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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** as to any aspect of this circular, you should consult a licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Varitronix International Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, licensed securities dealer or other agents through whom the sale was effected for transmission to the purchaser or transferee.

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**VARITRONIX**  
**VARITRONIX INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 710)**

**CONTINUING CONNECTED TRANSACTIONS**

**Financial adviser**

**OSK Capital Hong Kong Limited**

**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**

  
**Optima Capital Limited**

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A letter from the Board (as defined herein) is set out on pages 3 to 7 of this circular. A letter of recommendation from the Independent Board Committee (as defined herein) to the Independent Shareholders (as defined herein) is set out on page 8 of this circular. A letter from Optima Capital, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 9 to 15 of this circular.

A notice convening the SGM (as defined herein) to be held at 10:00 a.m. on Tuesday, 30 December 2008 at 9th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong is set out on pages 22 to 23 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the Hong Kong branch share registrars and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong and in any event not later than 48 hours before the time of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

12 December 2008

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings, unless the context otherwise requires:*

“Agreement”	the master 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 Board Committee”	an independent committee of the Board comprising Dr. Lo Wing Yan, William J.P., Mr. Yuen Kin and Mr. Hou Ziqiang established to advise the Independent Shareholders in respect of the Agreement and the Caps
“Independent Shareholder(s)”	the shareholder(s) of the Company, other than the DM Group

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## DEFINITIONS

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“Latest Practicable Date”	9 December 2008, being the latest practicable date prior to the printing of this circular for the purposes of ascertaining certain information contained herein
“LCD”	liquid crystal display
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Optima Capital”	Optima Capital Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the Caps
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting to be convened by the Company at 10:00 a.m. on Tuesday, 30 December 2008 at 9th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong to consider and approve, if thought fit, the Agreement and the Caps
“Share(s)”	ordinary share(s) of HK\$0.25 each in the share capital of the Company
“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

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

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## LETTER FROM THE BOARD

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**VARITRONIX**

## **VARITRONIX INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 710)**

*Executive Directors:*

Mr. Ko Chun Shun, Johnson (*Chairman*)  
Mr. Tsoi Tong Hoo, Tony  
Mr. Ho Te Hwai, Cecil

*Independent non-executive Directors:*

Dr. Lo Wing Yan, William J.P.  
Mr. Yuen Kin  
Mr. Hou Ziqiang

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Head office and*

*principal place of business:*

9th Floor, Liven House  
61-63 King Yip Street  
Kwun Tong  
Kowloon  
Hong Kong

12 December 2008

*To the Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

On 26 November 2008, the Company announced that it entered into the Agreement with Data Modul on even date in respect of the Continuing Connected Transactions and set the Caps. 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. The Continuing Connected Transactions constitute non-exempt continuing connected transactions and are subject to the approval of the Independent Shareholders.

The purpose of this circular is to provide you with details of the Continuing Connected Transactions and the Caps and to seek approval from the Independent Shareholders for the ordinary resolution set out in the notice of the SGM on pages 22 to 23 of this circular. The

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## LETTER FROM THE BOARD

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recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Agreement and the Caps is set out on page 8 of this circular. The letter from Optima Capital to the Independent Board Committee and the Independent Shareholders containing its advice in relation to the Agreement and the Caps is set out on pages 9 to 15 of this circular.

### 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.

With reference to 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 Latest Practicable Date, the Group held 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 Latest Practicable Date, Varitronix GmbH was 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.

### CONTINUING CONNECTED TRANSACTIONS

The Group has been selling LCD and related products to the DM Group. 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:

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

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## LETTER FROM THE BOARD

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### THE AGREEMENT

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 Group 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> <sup>†</sup>
2008	11.5	89.7
2009	16.0	124.8
2010	23.0	179.4

<sup>†</sup> 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.

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## LETTER FROM THE BOARD

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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 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 the 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 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.

### **LISTING RULES REQUIREMENTS**

As set out in the paragraph headed "Background" in the Letter from the Board in this circular, 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 by way of poll at the SGM. The DM Group will abstain from voting at the SGM in respect of the ordinary resolution to approve the Agreement and the Caps, if it holds any shares in the Company.

