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VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

CONTINUING CONNECTED TRANSACTIONS

The Group has been selling LCD and related products to the DM Group for many years in the ordinary and usual course of business of the Group. Varitronix GmbH was established as a joint venture company in February 1996 between the Group and Data Modul and has acted as the Group's customer liaison office in Germany. Varitronix GmbH is owned as to 60% by the Group and 40% by Data Modul.

As Data Modul holds a 40% equity interest in Varitronix GmbH, Data Modul is a connected person of the Company for the purposes of the Listing Rules. Due to an inadvertent oversight, the Continuing Connected Transactions between the Group and the DM Group had not previously been identified as constituting non-exempt continuing connected transactions under the Listing Rules.

To comply with the Listing Rules, the Company entered into the Agreement with Data Modul on 26 November 2008. The Company will convene the SGM to seek Independent Shareholders' approval in respect of the Continuing Connected Transactions and the Caps.

A circular containing particulars of the Agreement, a letter from the independent board committee, a letter from an independent financial adviser and the notice convening the SGM will be despatched to Shareholders as soon as practicable.

BACKGROUND

The Group is principally engaged in the design, manufacture and sale of LCD and related products and has been selling its products to the DM Group for many years which in turn distributes the Group's products in Europe.

The DM Group is a manufacturer of complete LCD and plasma flat display monitors for the industrial and professional areas and is principally engaged in the development, production and sale of products including display components, subassembly products, and special display monitors for ship navigation, medical and rugged industrial applications. The DM Group is also engaged in the development of airport information systems, railway passenger information systems and retail business systems.

As set out in the announcement of the Company dated 20 October 2008, the Group has from time to time acquired shares of Data Modul on the Frankfurt Stock Exchange. As at the date of this announcement, the Group holds 20% of the issued share capital of Data Modul.

The Group established a joint venture, Varitronix GmbH, with Data Modul in February 1996 as the Group's customer liaison office in Germany. As at the date of this announcement, Varitronix GmbH is owned by the Company as to 60% and by Data Modul as to 40%. As a 40% shareholder of the Group's 60% owned subsidiary in Germany, Data Modul is a connected person of the Company for the purposes of the Listing Rules. Due to an inadvertent oversight, the Continuing Connected Transactions between the Group and the DM Group had not previously been identified as constituting non-exempt continuing connected transactions under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The Group has been selling LCD and related products to the DM Group. The Continuing Connected Transactions constituted continuing connected transactions for the Company for the purposes of the Listing Rules and were entered into between the Group and the DM Group on an arm's length basis and on normal commercial terms. Due to an inadvertent oversight, the Company has not complied with the applicable reporting, announcement and independent shareholders' approval requirements in respect of the Continuing Connected Transactions.

Set out below is a summary of the Continuing Connected Transactions between the Group and the DM Group for the financial year ended 31 December 2007 and for the ten months ended 31 October 2008:

	For the year ended 31 December 2007		For the ten months ended 31 October 2008	
	<i>US\$ million</i>	<i>Equivalent HK\$ million</i>	<i>US\$ million</i>	<i>Equivalent HK\$ million</i>
Sales of LCD and related products to the DM Group	11.1	86.6	8.6	67.1

The Group also purchases some raw materials from the DM Group. In addition, the DM Group provides office premises and certain general administrative and promotional services to Varitronix GmbH. All the above transactions have been carried out in the ordinary and usual course of business of the Group on normal commercial terms. As far as the Company knows, except for the year ended 31 December 2004, where the purchase of raw materials from the DM Group constituted continuing connected transactions for the Company which should have been subject to the announcement requirements but exempt from the independent shareholders' approval requirements at such time, all these transactions were exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

THE AGREEMENT

To comply with the Listing Rules, the Company entered into the Agreement with Data Modul to govern the principles upon which the detailed terms of the Continuing Connected Transactions shall be determined between members of the Group and the DM Group.

Date

26 November 2008

Parties

- (1) the Company, seller
- (2) Data Modul, buyer

Continuing Connected Transactions

Under the Agreement, the Group may sell LCD and related products to the DM Group. The Continuing Connected Transactions to be entered into between the Company and the DM Group shall be agreed between the relevant parties on an arm's length basis with reference to the prices and credit terms offered by the Group to independent third parties in respect of the same and/or similar or comparable products; and if no such comparable reference prices/credit terms are available, the prices and credit terms shall be determined by mutual agreement between the parties based upon reasonable commercial principles. The Continuing Connected Transactions are usually settled by Telegraphic Transfer within 60 to 90 days after shipment.

Caps

The Continuing Connected Transactions shall not exceed the following Caps.

