



VARITRONIX

VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

Directors:

Executive Directors:

Mr. Ko Chun Shun, Johnson (*Chairman*)
Ms. Ko Wing Yan, Samantha
Mr. Ho Te Hwai, Cecil

Independent Non-executive Directors:

Dr. Lo Wing Yan, William *J.P.*
Mr. Chau Shing Yim, David
Mr. Hou Ziqiang

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal

Place of Business:

Units A – F, 35/F
Legend Tower
No. 7 Shing Yip Street
Kwun Tong
Kowloon
Hong Kong

22 March 2016

To the Shareholders

Dear Sir or Madam,

- (1) SUBSCRIPTION OF NEW SHARES**
(2) APPLICATION FOR WHITEWASH WAIVER
(3) SPECIAL DIVIDEND
(4) INCREASE IN AUTHORISED SHARE CAPITAL
(5) CAPITAL REDUCTION
AND
(6) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement, in which the Board announced that on 3 February 2016 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement pursuant to which, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for (or procure subscription by its wholly-owned subsidiary), a total of 400,000,000 Subscription Shares at an issue price of HK\$3.50 per Subscription Share.

Reference is made to the announcement of the Company dated 18 March 2016 in respect of the Capital Reduction.

The purpose of this circular is to give you, among other things, (i) information of the Subscription, the Whitewash Waiver, the Special Dividend, the Increase in Authorised Share Capital and the Capital Reduction; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; (iv) the notice of the SGM; and (v) other information as required under the Listing Rules and/or the Takeovers Code.

THE SUBSCRIPTION AGREEMENT

Date : 3 February 2016 (after trading hours)

Issuer : The Company

Subscriber : BOE Technology Group Co., Ltd (itself or through its wholly-owned subsidiary)

As at the Latest Practicable Date, the Subscriber had nominated its wholly-owned subsidiary, BOE Technology (HK) Limited, to subscribe for the Subscription Shares.

To the best of the Directors' knowledge, information and belief after making all reasonable enquiries, each of (i) BOE (HK) and (ii) the Subscriber and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

The Subscription Shares

The total number of the Subscription Shares is 400,000,000, representing (i) approximately 120.76% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 54.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares); and (iii) approximately 53.82% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming all Share Options have been exercised in full and there is no change in the issued share capital of the Company other than the issue of the Subscription Shares).

The Subscription Price

The Subscription Price is HK\$3.50 per Subscription Share (which takes into account the waiver by the Subscriber of all its rights and interests to participate in the Special Dividend of HK\$1.35 per Share in respect of the Subscription Shares).

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber after taking into account the Special Dividend of HK\$1.35 per Share to be declared and distributed, the market price of the Shares, the consolidated net asset

value per Share and the prospect of the Group's existing business, the undertakings as detailed in the section headed "Undertakings by the Subscriber", as well as the anticipated strategic value to be brought to the Company by the Subscriber. The Subscriber undertakes that after Completion, as long as the Subscriber or its affiliates holds 30% or more of the issued Shares, the Group shall be the Subscriber's sole development, manufacturing and distribution platform of automotive display module and system business, including but not limited to vehicle networking, automotive displays and electronic systems as soon as possible (provided that the Subscriber shall ensure the Subscriber Group's existing agreements or orders in relation to the aforesaid are completed within 12 months after the Completion Date, or shall implement all necessary arrangements to comply with the above non-competition undertaking). The adjusted consolidated net asset value (as at 30 June 2015) per Share (based on the total issued share capital of the Company as at the Latest Practicable Date) amounted to HK\$4.59 (based on the consolidated net asset value (as at 30 June 2015) per Share (based on the total issued share capital of the Company as at the Latest Practicable Date) of approximately HK\$5.94 less the Special Dividend). In connection with the Subscription Agreement, the Board will consider declaring the Special Dividend of HK\$1.35 per Share. The Subscriber has agreed to waive its entitlement to the Special Dividend and accordingly it will not be paid any Special Dividend. As one of the conditions precedent to Completion, the unaudited net asset value (after deducting the Final Dividend, the Special Dividend (if any), remuneration of the relevant directors and supervisors and share option expenses (if any)) per Share as at the Management Accounts Date shall not be less than HK\$4 (based on the number of issued Shares as at the Management Accounts Date).

The Subscription Price represents (i) a discount of approximately 33.71% to the closing price of HK\$5.28 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 33.38% to the average closing price of approximately HK\$5.254 per Share for the last ten consecutive trading days up to and including the Last Trading Day; (iii) a discount of approximately 36.01% to the closing price of HK\$5.47 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (iv) a discount of approximately 39.15% to the consolidated net asset value (as at 31 December 2015) per Share (based on the total issued share capital of the Company as at the Latest Practicable Date) of approximately HK\$5.752.

The Subscription Price, when compared to the Adjusted Closing Price (being the adjusted closing prices of the Shares after taking into account the effect of the Special Dividend and the Final Dividend), represents (i) a discount of approximately 3.45% to the Adjusted Closing Price of HK\$3.625 per Share on the Last Trading Day; (ii) a discount of approximately 2.75% to the average Adjusted Closing Price of HK\$3.599 per Share for the last ten consecutive trading days up to and including the Last Trading Day; (iii) a discount of approximately 8.26% to the Adjusted Closing Price of HK\$3.815 per Share on the Latest Practicable Date; and (iv) a discount of approximately 14.579% to the adjusted consolidated net asset value (as at 31 December 2015) per Share (based on the total issued share capital of the Company as at the Latest Practicable Date) of approximately HK\$4.097 (based on the consolidated net asset value (as at 31 December 2015) per Share (based on the total issued share capital of the Company as at the Latest Practicable Date) of approximately HK\$5.752 less the Special Dividend and the Final Dividend).

The aggregate Subscription Price amounts to HK\$1,400,000,000. The aggregate nominal amount of the Subscription Shares is HK\$100,000,000.

Notwithstanding the discount of the Subscription Price to the prevailing market prices of the Share and the potential dilution impact of the Subscription as set out in the section headed "Effect on shareholding structure below", in view of the potential benefits and synergies as a result of the Subscription and having considered the terms of the Subscription Agreement, the Directors (including the independent non-executive Directors after considering the letter of advice from the Independent Financial Adviser) consider that the terms of the Subscription are fair and reasonable, and the Subscription is in the interests of the Company and the Shareholders as a whole.