The Independent Board Committee comprising Dr. Lo Wing Yan, William J.P., Mr. Yuen Kin and Mr. Hou Ziqiang has been established to advise the Independent Shareholders in respect of the Agreement and the Caps. Optima Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the Caps.

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## LETTER FROM THE BOARD

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### RECOMMENDATIONS

The Independent Board Committee, having taken into account the advice of Optima Capital, is of the view that the Agreement is (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable and in the interests of the Group and the Shareholders as a whole, and the Caps are fair and reasonable and are in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM.

### GENERAL

A notice convening the SGM to be held at 10:00 a.m. on Tuesday, 30 December 2008 at 9th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong is set out in this circular. At the SGM, an ordinary resolution will be proposed for the Independent Shareholders to consider, and if thought fit, to approve the Agreement and the Caps and as set out in such notice.

The ordinary resolution to be proposed at the SGM to approve the Agreement and the Caps will be determined by way of poll by the Independent Shareholders. Data Modul was a connected person of the Company as at the Latest Practicable Date. The DM Group, if holding any Shares, is required to abstain from voting at the SGM in respect of the ordinary resolution. As at the Latest Practicable Date, the DM Group did not hold any Shares.

Enclosed with this circular is a form of proxy for use at the SGM. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon contained in the notice of the SGM of this circular. The completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

Your attention is drawn to the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders, the additional information set out in the appendix to this circular, and the notice of the SGM.

Yours faithfully,

By order of the Board

**Varitronix International Limited**

**Ko Chun Shun, Johnson**

*Chairman*



**VARITRONIX**

**VARITRONIX INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 710)**

12 December 2008

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 12 December 2008 issued to the Shareholders (the “Circular”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you in respect of the Agreement and the Caps. Optima Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

Having taken into account the opinion of Optima Capital and, in particular, the principal factors, reasons and recommendation set out in the letter from Optima Capital on pages 9 to 15 of the Circular, we consider that the Agreement is (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable and in the interests of the Group and the Shareholders as a whole, and the Caps are fair and reasonable and are in the interests of the Group and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Agreement and the Caps.

We also draw the attention of the Independent Shareholders to (i) the letter from the Board, (ii) the letter of advice from Optima Capital, and (iii) the appendix to the Circular.

Yours faithfully,

For and on behalf of

**Independent Board Committee**

**Lo Wing Yan, William**

**Yuen Kin**

**Hou Ziqiang**

*Independent non-executive Directors*

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## LETTER FROM OPTIMA CAPITAL

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*The following is the text of a letter of advice from Optima Capital to the Independent Board Committee and the Independent Shareholders prepared for incorporation in this Circular.*



Unit 3618, 36th Floor  
Bank of America Tower  
12 Harcourt Road  
Central, Hong Kong

12 December 2008

*To the Independent Board Committee and  
the Independent Shareholders of  
Varitronix International Limited*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement, the Continuing Connected Transactions contemplated thereunder and the Caps, details of which are set out in the circular of the Company dated 12 December 2008 (the “**Circular**”) to the Shareholders of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 26 November 2008, the Board announced that the Company has entered into the Agreement with Data Modul to govern the principals upon which the detailed terms of the Continuing Connected Transactions shall be determined between members of the Group and the DM Group.

In February 1996, the Group established a joint venture, Varitronix GmbH, with Data Modul as the Group’s customer liaison office in Germany. As at the Latest Practicable Date, Varitronix GmbH was owned by the Company as to 60% and by Data Modul as to 40%. Since Varitronix GmbH is a non wholly-owned subsidiary of the Group in Germany and Data Modul is a substantial shareholder of Varitronix GmbH and thus Data Modul is a connected person of the Company pursuant to Rule 14A.11(5) of the Listing Rules. The entering into of the Agreement and the Continuing Connected Transactions would constitute continuing connected transactions of the Company and therefore are subject to the requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM OPTIMA CAPITAL

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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 by way of poll at the SGM. The DM Group will abstain from voting at the SGM in respect of the ordinary resolution to approve the Agreement and the Caps, if it holds any shares in the Company.