Year ending 31 December	<i>US\$ million</i>	<i>HK\$ million</i> [†]
2008	11.5	89.7
2009	16.0	124.8
2010	23.0	179.4

[†] The Caps in HK\$ are for illustration purposes only. The Continuing Connected Transactions shall not exceed the Caps in US\$.

The proposed cap for the Continuing Connected Transactions for the year ending 31 December 2008 was determined based on (i) the actual transaction amount of the Continuing Connected Transactions; (ii) the orders received from the DM Group; and (iii) estimated orders which may be received from the DM Group determined with reference to the ordering pattern of the DM Group during the period approaching year end.

The caps for the year ending 31 December 2009 and 2010 were proposed by the Company based on (i) the cap for the year ending 31 December 2008 and an annual growth rate of 15% which in turn was estimated by the Company based on the average annual growth rates of the transaction amounts for the Continuing Connected Transactions for the past five years; and (ii) in addition to above growth, estimated new demands from the DM Group in respect of certain new projects which the Group is now working with the DM Group amounting to US\$2.5 million for 2009 and US\$7.4 million for 2010.

The Directors (excluding the independent non-executive Directors who will express their view after receiving advice from the independent financial adviser) are of the opinion that the proposed Caps are fair and reasonable and are in the interests of the Company and Shareholders as a whole.

Term

The Agreement shall be for a term commencing on the date when the Continuing Connected Transactions are approved by the Independent Shareholders and ending on 31 December 2010.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Continuing Connected Transactions have been, and subject to Independent Shareholders' approval will continue to be, carried out in the ordinary and usual course of business of the Group on normal commercial terms. The Company considers that it is in the Group's best interests to sell products to the DM Group in order to generate income for the Group, provided that the sales by the Group to the DM Group are priced comparable to market prices and/or on a basis which is fair and reasonable to the Group.

The Directors (excluding the independent non-executive Directors who will express their view after receiving advice from the independent financial adviser) consider that the Continuing Connected Transactions have been and will continue to be carried out under normal commercial terms which are fair and reasonable, and in the interests of the shareholders of the Company as a whole.

GENERAL

As stated above in this announcement, Data Modul is a connected person of the Company for the purposes of the Listing Rules. The Continuing Connected Transactions constitute non-exempt continuing connected transactions under the Listing Rules and are subject to the disclosure and reporting requirements under Rules 14A.37 to 14A.39 and 14A.45 to 14A.47 and are subject to the approval of the Independent Shareholders under Rule 14A.35 of the Listing Rules.

The SGM will be convened to seek Independent Shareholders' approval for the Continuing Connected Transactions (including the Caps), with voting on the relevant resolution to be by way of poll. Data Modul and its associates will abstain from voting at the SGM on the resolution in respect of the Continuing Connected Transactions, if they hold any shares in the Company. An independent board committee will be established to advise the Independent Shareholders on whether or not to vote in favour of the Continuing Connected Transactions and the Caps. An independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders on whether the Continuing Connected Transactions (including the Caps and the terms of the Agreement) are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

A circular containing particulars of the Continuing Connected Transactions and the Agreement, a letter from the independent board committee, a letter from the independent financial adviser and the notice convening the SGM will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

Unless the context requires otherwise, the use of capitalised terms in this announcement shall have the following meanings:

“Agreement”	the agreement dated 26 November 2008 entered into between the Company and Data Modul in respect of the Continuing Connected Transactions
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors

“Caps”	the maximum aggregate value for the Continuing Connected Transactions for each of the three years ending 31 December 2010
“Company”	Varitronix International Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Continuing Connected Transactions”	the sale of LCD and related products by the Group to the DM Group
“Data Modul”	Data Modul Aktiengesellschaft, a company founded in Germany with limited liability, the shares of which are listed on the Frankfurt Stock Exchange
“Directors”	the directors of the Company
“DM Group”	Data Modul and its associates
“Germany”	the Federal Republic of Germany
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholder(s)”	the shareholder(s) of the Company, other than Data Modul and its associates
“LCD”	liquid crystal display
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“SGM”	the special general meeting to be convened to consider and approve, if thought fit, the Continuing Connected Transactions and the Agreement (including the Caps)
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America

By order of the Board
Varitronix International Limited
Ko Chun Shun, Johnson
Chairman

Hong Kong, 26 November 2008

As at the date of this announcement, the Board comprises six directors, of which Mr. Ko Chun Shun, Johnson, Mr. Tsoi Tong Hoo, Tony and Mr. Ho Te Hwai, Cecil are Executive Directors, and Dr. Lo Wing Yan, William J.P., Mr. Yuen Kin and Mr. Hou Ziqiang are Independent Non-executive Directors.

For the purposes of illustration, US\$ is converted into HK\$ at a rate of US\$1 = HK\$7.8.