Mandate for the issue of the Subscription Shares

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the SGM.

Ranking

The Subscription Shares will rank *pari passu* in all respects with the Shares in issue as at the date of allotment and issue of the Subscription Shares.

Listing application

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Conditions of the Subscription

The Subscription is conditional upon satisfaction (if applicable, waiver) of the following conditions:

1. all necessary approvals for the Subscription, the Whitewash Waiver and the transactions contemplated under the Subscription Agreement required under the Bye-laws, the applicable laws, the Listing Rules, the Takeovers Code and all other requisite approvals having been obtained, including:
 - (a) the passing of resolutions by the Shareholders or Independent Shareholders (as the case may be) in the SGM in accordance with the requirements of the relevant laws and regulations (including the Listing Rules and the Takeovers Code) approving, among other things:
 - (i) the increase in authorised share capital of the Company to 800,000,000 Shares;
 - (ii) the Specific Mandate for the allotment and issue of the Subscription Shares, the Subscription and the transactions contemplated under the Subscription Agreement;

- (iii) the Subscription and the Whitewash Waiver;
 - (iv) the payment of the Special Dividend; and
 - (v) (in the event the Company does not have sufficient distributable reserves under Bermuda law to declare and pay the Special Dividend and/or the Final Dividend (if any)) the Capital Reduction such that the Company has sufficient distributable reserves to declare and pay the Special Dividend and/or the Final Dividend (if any);
- (b) the grant of the approval for the listing of, and permission to deal in the Subscription Shares by the Listing Committee of the Stock Exchange and such approval not having been withdrawn;
2. all necessary third party approvals and consents required for the Subscription Agreement and the transactions contemplated thereunder having been obtained;
 3. the warranties given by the Company under the Subscription Agreement remaining true, accurate, complete, or to the extent that any of such warranties is untrue, inaccurate or incomplete, the Group's business, operation, business performance, financial position or prospects or the Group's ability to complete the transactions contemplated under the Subscription Agreement have not been materially affected on the Completion Date;
 4. the Company having performed all of its obligations under the Subscription Agreement and the representations and undertakings of the Company not having been breached in any material respect on or before the Completion Date;
 5. there being no event having a material adverse effect on the Group from the date of the Subscription Agreement to the Completion Date;
 6. no injunction, interim or otherwise, having been granted by any authority in respect of the Company which would prohibit the Company from entering into and perform its obligations under the Subscription Agreement;
 7. the warranties given by the Subscriber under the Subscription Agreement remaining true, accurate, complete, or to the extent that such warranties are untrue, inaccurate or incomplete, the ability of the Subscriber to complete the transactions contemplated under the Subscription Agreement has not been materially affected on the Completion Date;
 8. the Subscriber having obtained all relevant approvals and authorisations required for the Subscription Agreement and the transactions contemplated thereunder;
 9. the SFC having granted the Whitewash Waiver;

10. the listing of the Shares not having been cancelled, the Shares continuing to be listed and traded on the Stock Exchange on or before the Completion Date (except for temporary suspension of trading pending the issue of an announcement in connection with the Subscription Agreement) and neither the Stock Exchange nor the SFC having indicated that it will or may object the continued listing of the Shares on the Stock Exchange as a result of the Subscription Agreement and the transactions contemplated thereunder;
11. the Board having declared and approved the Special Dividend in accordance with the Bermuda Law, the Bye-laws and the Listing Rules; and
12. the unaudited net asset value (after deducting Final Dividend (if any), Special Dividend (if any), remuneration of the relevant directors and supervisors and share option expenses, if any) per Share as at the Management Accounts Date is not less than HK\$4 (based on the number of Shares in issue as at the Management Accounts Date).

The Subscriber may at any time by notice in writing to the Company waive any of the conditions set out in paragraphs 1(a)(iii), 2, 3, 4, 5, 9, 10 and 12 above. The Company may at any time by notice in writing to the Subscriber waive the condition set out in paragraph 7 above. As at the Latest Practicable Date, none of the Company and the Subscriber had any intention to waive any of the conditions precedent save that the Subscriber reserves its rights to waive the conditions set out in the paragraphs 1(a)(iii) and 9. The other conditions cannot be waived by the Company or the Subscriber. If conditions set out in paragraphs 1(a)(iii) and 9 are waived by the Subscriber and the parties to the Subscription Agreement proceed to Completion, BOE (HK) will be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by Subscriber, BOE (HK) or parties acting in concert with any of them under Rule 26.1 of the Takeovers Code as a result of the Subscription.

If any of the conditions precedent have not been fulfilled, satisfied or, if applicable, waived on or before the Long Stop Date, none of the Company nor the Subscriber shall be bound to proceed with the transactions contemplated under the Subscription Agreement, and the Subscription Agreement shall cease to be of any effect save as to any antecedent breach of the Subscription Agreement.

As at the Latest Practicable Date, none of the conditions precedent had been fulfilled.

Completion

Completion shall take place on the Completion Date. At Completion, the Subscriber (through BOE (HK)) shall subscribe for, and the Company shall allot and issue to BOE (HK), the Subscription Shares. On the Completion Date, among other things, the Subscriber shall effect payment of the aggregate Subscription Price in full and the Company shall allot and issue the Subscription Shares to BOE (HK).

As set out in the section headed "Undertakings by the Subscriber" below, the Subscriber shall waive its rights in respect of the Special Dividend and the Final Dividend, if any, and the Subscriber agrees to the proposed declaration and distribution of any Final Dividend. If Completion takes place before the record date of the Final Dividend, no Final Dividend will be paid to the Subscriber.