The Independent Board Committee comprising Dr. Lo Wing Yan, William J.P., Mr. Yuen Kin and Mr. Hou Ziqiang, all being independent non-executive Directors, has been formed to advise the Independent Shareholders whether the Agreement is (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable and in the interests of the Group and the Shareholders as a whole, and the Caps are fair and reasonable and are in the interests of the Group and the Shareholders as a whole. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide the Independent Board Committee and Independent Shareholders with an independent opinion and recommendation in this regard.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular and supplied to us by the Company, and the opinion expressed by and the representations of the Directors and management of the Company. We have assumed that all the information and representations provided to us or contained or referred to in the Circular were true, accurate and complete in all respects at the time they were made and continue to be so up to the date of the SGM and may be relied upon. We have also assumed that all opinions made by the Directors in the Circular were made reasonably after due and careful enquiry and were based on honestly-held opinion. We have also relied on the responsibility statement set out in the Appendix to the Circular that the Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the information provided and referred to in the Circular misleading.

We have reviewed currently available information and documents, which are available under the present circumstances, and have performed all reasonable steps to enable us to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reason to suspect that any relevant information or reports have been withheld, nor are we aware of any facts or circumstances which would render the information provided and the representations made to us to be untrue, inaccurate or misleading. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business, affairs, operations, financial position or future prospects of the Company, Data Modul and any of their respective subsidiaries or associates.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendation regarding the Agreement, the Continuing Connected Transactions contemplated thereunder and the Caps, we have taken into consideration the following principal factors and reasons:

### **1. Background of and reasons for the entering into of the Agreement**

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 distribute 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.

Since 80's, the DM Group started purchasing LCD and related products from the Group. Since then, the DM Group established a long term relationship with the Group and remains one of the major customers of the Group. The DM Group was one of the top ten customers of the Group in 2006 and 2007: for each of the two years ended 31 December 2007, the revenue generated from the Continuing Connected Transactions with the DM Group amounted to approximately US\$9.8 million (equivalent to approximately HK\$76.4 million) and approximately US\$11.1 million (equivalent to approximately HK\$86.6 million) based on internal financial records of the Company, representing approximately 4.1% and 3.3% of the total revenue of the Group respectively. The Directors consider the DM Group as a stable and anchor customer of the Group with long term relationship established with the Group.

Having considered that (i) the DM Group is a major customer of the Group and has established a long term relationship with the Group; and (ii) the transactions contemplated under the Agreement are in the ordinary and usual course of business of the Group and on normal commercial terms, we concur with the view of the Company that it is in the Group's interests to continue the Continuing Connected Transactions with the DM Group which generate income for the Group.

### **2. Principal terms of the Agreement**

On 26 November 2008, the Company entered into the Agreement with Data Modul for a term commencing on the date when the Continuing Connected Transactions are approved by the Independent Shareholders and ending on 31 December 2010. Pursuant to the Agreement, the Continuing Connected Transactions to be entered into between the Group and the DM Group shall be agreed between the relevant parties on an arm's length

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## LETTER FROM OPTIMA CAPITAL

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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. In addition, the relevant parties to any Continuing Connected Transactions shall enter into a definitive contract setting out the agreed terms and conditions of the Continuing Connected Transactions.

We have been provided by the Company the sales records of the Group in relation to sales to the DM Group (the “DM Sales Records”) for the last two financial years and the ten months ended 31 October 2008 and sales records to other independent customers of the Group who purchased similar products as that purchased by the DM Group from the Group (the “Independent Customers Sales Records”) in the corresponding periods. We have reviewed samples of the relevant invoices for transactions in the DM Sales Records and the Independent Customers Sales Records. Based on the information provided to us, we note that the prices offered by the Group to the DM Group were comparable to those offered to other independent customers for similar products.

Based on our discussion with the management of the Company, we understand that if there is no comparable reference prices and credit terms available for a product order, the Group will principally determine the price of such product based on the material cost of such product and multiplied by a profit margin. In most cases, the Group will also take into account, among other things, the order sales volumes and the nature of the relevant product including but not limited to its complexity and uniqueness before determining relevant profit margin and thus the prices. We are of the view that such determination basis is considered to be based upon reasonable commercial principles.

