

**VARITRONIX INTERNATIONAL LTD :
A SOLID COMPANY, BACKED BY CASH OF \$HK1.89 PER SHARE**

The \$HK14.15 share price of Varitronix International Ltd (Code: 710), by the current standards of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), is fairly priced, considering that it is principally a manufacturer and seller of liquid crystal displays and related products.

But, with a Net Asset Value (NAV) Per Share of about \$HK4, as at December 31, 1999, the current stock market price of \$HK14.15 per share is just 3.54 times the NAV.

And this Company, listed on The Stock Exchange of Hongkong Ltd, has been a consistent winner, even during the most difficult times.

The recently published 1999 Annual Report appears to belie, to some extent, at least, the situation for the Current Year, ending December 2000, because, in view of the Company's history and the fact that the Directors recommended a 55-cent Special Dividend in addition to the 45-cent Final Dividend, it seems only logical to come to the conclusion that the Directors would not be shelling out an additional \$HK158.88 million in dividends unless they knew something that other shareholders have yet to discover.

For the last Financial Year, ended December 31, 1999, Varitronix reported a Turnover of about \$HK846.19 million, a decrease of about 6.93 percent over the Turnover, recorded in the 1998 Year.

The Profit Attributable to Shareholders came down to about \$HK256.22 million, which was a reduction of about \$HK44.63 million, or about 14.84 percent, compared with the previous Year's Bottom Line.

The reason that last Year's Bottom Line came down as much as it did was due in part to a \$HK13-million 'hit' that this Company had to take on account of losses in its associated company.

This company is Varitronix EC (Malaysia) Sdn. Bhd. that is 50 percent held by the Group's 68.42-percent held Malaysian subsidiary, Varitronix (Malaysia) Sdn. Bhd.

Nothing about this Malaysian associated company has been stated by Management except for the vague and very brief missive, contained in the Chairman's Statement, which reads: *'Varitronix Malaysia continues to benefit from the robust demands of telecommunications and automotive markets with encouraging results. This again proves the correctness of the decision to steer our Malaysian operation towards the MNC market supplementing our Hong Kong operation ...'*

Varitronix has invested not less than \$HK21 million in its Malaysian associate so that the \$HK13-million deduction, recorded in the past Year, does not speak well for Management, at least in regard to this venture.

To be totally fair to Management, however, this is the first recorded loss in an associate, going back at least to 1995.

But that would be, just about, the biggest criticism that one could lodge against Management, whose record, over the past 5 Financial Years, is very creditable as TARGET's table illustrates:

	Financial Year ended December 31				
	1995	1996	1997	1998	1999
	<i>(All Figures are Denominated in \$HK'000)</i>				
Turnover	679,524	683,869	843,292	909,059	846,138

Profit from Operations	278,968	279,838	341,569	327,957	299,482
Financing Costs	(9,359)	(6,516)	(3,884)	(5,114)	(1,221)
Share of Profits less Losses of Associated Companies	6	382	464	Nil	(12,956)
Profit from Ordinary Activities before Taxation	269,615	273,704	338,149	322,843	285,305
Taxation	(25,657)	(27,427)	(37,115)	(14,601)	(26,003)
Minority Interests	2,473	7,472	(419)	(7,394)	(3,086)
Profit Attributable to Shareholders	246,431	253,749	300,615	300,848	256,216

Considering how most other companies, especially manufacturing companies, suffered between 1997 and 1999, this Company appears to have done very well.

For the Current Year, according to the Chairman's Statement, the Company's Net Profits could be at record levels, depending on whether or not the Company can locate sufficient Integrated Circuit suppliers to meet the demand for the Company's products.

That would appear to be a major concern of Management, according to Chairman Dr C.C. Chang.

Geographic Composition

Varitronix sells its liquid crystal displays to customers, located in 8 areas of the world, described below:

<u>Name of Location</u>	<u>Ranking</u>	<u>Percentage of Turnover</u>	<u>Amount (\$HK'000)</u>
North America	Number One	25.79	\$HK218,165
Europe (excluding Germany, France and The United Kingdom)	Number Two	20.02	\$HK169,349
France	Number Three	12.85	\$HK108,685
The HKSAR	Number Four	12.70	\$HK107,386
United Kingdom	Number Five	11.34	\$HK 95,882
Germany	Number Six	8.75	\$HK 73,971
Asia (excluding the HKSAR)	Number Seven	7.97	\$HK 67,433
Others	Number Eight	0.63	\$HK 5,267

It is clear that the long-term policy of the Company has been diversification of markets.

This is a specialist company, which is concentrating on its core business: The manufacture of microdisplays, a product that is unlikely to go out of style for a long time to come.

Strategic alliances, the Chairman has stated, have been formed with suppliers, thereby guaranteeing a constant supply of the necessary parts in the production of the Company's products.

The Company claims to have developed a full-colour, bi-stable cholesteric display, complete with memory retention properties.

These are said to be especially useful for signboards and information displays – railways, airports, etc.

As for finances, this Company is especially strong.

As at the 1999 Balance Sheet Date, the Company had cash and cash equivalents of about \$HK544.16 million.

This compares with the 1998 position when the Company had cash and cash equivalents of about \$HK485.40 million.

To illustrate what the 1999 figure of the cash and cash equivalents means to shareholders, one notes that it represents about \$HK1.89 per share.

The Current Ratio (Current Assets divided by Current Liabilities), as at the 1999 Balance Sheet Date, was about 2.03 times.

In terms of the Quick Ratio (Current Assets minus Inventories, divided by Current Liabilities), the figure was about 1.63 times.

This cash is generating income for the Company at the rate of between \$HK34.70 million (in 1998) and \$HK39.64 million (the 1999 figure).

This Company is, virtually, debt free.

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