Undertakings by Mr. Ko

On 3 February 2016, Mr. Ko undertook to the Subscriber, among other things, that:

- (a) Mr. Ko shall not in any region either independently or jointly with or on behalf of any other person (whether in the capacity of a direct or indirect controlling shareholder, director, partner, agent or otherwise) operates, conducts, participates in the business that the Group operates at Completion, including but not limited to the automotive LCD module business anytime within 3 years after the Completion Date; and
- (b) Mr. Ko shall not, and Mr. Ko shall procure his affiliates not to, starting from the date of the Subscription Agreement until 6 months after the Completion Date, directly or indirectly, including by or through his affiliates, offer, sell, grant any option or right to purchase, lend or otherwise transfer or dispose of, whether directly or indirectly, 54,651,000 Shares held by Mr. Ko, Rockstead Technology Limited or Omnicorp Limited, or enter into any agreement in relation to any of the above.

Undertakings by the Subscriber

Pursuant to the Subscription Agreement, the Subscriber undertakes to the Company, among other things, that:

- (a) the Subscriber shall waive its rights in respect of the Special Dividend and the Final Dividend, if any, and the Subscriber agrees to the proposed declaration and distribution of any Final Dividend;
- (b)
 - (i) the Subscriber shall not, and the Subscriber shall procure its affiliates not to, during the period of 12 months commencing on the Completion Date, directly or indirectly, including by or through its affiliates, offer, sell, grant any option or right to purchase, lend or otherwise transfer or dispose of (save for pledge), whether directly or indirectly, any Subscription Shares, or enter into any agreement in relation to any of the above; and
 - (ii) the Subscriber shall not, and the Subscriber shall procure its affiliates not to, during the period from the 13th month after the Completion Date to the expiry of the third anniversary, directly or indirectly, including by or through its affiliates, offer, sell, grant any option or right to purchase, lend or otherwise transfer or dispose of (save for pledge), whether directly or indirectly, any Subscription Shares, or enter into any agreement in relation to any of the above, such that the Subscriber or its affiliates holds less than 30% of the issued Shares.

The above undertakings under this sub-paragraph (b) are not applicable to transfer by the Subscriber to wholly owned subsidiaries of the Subscriber;

- (c) provided that the Subscriber or its affiliates holds 30% or more of the issued Shares, except for having consent of the Company,
 - (i) the Subscriber shall not in any region either independently or jointly with or on behalf of any other person (whether in the capacity a direct or indirect controlling shareholder, director, partner, agent or otherwise) operates, conducts, participates in the same automotive LCD module business as conducted by the Group, except for the execution of the agreements or orders already signed by the Subscriber or its subsidiaries (provided that the Subscriber shall ensure such agreements or orders are completed within 12 months after the Completion Date, or shall implement all necessary arrangements to comply with the above non-competition undertaking); and
 - (ii) as soon as possible, the Company shall become the Subscriber's sole development, manufacturing and distribution platform of automotive display module and system business (including but not limited to vehicle networking, automotive display and electronic system); and
- (d) provided that the Subscriber or its affiliates holds not less than 30% of the issued Shares, the Subscriber shall regard the Group as its strategic customer, and, under the same conditions, shall supply the Group panel products with priority at the most favorable market price (the quantity and the price shall be subject to separate agreements to be entered into by both parties). For the avoidance of doubt, the Group is not required to purchase panel products from the Subscriber on an exclusive basis.

Board composition

Pursuant to the Subscription Agreement, on Completion (or any other date as allowed under the Takeovers Code), the Company will procure that the Board will comprise nine Directors, including five Directors to be nominated by the Subscriber, Ms. Ko Wing Yan, Samantha, who will continue to act as executive Director, and three independent non-executive Directors.

Mr. Ko and Mr. Ho Te Hwai, Cecil will resign and Ms. Ko Wing Yan, Samantha shall remain an executive Director and is proposing to be as a co-chief executive officer together with another co-chief executive officer to be nominated by the Subscriber upon Completion.

The Subscriber had yet to nominate any candidate to be appointed as a Director as at the Latest Practicable Date. The Company will make further announcement in compliance with Rule 13.51(2) of the Listing Rules upon any appointment of a Director.

INFORMATION ON THE GROUP

The Group was established in 1978 and built its factories in the PRC in 1983. The Shares were listed on the Main Board of the Stock Exchange in 1991. The Group is principally engaged in the design, manufacture and sale of small-to-medium sized automotive and other

industrial display products worldwide and has monochrome display and various display modules manufacturing capacity. Since its incorporation, the Company has been combining scientific and technological research, innovative product design, flexible product specifications and efficient manufacturing for many applications, including automotive components, industrial and consumer products, also providing complete display solutions for its customers. In addition to supplying standard products, the Group also provides tailor-made LCDs and modules for the specific needs of its customers.

The Group is headquartered in Hong Kong with its principal production base located in Heyuan, Guangdong, the PRC. The Group has overseas sales offices throughout Asia, North America and Europe. It has established a quality control system, global marketing channels and customer network.

The Group has two major business segments – the automotive display business and industrial display business. It offers a range of LCD products, including monochrome character/graphics LCD modules and thin film transistor (“TFT”) modules. A “panel” generally refers a glass display board and is a major component for the manufacturing of “module” and a “module” generally refers a unit comprises, among others, a panel, backlight and integrated circuits. The Group is a prominent monochrome display module manufacturer in the automotive segment. Apart from automotive, there are some other applications of the Group’s TFT modules, such as industrial and medical sectors. Most of the existing customers of the Group’s TFT module business are automotive companies and some of them are also customers of the Group’s monochrome business.

As set out in the final results announcement of the Company for the year ended 31 December 2015, the Group’s automotive display business and industrial display business generated revenue of approximately HK\$1,668 million and approximately HK\$820 million for the year ended 31 December 2015, representing approximately 67% and approximately 33% of the Group’s total revenue, respectively.

Currently, the Group’s major display technology is mainly monochrome, accounting for approximately 90% of the Group’s total revenue for the year ended 31 December 2015. The Group’s revenue of TFT products amounted to approximately HK\$116 million, approximately HK\$158 million and approximately HK\$218 million for the year ended 31 December 2013, 2014 and 2015 respectively, representing a compound annual growth rate of approximately 37.1%. Whilst the Group’s revenue of TFT modules accounted for approximately 4.5%, approximately 6.0% and approximately 8.8% of the Group’s total revenue for the year ended 31 December 2013, 2014 and 2015 respectively, the Board considers that the Company has successfully been growing its TFT module business and has achieved significant annual sales amounts.