As referred to in the letter from the Board contained in the Circular (the “Letter from the Board”) that the Continuing Connected Transactions are usually settled by telegraphic transfer within 60 to 90 days after shipments. We note from the Company that, depending on trading volumes and the nature of the products, payment terms offered by the Group to independent third parties for the sale of similar products are generally within 90 days.

Having considered that (i) the prices of relevant products sold to independent third parties and the DM Group under the Agreement are determined on the same or similar basis and definitive contracts will be entered into between the relevant parties to set out specific agreed terms and conditions; (ii) if no comparable reference prices/credit terms for the relevant sales are available, the prices and credit terms shall be determined by mutual agreement between the parties based upon reasonable commercial principles; and (iii) the payment terms to the DM Group are comparable to those offered by the Group to independent third parties, we consider the terms of the Agreement to be on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM OPTIMA CAPITAL

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### 3. Caps

The Caps of the Continuing Connected Transactions under the Agreement for each of the three years ending 31 December 2010 are set out as follows:

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

<sup>†</sup> The Caps in HK\$ are for illustration purposes only. The Continuing Connected Transactions shall not exceed the Caps in US\$.

#### *Basis of the Caps*

As set out in the Letter from the Board, 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.

#### *Our discussion*

##### *(a) The proposed annual cap for the year ending 31 December 2008*

As set out in the Letter from the Board, the sales of LCD and related products to the DM Group for the financial year ended 31 December 2007 and for the ten months ended 31 October 2008 are as follow:

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

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## LETTER FROM OPTIMA CAPITAL

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Apart from the actual amounts of the Continuing Connected Transactions conducted by the Group during the ten months ended 31 October 2008, for the rest of the year ending 31 December 2008, we have reviewed the weekly sales analysis to the DM Group prepared by the Company (the “Sales Analysis”) based on the sales records of the Group to the DM Group in connection with the Continuing Connected Transactions for each of the two years ended 31 December 2007 and the period from 1 January 2008 up to 22 November 2008 (the “Cut-off Date”), being the date on which the latest sales data are available to the Company. The Sales Analysis also includes the orders received from the DM Group so far and which are going to be delivered during the period from the Cut-off Date up to the end of 2008. We have discussed with the management of the Company and note that the Company estimates that further “year-closing” orders would be received from the DM Group, the aggregate ordered amounts of which are generally higher than the rest of the year. Having made reference to the ordering pattern of the DM Group during the period approaching the year end for the past two years, we consider the estimation of the Company on the orders to be received by the Company from the DM Group up to 31 December 2008 in addition to the orders received so far, is made with reasonable ground.

Accordingly, we concur that the abovementioned basis for arriving at the annual cap for the year ending 31 December 2008, which is made with reference to (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, to be fair and reasonable basis for the determination of the annual cap for the year ending 31 December 2008.

*(b) The proposed annual caps for each of the two years ending 31 December 2010*

We have been provided by the Company the annual sales figures by the Group to the DM Group in the past. We note that for the past five years, the sales amounts regarding the Continuing Connected Transactions increased on an average annual growth rate of approximately 15%.

We also understand from the Company that the DM Group has recognized certain new demands in the market and has been working with the Group to develop such products to meet such particular demands. In general, the parties will work together for the product specifications, to work out samples and finally to proceed with mass production. We have reviewed a list of the new projects of this nature (the “New Project List”) that the Group is working with the DM Group as at the Latest Practicable Date. We have discussed the progress of the new projects as provided in the New Project List with the management of the Company. We are given to understand that based on the best estimation of the management of the Company which have taken into account their internal assessment and communication with the DM Group, the sales amount as a result of the new projects contained in the New Project List for the two years ending 31 December 2009 and 2010 will be approximately US\$2.5 million (equivalent to approximately HK\$19.5 million) and US\$7.4 million (equivalent to approximately HK\$57.7 million) respectively.

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## LETTER FROM OPTIMA CAPITAL

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Having reviewed and discussed with the Directors the basis and assumptions for determining the annual caps for the two years ending 31 December 2009 and 2010, which including (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, we are of the view that the annual caps for the two years ending 31 December 2009 and 2010 are fair and reasonable.

