,211	320,340
61 to 90 days after the invoice issue date	16,035	88,541
91 to 120 days after the invoice issue date	6,508	21,752
More than 120 days but less than 12 months after the invoice issue date	4,314	4,478
More than 12 months after the invoice issue date	61	61
	402,129	435,172

Debts are due within 90 days from the date of the invoice.

## 11. CASH AND CASH EQUIVALENTS

	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
Cash at bank and in hand	266,890	251,490
Deposits with banks and other financial institutions	96,505	129,223
Cash and cash equivalents in the consolidated statement of financial position and the condensed consolidated cash flow statement	363,395	380,713

## 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 balance sheet date:

	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
Within 60 days of supplier invoice date	338,671	308,524
61 to 120 days after supplier invoice date	21,730	125,181
More than 120 days but within 12 months after supplier invoice date	3,494	8,945
More than 12 months after supplier invoice date	354	180
	364,249	442,830

### 13. EQUITY SETTLED SHARE-BASED TRANSACTIONS

#### (a) Share options granted during the period

On 24 June 2010, the Company granted a total of 11,700,000 share options to the eligible persons including its directors and employees, to subscribe for a total of 11,700,000 ordinary shares of HK\$0.25 each of the Company. The options were granted pursuant to the share options scheme adopted by the Company on 12 May 2003 and refreshed on 2 June 2010.

A summary of such grant is set out below:

Date of grant : 24 June 2010

Exercise price : HK\$2.50 per share  
of the options  
granted

Closing price of : HK\$2.50 per share  
the shares on  
the date of grant

Validity period of : (i) the first 20% of the options  
the options shall be exercisable from 1  
July 2011 to 30 June 2016;  
(ii) the second 20% of the  
options shall be exercisable  
from 1 July 2012 to 30 June  
2016;  
(iii) the third 20% of the options  
shall be exercisable from 1  
July 2013 to 30 June 2016;  
(iv) the fourth 20% of the options  
shall be exercisable from 1  
July 2014 to 30 June 2016;  
and  
(v) the remaining 20% of the  
options shall be exercisable  
from 1 July 2015 to 30 June  
2016.

#### (b) Estimated fair value of share options and assumptions

The estimated fair value of services received in return for share options granted are measured by management with reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model.

The fair value of each option granted during the period as determined by using the Black-Scholes model ranged from HK\$0.90 to HK\$0.98. The significant inputs into the model were the closing stock price at the grant date of HK\$2.50 per option, exercise price of HK\$2.50, expected option life of 5 years, expected dividend yield of 0.80%, annual risk-free interest rate ranged from 1.313% to 1.813%, and the expected volatility ranged from 43.89% to 50.29%.

The Group estimated the total expenses of HK\$93,200 for the six months ended 30 June 2010 in relation to share options granted by the Company. The amount was considered as immaterial and was not provided in financial statements.

On 30 June 2010, a total of 27,018,500 share options were granted to eligible persons of the share option scheme. Details of the grant of the share options were disclosed under the section headed "Share Option Schemes" of Other Information.

## 14. COMMITMENTS

Capital commitments for the purchase of property, plant and equipment not provided for in the Group's financial statements were as follows:

	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
Authorised but not contracted for	62	233
Contracted for	410	3,026
	472	3,259

## 15. CONTINGENT LIABILITIES

### Financial guarantees issued

As at 30 June 2010, the Company has issued guarantees to banks in respect of a banking facility granted to certain subsidiaries.

As at 30 June 2010, the directors of the Company (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 2010 under the guarantees issued and the facility drawn down by the subsidiaries was HK\$235,097,000 (31 December 2009: HK\$319,996,000).



## Other Information

### INTERIM DIVIDEND

The Board has recommended declaring an interim dividend of 5.5 HK cents (2009: 1 HK cent) per share for the six months ended 30 June 2010. The interim dividend will be payable on or around Monday, 4 October 2010 to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 24 September 2010.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 20 September 2010 to Friday, 24 September 2010 (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 Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 17 September 2010.

### STAFF

As at 30 June 2010, the Group employed 5,218 staff around the world, of whom 155 were in Hong Kong, 5,019 were in the People's Republic of China (the "PRC") and 44 were 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.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the total equity of the Group was HK\$1,220 million (31 December 2009: HK\$1,164 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 1.69 as at 30 June 2010 (31 December 2009: 1.49).

At the period end, the Group held a liquid portfolio of HK\$585 million (31 December 2009: HK\$553 million) of which HK\$364 million (31 December 2009: HK\$381 million) was in cash and cash equivalents and HK\$221 million (31 December 2009: HK\$172 million) in securities. The unsecured interest-bearing bank loans and overdrafts amounted to HK\$235 million (31 December 2009: HK\$256 million). The gearing ratio (bank loans and overdrafts over net assets) was approximately 19% (31 December 2009: 22%).