INFORMATION ON THE SUBSCRIBER

According to the Subscriber, (i) it was founded in April 1993 and the issued shares of which are listed on the Shenzhen Stock Exchange; (ii) it is a supplier of semiconductor display technologies, products and services; and (iii) its products are widely used in a broad spectrum of applications such as mobile phones, tablets, notebooks, monitors, TVs, vehicle displays and digital information displays.

According to the Subscriber, the Subscriber is one of the major suppliers of TFT displays in the global market. It also has production lines for manufacturing TFT modules mainly for consumer products like phones, tablets, notebook computers, monitors, TVs and is planning to tap into automotive TFT module business.

BOE (HK) is a wholly-owned subsidiary of the Subscriber and is principally engaged in trading business.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

Background of and reasons for the Subscription

1. Strong growing market demand for TFT products

More high-end vehicle models and other new automobile models like electric cars are using and expected to use coloured displays (including TFT displays) instead of monochrome LCD displays. The Company is of the view that monochrome display business provides a stable prospect but it has limited growth opportunity. The Company considers that the increasing usage of coloured display products is the global development trend of the display market. Given this shifting trend, the Company considers that with a view to achieving continued growth, it is a strategy for the Group to quickly further develop and expand the Group's TFT product line segment by capitalizing on the Group's product and market position in monochrome displays.

The Group has been actively developing its TFT module business since around 2010. In 2010, the Group recruited a team of TFT research and development staff of approximately 10 people and successfully obtained orders from its first TFT module customer. In 2011, the Group converted certain production lines from manufacturing monochrome products into manufacturing TFT products and has commenced production of TFT modules since then. The Group commenced to construct a new factory in 2011 with new production lines to boost production capacity and product quality to use for, among others, the Group's TFT module development and/or future expansion. The construction of the new factory was completed and the new production lines started operation in phases in 2013. Since completion of the new factory and the new production lines, the Group has been acquiring new TFT facilities in maintaining its competitiveness in the industry. The Group has approximately 80, 190 and 220 workers for its TFT module division as at 31 December 2013, 2014 and 2015 respectively. Currently, the Group has already established production facilities of TFT modules with a total area of approximately 2,500 m² and approximately 210 workers, and has been planning for expanding its automotive TFT module business.

As set out in the Chairman's statement of the annual report of the Company in 2010, the Group has been integrating internal resources and strengthening the sourcing of raw materials so as to increase its competitiveness and develop new business opportunities for high-end TFT products. The Company considers that it is very important for the Group to be able to capitalise on this foundation and expedite the further development and expansion of this growing market segment.

2. Development strategy of having a strong upstream support

In order to successfully roll out the TFT product line development strategy, the Company considers that it is important to have a strong upstream support in TFT panel research and supply. The manufacturing facilities, continuing upgrade, and research and development of TFT panel supply would require a substantial stream of capital expenditure which, as magnified by the rapid development of the TFT display products, makes the Company consider that it is most appropriate and cost effective to cooperate with a major TFT panel supplier like the Subscriber Group, instead of developing its own TFT panel production capacity which would essentially require the Group to reinvest a very substantial amount of any profit that it may earn from this development. The Group does not have a production line for TFT panels and has been sourcing TFT panels from various TFT panel suppliers including, among others, the Subscriber Group. As set out in the final results announcement of the Company for the year ended 31 December 2015, the Group is planning to collaborate with a strategic business partner (i.e. the Subscriber) to expand the TFT module business.

According to the Subscriber, whilst the Subscriber Group has strong TFT panel manufacturing capacity and capabilities, it is mainly consumer goods focused and its knowledge and experience in developing clientele in the automotive segment is in relatively early stage. The automotive TFT module products are designed according to customers' specific requirements and require specific modular assembly technologies, stringent product quality control, etc. Having over 15 years of experience in serving customers in the automotive industry, the Group has accumulated extensive experience in manufacturing products according to customers' specific requirements, specific modular assembly technologies and stringent product quality control. Further, the Group has established a stable customer network. The Group's product quality and after-sales services have been recognised by customers.

In addition to a strong upstream supply support, through cooperating with the Subscriber, the Company considers that the strong TFT panel research support from the Subscriber Group will help complement the Group's expertise in developing technology advance and up-to-date products for the automotive market. Having the Subscriber as the holding company and a strategic partner, the Company hopes to gain steady and continuing support not only in panel supply, but also in the capability to provide tailor-made panel designs to meet customers' special requests, and to eventually broaden the TFT product lines. In addition, the Company aims to gain a greater control of the cost of materials and benefit from a synergistic effect in material procurement if the strategic partner possesses an extensive electronics component production base. Moreover, both the Group and the Subscriber Group may source components from a number of same suppliers, the Company expects that the Group may be able to obtain economy of scale when aggregating the purchase with the Subscriber Group.

3. Relationship with the Subscriber

The Company has also been looking for an appropriate business partner to support its TFT panel supply for the Group's expansion plan. In November 2015, the top management of the Company and the Subscriber met and discussed any business cooperation opportunities with a view to further expanding the TFT module business of the Group in the future. In December 2015, the Subscriber suggested to form a strategic relationship by way of a subscription of new Shares. The Company and the Subscriber then negotiated and discussed the terms of the possible Subscription. The Company and the Subscriber entered into the Subscription Agreement on 3 February 2016.

Benefits of the Subscription

1. The Group becoming the flagship of the Subscriber Group in the automotive market

Upon Completion, the Subscriber will become the controlling Shareholder of the Company. Subject to the terms of the Subscription Agreement as set out in paragraph (c) of the section headed "Undertakings by the Subscriber" above, the Subscriber has undertaken that after Completion, as long as the Subscriber or its affiliates holds 30% or more of the issued Shares, the Group shall become the Subscriber's sole development, manufacturing and distribution platform of automotive display module and system business, including but not limited to vehicle networking, automotive displays and electronic systems as soon as possible (provided that the Subscriber shall ensure the Subscriber Group's existing agreements or orders in relation to the aforesaid are completed within 12 months after the Completion Date, or shall implement all necessary arrangements to comply with the above non-competition undertaking). Apart from TFT display, organic light-emitting diode ("OLED") offers another colour display solution. The Subscriber Group is making OLED panels for consumer products. In future, it is expected that the Subscriber Group will produce OLED panels and the Group will produce OLED display modules. This will also give the Group another good business opportunity.