Shareholders should note that the Caps relate to future events and they do not represent forecasts of contract amounts to be incurred from the Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual contract sums to be incurred under the Continuing Connected Transactions as contemplated under the Agreement correspond with the Caps.

### RECOMMENDATION

Having taken into account the above principal factors and reasons, in particular that,

- (i) the DM Group is a major customer of the Group and has established a long term relationship with the Group;
- (ii) the Continuing Connected Transactions contemplated under the Agreement are in the ordinary and usual course of business of the Group;
- (iii) the payment terms under the Agreement for sales to the DM Group are on normal commercial terms which are comparable to those to independent third parties; and
- (iv) the proposed Caps for the Continuing Connected Transactions are fairly determined,

we are of the opinion that the Continuing Connected Transactions contemplated under the Agreement are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable and in the interests of the Group and the Shareholders as a whole, and the Caps are fair and reasonable and are in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and also recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Continuing Connected Transactions contemplated under the Agreement and the Caps.

Yours faithfully,  
For and on behalf of  
**Optima Capital Limited**  
**Gary Mui**  
*Executive Director*  
*Head of Corporate Finance*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTEREST

### (a) Interests of Directors

As at the Latest Practicable Date, the interests 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 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, if any, which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be maintained by the Company under Section 352 of the SFO or as required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

#### (i) Shares

As at the Latest Practicable Date, Mr. Ko Chun Shun, Johnson (“Mr. Ko”) held 48,579,000 Shares, representing approximately 15.02% of the issued share capital of the Company, through Rockstead Technology Limited (of which Mr. Ko is a director) as to 37,879,000 Shares and Omnicorp Limited as to 10,700,000 Shares. Both Rockstead Technology Limited and Omnicorp Limited are wholly owned by Mr. Ko.

*(ii) Share option scheme*

The following table discloses Directors' personal interests in share options to subscribe for Shares:

<b>Directors</b>	<b>Date granted</b>	<b>Number of options as at the Latest Practicable Date</b>	<b>Exercisable period</b>	<b>Subscription price per Share</b>
Mr. Ko	19 December 2005	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73
Mr. Tsoi Tong Hoo, Tony	22 July 2005	3,000,000	22 July 2005 to 21 July 2015	HK\$6.60
Mr. Ho Te Hwai, Cecil	19 December 2005	3,000,000	19 December 2005 to 18 December 2015	HK\$5.73

*Note:* All the above interests represented long positions.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company and their associates had any interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of 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 were taken or deemed to have under such provisions of the SFO), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at the Latest Practicable Date, save as disclosed above, none of the Directors had any interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group. No Director was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

**(b) Interests of Shareholders**

As at the Latest Practicable Date, other than the share interests disclosed in the section 'Interests of Directors', so far as is known to the Directors and the chief executive of the Company, the following person had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

<b>Name</b>	<b>Number of Shares held</b>	<b>Capacity</b>	<b>Approx. % of the issued share capital of the Company</b>
FMR LLC	22,743,000	Investment manager	7.03

*Note:* All the above interests represented long positions.

As at the Latest Practicable Date, the following corporation was, directly or indirectly, interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the following subsidiary of the Company:

<b>Name of subsidiary</b>	<b>Name of shareholder</b>	<b>Percentage of shareholding as at the Latest Practicable Date</b>
Varitronix GmbH	Data Modul	40%

Save as disclosed herein, the Directors and the chief executive of the Company are not aware of any person (other than a Director or the chief executive of the Company or his associates or a member of the Group) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who has, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital as at the Latest Practicable Date.

### 3. LITIGATION

So far as the Directors are aware, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or arbitration of material importance was pending or threatened against the Company or any of its subsidiaries as at the Latest Practicable Date.

### 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### 5. COMPETING BUSINESS

None of the Directors and their respective associates was interested in any business which competes or is likely to compete either directly or indirectly with the business of the Group as at the Latest Practicable Date.