### 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.

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

As at 30 June 2010, 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 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

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of the shares in the Company held</b>	<b>Approximate percentage of the total issued share capital of the Company</b>
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) All the interests disclosed above represent long positions.

## Other Information

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

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

Number of Director	Date of grant	Number of share options at 1 January 2010	Number of share options granted during the period	Number of share options at 30 June 2010	Exercisable period	Exercise price per share option	Closing price per share immediately before the date on which the share options are granted
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	HK\$2.37
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	HK\$2.37
Yuen Kin	24 June 2010	-	800,000	800,000	(Note 1)	HK\$2.50	HK\$2.37
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	HK\$2.37
Lo Wing Yan, William	24 June 2010	-	400,000	400,000	(Note 1)	HK\$2.50	HK\$2.37
Chau Shing Yim, David	24 June 2010	-	400,000	400,000	(Note 1)	HK\$2.50	HK\$2.37
Hou Ziqiang	24 June 2010	-	400,000	400,000	(Note 1)	HK\$2.50	HK\$2.37

#### Notes:

- Exercisable period:
  - the first 20% of the share options shall be exercisable from 1 July 2011 to 30 June 2016;
  - the second 20% of the share options shall be exercisable from 1 July 2012 to 30 June 2016;
  - the third 20% of the share options shall be exercisable from 1 July 2013 to 30 June 2016;
  - the fourth 20% of the share options shall be exercisable from 1 July 2014 to 30 June 2016; and
  - the remaining 20% of the share options shall be exercisable from 1 July 2015 to 30 June 2016.
- All the interests disclosed above represent long positions.

Saved as disclosed above, as at 30 June 2010, 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 2010 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 2010, 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 the shares in the Company held	Approximate percentage of the total issued share capital of the Company
FMR LLC	Interest in controlled corporation	29,117,000 (Note)	9.00

Note: All the above interests represented long positions.

Saved as disclosed above, as at 30 June 2010, 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

The Company had a share option scheme for employees of the Group which was adopted on 6 June 1991, 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.

## Other Information

### SHARE OPTION SCHEMES (continued)

A third share option scheme of the Company was adopted on 12 May 2003 and refreshed on 2 June 2010 as an incentive to the Group's employees and business associates. This scheme shall be valid and effective for a period of ten years ending on 11 May 2013, after which no further options will be granted. The maximum number of shares in respect of which 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 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 total number of shares available for issue under the share option schemes as at 30 June 2010 represents 8.35% (2009: 4.86%) of the total issued share capital of the Company at that date.

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

Date of grant	Number of share options at 1 January 2010	Number of share options granted during the period	Number of share options cancelled/lapsed during the period	Number of share options at 30 June 2010	Exercisable period	Exercise price per share option	Closing price per share immediately before the date on which the share options are granted
<b>Directors</b>							
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	HK\$2.37
<b>Employees (Note 2)</b>							
1 June 2000	159,000	-	(159,000)	0	1 July 2000 to 30 June 2010	HK\$11.30	-
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	HK\$2.37

## SHARE OPTION SCHEMES (continued)

Date of grant	Number of share options at 1 January 2010	Number of share options granted during the period	Number of share options cancelled/ lapsed during the period	Number of share options at 30 June 2010	Exercisable period	Exercise price per share option	Closing price per share immediately before the date on which the share options are granted
<i>Others</i> (Note 2)							
1 June 2000	55,000	-	(55,000)	0	1 July 2000 to 30 June 2010	HK\$11.30	-
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	-
	15,532,500	11,700,000	(214,000)	27,018,500			

### Notes:

- Exercisable period:
  - the first 20% of the share options shall be exercisable from 1 July 2011 to 30 June 2016;
  - the second 20% of the share options shall be exercisable from 1 July 2012 to 30 June 2016;
  - the third 20% of the share options shall be exercisable from 1 July 2013 to 30 June 2016;
  - the fourth 20% of the share options shall be exercisable from 1 July 2014 to 30 June 2016; and
  - the remaining 20% of the share options shall be exercisable from 1 July 2015 to 30 June 2016.
- 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".
- No share option was exercised during the period.
- The consideration for the share options granted was HK\$1.



## Other Information

### **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 2010.

### **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 2010.

All other information on the CGP Code has been disclosed in the corporate governance report contained in the 2009 annual report of the Company issued in April 2010.

### **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 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 2010 of the Company now reported on.

### **REMUNERATION COMMITTEE**

The Remuneration Committee 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. Ho Te Hwai, Cecil and Mr. Yuen Kin 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.