The Subscriber Group has also established certain production lines for the manufacture of TFT modules. The Company may consider acquiring those production lines for manufacturing TFT modules which may be used to produce TFT modules for automotive from the Subscriber subject to further assessment after Completion. The Company is of the view that the timing for the purchase of the production lines will depend on, among other things, the utilization of the Group's existing TFT module manufacturing facilities following Completion and expects that the Group will purchase the production lines (if materialized) during the first half of 2017. If the Company decides to purchase the production lines from the Subscriber, such purchase may constitute a notifiable and/or connected transaction for the Company. The Company intends to fund the purchase of the production lines by the proceeds from the Subscription as set out in the section headed "Use of proceeds" below. The Company will comply with all relevant Listing Rules as and when appropriate.

Given the severe competition in the TFT display market and the Group's existing resources, the Company considers that establishing a strategic relationship with the Subscriber Group offers the most appropriate development blueprint for the Group's TFT display business which in turn would give the Group a great opportunity to achieve a satisfactory growth in the next few years.

2. Strong supply chain support from the Subscriber Group

According to the Subscriber, the Subscriber Group is a leading supplier of TFT panels. The Company considers that the Subscription will establish a strategic relationship with the Subscriber to quickly further expand its TFT module business whilst maintaining a stable development of the Group's monochrome business. The strategic relationship between the Group and the Subscriber will enhance the Group's competitiveness in the TFT panel supply chain. After Completion, the Company shall continue to purchase TFT panels from other suppliers based on the Group's business needs from time to time. Purchases from the Subscriber will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

3. Substantial funding for business expansion

The Company considers that to develop the TFT module business, substantial financing to support various operating expenses such as purchase of materials, increased manufacturing overheads, product marketing and research development is required. As set out in the section headed "Use of Proceeds" in this letter from the Board, the Subscription will provide sufficient funding to support the proposed development in the next few years.

As set out in the preceding paragraphs, the reason for the Subscription is for raising sufficient fund necessary for the expansion of the Group's existing principal business. The Company believes that the Subscriber is a prominent TFT panel supplier, the strategic relationship with the Subscriber through the Subscription will give the Group a competitive advantage in panel sourcing and thus help expedite the growth of its TFT module business. Other financing methods such as debts and rights issue will not provide the Group with such competitive advantage for the future development of the Group's TFT module business. As such, the Company considers that the Subscription is the most appropriate means to the Group to raise additional funds and at the same time help the expansion of the Group's business.

4. Enhanced management team

The existing senior management team of the Group has accumulated valuable experience and knowledge in serving international automotive companies and meeting their product requirements and demands. The Company believes that this has placed the Group in a good position to successfully expand its automotive TFT module business. Pursuant to the Subscription Agreement, the Company undertakes to the Subscriber, among other things, that the Company (i) shall use its best endeavour to ensure the stability of its key employee team; and (ii) shall not encourage and procure resignation of those key employees. On the other hand, the Subscriber Group has established a management and working team which are very experienced in TFT panel business and product development who have also established business relationships with a number of automotive companies in the PRC. After Completion, it is expected that the management team of the Group will be further expanded and enhanced to lead this growing segment and at the same time maintain the Group's currently well established stable LCD monochrome business.

The use of TFT display has been a growing trend in the automotive and other industrial display market which provides growth opportunity in the display market. The Company believes that leveraging on (i) the Group's experience and expertise in display module design and manufacturing, its established business relationships with many international companies, including many leading automotive manufacturing companies, and its satisfactory after-sales service; and (ii) the market position of the Subscriber in TFT display design and manufacturing, and the established business relationships with many automotive manufacturing companies in the PRC, there is great synergy between the cooperation of the Group and the Subscriber in the automotive and industrial TFT module business.

Business strategy and model following Completion

1. Maintaining the currently well established LCD monochrome business

Despite the growing TFT module market, the Company considers that given monochrome displays with its reliable performance with power-saving benefits at a competitive selling price, there is still considerable demand for these displays in the mid-to-low end automotive sector and industrial applications. Whilst it is one of the Group's strategies to expand the TFT module business, the Group will continue to maintain and capitalise on its advantage in the monochrome automotive sector. In addition, the Group will explore more applications in the industrial area, so as to maintain the sales of monochrome displays. The Group will continue to carry out its existing monochrome LCD display and module business after Completion with an accelerated growing TFT module business.

2. Rapid development of the TFT module business

Following Completion, the Company intends to continue its existing principal business and to leverage on the manufacturing resources of the Subscriber Group to quickly expand its existing automotive TFT module manufacturing business segment in view of the market trends and opportunities. The Group will continue to focus on its expertise in the automotive sector and significantly expand into this area with the strong panel supply, China marketing and management supports of the Subscriber Group.

The Company expects that there would be no significant changes to the Group's existing TFT module business model and the Company would expand the Group's TFT module business on top of the Group's existing business model, such as increasing sale and purchases from existing customers and suppliers, increasing the number of customers, suppliers, production facilities and staffing, and improving capability and technology, etc. The Company would expect the capital injection from the Subscriber will also allow the Group to deploy much more resources in expanding the TFT module business, such as employing more workers, investing more in product design and research, etc.

Under the Subscription Agreement, the Subscriber shall regard the Group as its strategic customer, and shall supply the Group panel products with priority at the most favourable market price under the same conditions. The Group has been purchasing TFT panels from the Subscriber Group which amounted to approximately HK\$3.7 million, approximately HK\$6.7 million and approximately HK\$7.4 million for the year ended 31 December 2013, 2014 and 2015, respectively, representing approximately 5.93%, approximately 13.06% and approximately 10.22% of the Group's purchase of TFT panels for the respective periods, and representing approximately 0.23%, approximately 0.47% and approximately 0.51% of the Group's total purchase for the respective periods. The Group may increase purchases of TFT panels from the Subscriber Group to enhance its competitiveness in the TFT module business given the favourable purchasing arrangement after Completion. As at the Latest Practicable Date, the Company and the Subscriber were still considering and negotiating the definitive terms of the ongoing purchases and the cap amount, and it is expected that the terms will be

set by the end of April 2016. The Company will comply with all relevant Listing Rules as and when appropriate. Apart from the Subscriber, the Group has been purchasing and shall continue to purchase TFT panel products from a number of other independent suppliers based on the Group's business needs from time to time. The Group has not purchased monochrome panel products from the Subscriber and the Company does not anticipate any material change in this supply relationship after Completion. As such, the Company considers that the Group will not be facing unjustifiable risk of relying on the Subscriber for supplying TFT panels for its expanding TFT module business.