### 6. EXPERT AND CONSENT

The following are the qualifications of the expert whose advice or opinion is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Optima Capital	A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

As at the Latest Practicable Date, Optima Capital did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Optima Capital did not have any direct or indirect interest in any assets which have been acquired, or disposed of by, or leased to any member of the Group, or are proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited consolidated accounts of the Company were made up.

Optima Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name, in the form and context in which they appear.

### 7. MATERIAL ADVERSE CHANGE

The Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited consolidated accounts of the Company were made up.

## 8. RIGHT TO DEMAND A POLL

Bye-Laws 70 to 73 of the Bye-Laws of the Company set out the procedure under which a poll may be demanded:

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the Chairman of the meeting; or
- (ii) by at least three members of the Company present in person or by a duly authorized corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by a duly authorized corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by any member or members present in person or by a duly authorized corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and the demand is not withdrawn or unless a poll is taken as may from time to time be required under the Listing Rules, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

Pursuant to Bye-Laws 76 of the Bye-Laws of the Company, on a show of hands, every member who is present in person or by a duly authorized corporate representative or by proxy shall have one vote, and on a poll every member present in person or, by a duly authorized corporate representative or by proxy, shall have one vote for every share of which he is the holder which is fully paid up or credited as fully paid up. On a poll a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

**9. GENERAL**

- (a) The registered office is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the head office and principal place of business in Hong Kong is 9th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong.
- (b) The secretary and qualified accountant of the Company is Mr. Ho Te Hwai, Cecil (“Mr. Ho”). Mr. Ho holds a Bachelor of Commerce degree from the University of British Columbia, Canada. He is a member of the Institute of Chartered Accountants of Canada and Hong Kong Institute of Certified Public Accountants. He is also an executive Director.
- (c) The Hong Kong Branch share registrars and transfer office of the Company is Computershare Hong Kong Investor Services Limited of Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (d) The translation into Chinese language of this circular is for reference only. The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

**10. DOCUMENT AVAILABLE FOR INSPECTION**

The Agreement will be available for inspection at the office of the Company in Hong Kong at 9th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong during normal business hours on any weekday (public holidays excluded) from the date of this circular up to and including Tuesday, 30 December 2008, the date of the SGM.



**VARITRONIX**

**VARITRONIX INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 710)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of Varitronix International Limited (the “Company”) will be held at 10:00 a.m. on Tuesday, 30 December 2008 at 9th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing the following ordinary resolution:

**ORDINARY RESOLUTION**

**“THAT:**

- (a) the Agreement dated 26 November 2008 (as defined in the circular of the Company dated 12 December 2008 (the “Circular”) of which this notice forms part) (a copy of the Agreement is produced to the meeting marked “A” and signed by the Chairman of the meeting for the purpose of identification) entered into between the Company and Data Modul Aktiengesellschaft, the transactions contemplated under the Agreement and the proposed annual caps in respect of the transactions contemplated under the Agreement for the three years ending 31 December 2010 as set out in the Circular be and are hereby approved; and
- (b) any one director of the Company be and is hereby authorised on behalf of the Company to execute all such documents, in such final form or with such amendments as that director may deem appropriate, and to do all such acts or things, as he/she may in his/her absolute discretion consider necessary or desirable, to give effect to the Agreement and the transactions contemplated therein.”

By Order of the Board  
**Varitronix International Limited**  
**Ho Te Hwai, Cecil**  
*Company Secretary*

Hong Kong, 12 December 2008

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## NOTICE OF THE SGM

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*Notes:*

1. Any shareholder entitled to attend and vote at the meeting is entitled to appoint another person as his/her proxy to attend and vote in his/her stead. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend and vote in his/her stead. A proxy needs not be a shareholder of the Company. Completion and return of the form of proxy will not preclude a shareholder from attending the meeting and voting in person. In such event, his/her form of proxy will be deemed to have been revoked.
2. Where there are joint holders of any share, any one of such joint holders may vote at the meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the instrument appointing a proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the Hong Kong branch share registrars and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
4. In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Data Modul Aktiengesellschaft, a connected person of the Company, and its associates (as defined in the Listing Rules), if holding any shares of the Company, are required to abstain from voting on the above ordinary resolution.
5. The ordinary resolution as set out above will be determined by way of poll.