SPECIAL DIVIDEND

In connection to the Subscription, the Board will declare the Special Dividend of HK\$1.35 per Share in view of the discount of the Subscription Price to the prevailing market prices of the Share and the net asset value per Share, by giving the Shareholders a cash dividend return. The Special Dividend is, among other things, conditional upon completion of the Subscription. Completion is conditional on, among other things, the Company declaring and the Shareholders approving the Special Dividend by way of an ordinary resolution at the SGM. No Special Dividend will be paid to the Subscriber as it has agreed to waive its entitlement. The Company will make further announcements with details including, among others, the timetable and the record date for the Special Dividend. If the Subscriber chooses to waive the condition of the Whitewash Waiver and Completion occurs and, accordingly, an offer is materialised, it is expected that (i) the record date of the Special Dividend and/or the Final Dividend will be a date falling before the period when the Shareholders may accept the offer then made by the Subscriber; and (ii) the Company will apply for a waiver from the general requirement to obtain shareholders' approval under Rule 4 of the Takeovers Code in connection with the Special Dividend and/or the Final Dividend if required under the Takeovers Code. If the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, and the Completion occurs, it is expected that the Special Dividend will be payable together with the Final Dividend on or around Friday, 8 July 2016 to the Shareholders whose names appear on the register of members of the Company on Friday, 17 June 2016 (or such other date as approved by the Board). If the Whitewash Waiver is not approved by the Independent Shareholders or otherwise not granted by the Executive, and if the condition of the Whitewash Waiver is not waived by the Subscriber, the Subscription will not complete and no Special Dividend will be paid. The working capital requirements for the Group's monochrome module business will be replenished by part of the proceeds from the Subscription.

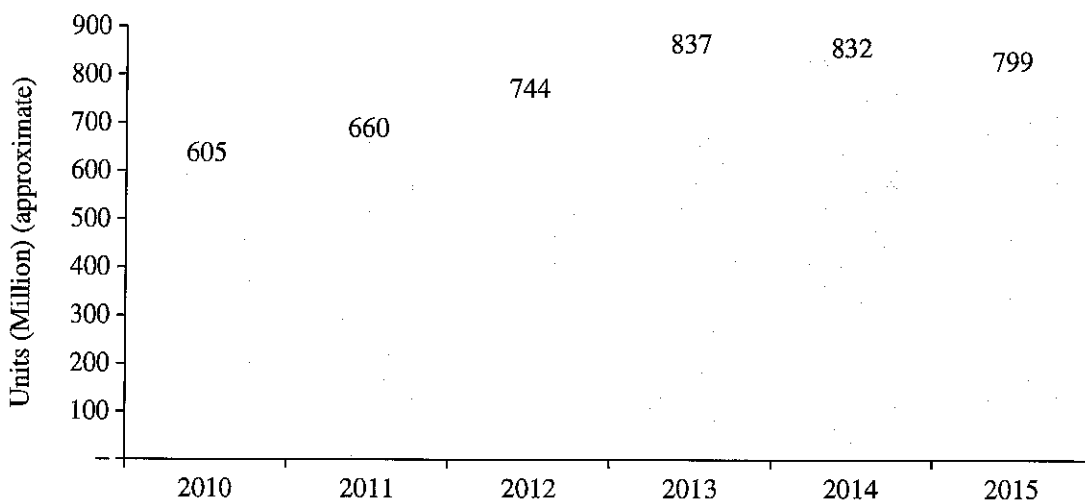
DIVIDEND POLICY

The Company's dividend payout ratio for the year ended 31 December 2013, 2014 and 2015 were approximately 67%, approximately 55% and approximately 50% respectively. The Company (after having discussion with the Subscriber) intends to maintain a stable dividend policy in future with a dividend payout ratio of not less than 30% following Completion. However, the determination to pay dividends in the future will be made at the discretion of the Board and will be based on the profits, cash flows, financial condition, capital requirements and other conditions that the Board deems relevant. The payment of dividends may be limited by legal restrictions and agreements that the Company may enter into in the future.

INDUSTRY OVERVIEW

LCDs are widely used in electronic products such as computer monitors, televisions, instrument panels, aircraft cockpit displays, and signage. They are common in consumer devices such as DVD players, gaming devices, clocks, watches, calculators, and telephones, and have replaced cathode ray tube displays in nearly all applications.

Below is the chart showing the amount of global shipment of LCD panels from 2010 to 2015:

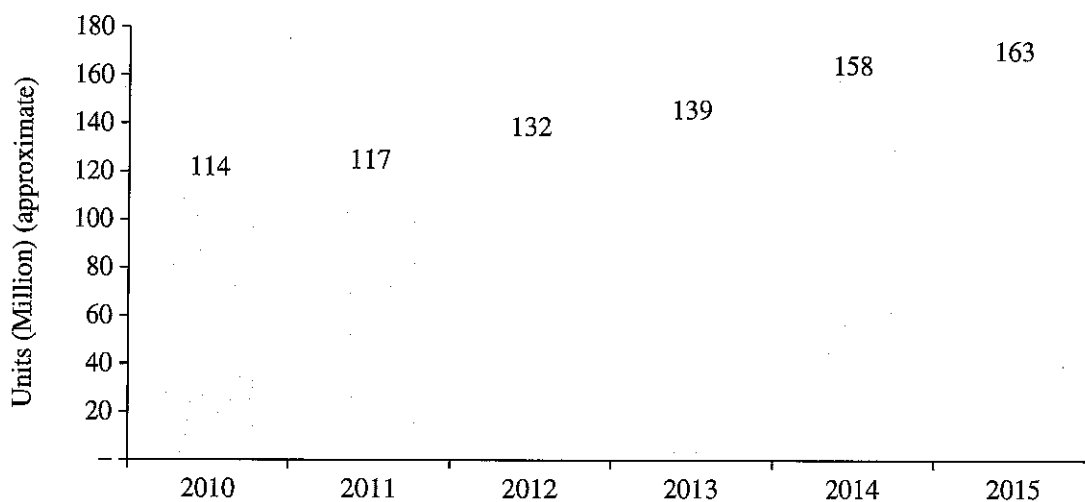


Source: Bloomberg

As shown in the chart above, the global shipment of LCD panels was approximately 799 million units for 2015, representing a slight drop of approximately 33 million units as compared with the number units for 2014. During 2010 to 2013, the shipment slightly increased from approximately 605 million for 2010 to approximately 837 million units for 2013, representing a compound annual growth rate of approximately 11.4%.

The thin-film transistor (TFT) LCD is a variant of LCD that uses thin-film transistor technology to improve qualities such as addressability and contrast. TFT LCDs form the display area for products such as LCD TVs, desktop PCs, and mobile computing devices. TFT technology has been used in many products to enhance color, contrast, and picture quality. As TFT LCDs are available in a wide range of sizes, manufacturers prefer this technology in large displays with requirements for good color quality.

Below is the chart showing the annual global demand of TFT LCD panels from 2010 to 2015:

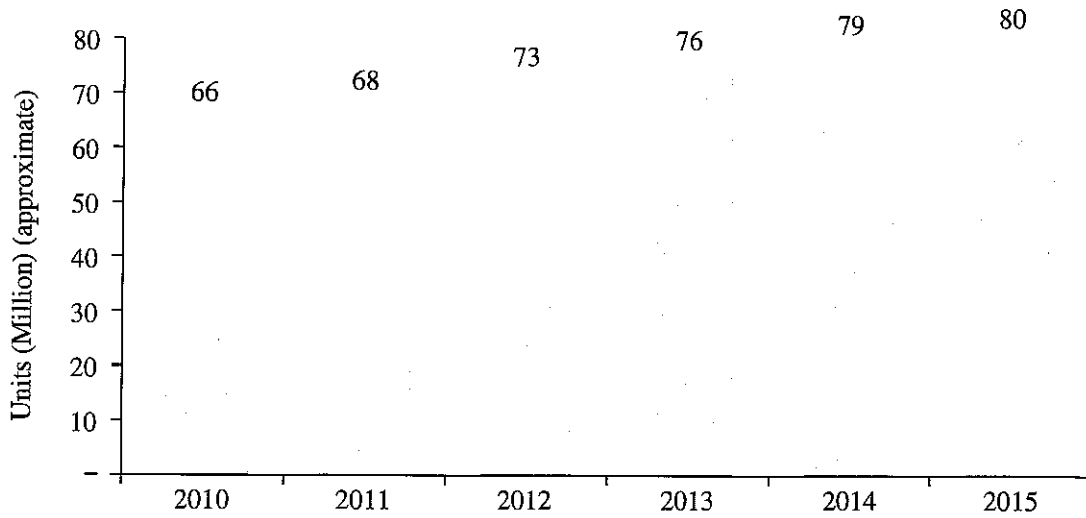


Source: Bloomberg

As shown in the chart above, the demand of TFT LCD panels was approximately 163 million for 2015. As shown in the chart above, the demand for TFT LCD panels increased from approximately 114 million units to approximately 163 million units from 2010 to 2015, representing a compound annual growth rate of approximately 7.4%.

In the high-end automotive sector, monochrome displays have been gradually replaced by TFT displays. On 31 March 2014, the National Highway Traffic Safety Administration of the United States (being an authority established by the Highway Safety Act of 1970) released a rule requiring rearview cameras to be installed in all new vehicles under 10,000 pounds by May 2018. As from January 2014, the European New Car Assessment Programme (being a European car safety performance assessment programme founded in 1997 for the Department of Transport in United Kingdoms and backed by European Union) gives credit in its rating scheme to vehicle manufacturers that equip their vehicles with forward collision warning and/or automatic braking technology. The aforesaid rule and assessment measure lead to more equipment/technology to be incorporated in vehicles and more automotive display products to be installed in the vehicles which may lead to the increase in the demand for LCD modules.

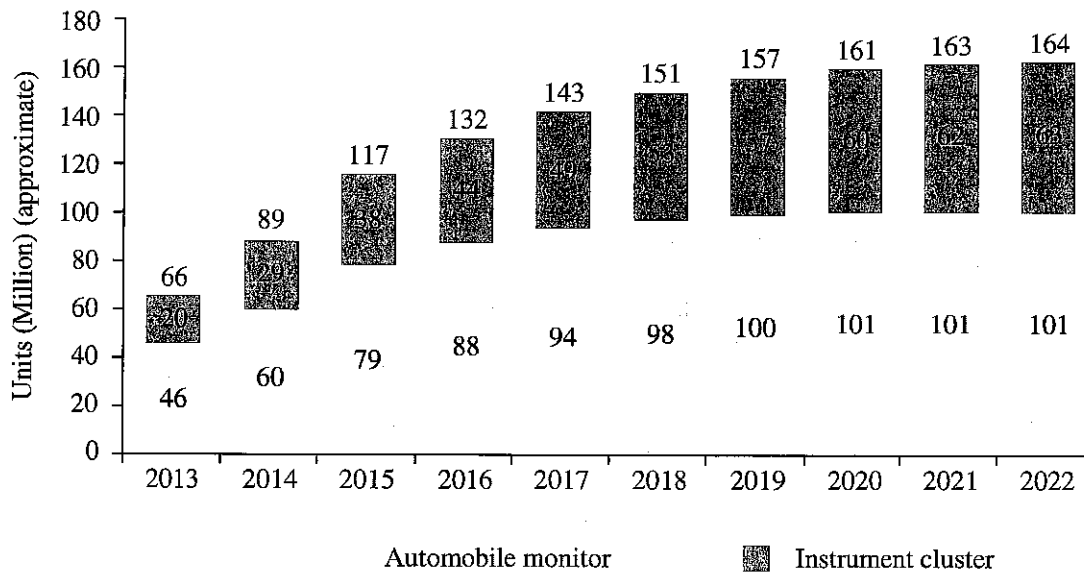
Below is the chart showing the annual global sale of vehicle from 2010 to 2015:



Source: Bloomberg

As shown in the chart above, the sale of vehicle increased from approximately 66 million units to approximately 80 million units from 2010 to 2015, representing a compound annual growth rate of approximately 3.9%.

Below is the chart showing the global shipment of the TFT LCD automotive displays by application from 2013 to 2022.



Source: IHS Inc.

As shown in the chart above, the global shipment of TFT LCD automotive displays increased from approximately 66 million units to approximately 117 million units from 2013 to 2015, representing a compound annual growth rate of approximately 33.1%. The global shipment of TFT LCD automotive displays is estimated to reach approximately 164 million units in 2022, representing a compound annual growth rate of approximately 4.9% from 2015 to 2022.

EFFECT ON SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company had 331,245,204 Shares in issue and outstanding Share Options to subscribe for 12,030,000 Shares, of which (i) outstanding Share Options to subscribe for 3,630,000 Shares were granted with an exercise price of HK\$2.50 per Share; and (ii) outstanding Share Options to subscribe for 8,400,000 Shares were granted with an exercise price of HK\$5.72 per Share. Apart from the above, the Company had no outstanding convertible securities, options, warrants or derivatives in issue which are convertible or exchangeable into Shares as at the Latest Practicable Date.

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Subscription; and (iii) exercise in full of the outstanding Share Options:

	As at the Latest Practicable Date		Immediately upon Completion		Immediately upon Completion and the exercise in full of the outstanding Share Options	
	Number of shares	%	Number of shares	%	Number of shares	%
The Subscriber (<i>Note 1</i>)	-	-	400,000,000	54.70%	400,000,000	53.82%
Directors						
Mr. Ko (<i>Note 2</i>)	54,651,000	16.50%	54,651,000	7.48%	58,551,000	7.88%
Ms. Ko Wing Yan, Samantha	247,000	0.07%	247,000	0.03%	2,247,000	0.30%
Mr. Ho Te Hwai, Cecil	250,000	0.08%	250,000	0.03%	2,200,000	0.30%
Dr. Lo Wing Yan, William J.P.	-	-	-	-	380,000	0.05%
Mr. Chau Shing Yim, David	-	-	-	-	460,000	0.06%
Mr. Hou Ziqiang	-	-	-	-	700,000	0.09%
<i>Sub-total</i>	55,148,000	16.65%	55,148,000	7.54%	64,538,000	8.68%
Existing public Shareholders	276,097,204	83.35%	276,097,204	37.76%	278,737,204	37.50%
Total	331,245,204	100.00%	731,245,204	100.00%	743,275,204	100.00%

Note:

- As at the Latest Practicable Date, the Subscriber had nominated its wholly-owned subsidiary, BOE (HK), to subscribe for the Subscription Shares. Upon Completion, the Subscriber will own the Subscription Shares through BOE (HK).
- Mr. Ko holds these Shares through Rockstead Technology Limited ("Rockstead") and Omnicorp Limited ("Omnicorp"), both of them are wholly-owned by Mr. Ko.

DEALING AND INTEREST OF THE SUBSCRIBER, BOE (HK) AND PARTIES ACTING IN CONCERT WITH ANY OF THEM IN THE SECURITIES OF THE COMPANY

Save for the Subscription, BOE (HK) confirmed that, as at the Latest Practicable Date, neither it, nor, to the best knowledge of it having made all reasonable inquiries, any parties acting in concert with it:

- (a) owned, controlled or had direction over any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives or outstanding derivatives in respect of securities in the Company, or held any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (b) had received an irrevocable commitment to vote for the Subscription and/or the Whitewash Waiver;
- (c) had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (d) had any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or BOE (HK), which might be material to the Subscription and/or the Whitewash Waiver, with any other persons;
- (e) had any agreement or arrangement to which it is a party which relates to the circumstances in which it might or might not invoke or sought to invoke a pre-condition or a condition to the Subscription and/or the Whitewash Waiver; or
- (f) had dealt in Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into Shares, during the six months prior to the date of the Rule 3.7 Announcement.

FUTURE INTENTIONS OF THE SUBSCRIBER REGARDING THE GROUP

The Company and the Subscriber shall explore future business opportunities in automotive and industrial display business segments. As at the Latest Practicable Date, save for the framework relating to the future cooperation of TFT business segment set out in the Subscription Agreement as explained in the section headed "Reasons for and benefits of the Subscription" above, there was no agreement, definitive proposals or timetable that had been determined for any such possible future transaction or arrangement between the Group and the Subscriber, BOE (HK) and the parties acting in concert with any of them.

Save as disclosed above, as at the Latest Practicable Date, the Company, the Subscriber and BOE (HK) had expressed no intention to make any major changes to the continual employment of the employees of the Company and its subsidiaries, nor had they considered any redeployment of the fixed assets of the Company.

USE OF PROCEEDS

The gross proceeds and the net proceeds from the Subscription are HK\$1,400 million and approximately HK\$1,392 million (after deduction of professional fees and estimated expenses of approximately HK\$8 million payable by the Group in connection with the Subscription) respectively. The Directors expect to use the net proceeds from the Subscription for the followings:

- (i) approximately HK\$992 million for expanding the Group's existing TFT module business, including (a) approximately HK\$100 million in respect of the purchase of equipment and machinery for the assembly of TFT modules during the first half of 2017; and (b) approximately HK\$892 million from June 2016 (assuming Completion takes place in May 2016) up to the first quarter of 2017 in respect of the development and expanding operation of the Group's TFT business segment, including:
 - approximately HK\$788 million for purchase of raw materials – to cope with the Group's expanding TFT module business, the Group shall require additional quantities of raw materials for its expansion of the automotive TFT module business which is the major item required for an increasing production level;
 - approximately HK\$41 million for manufacturing overheads – these mainly include direct labour costs, consumable goods and electricity charges, the Company expects that these expenditures shall increase in line with the expansion of the automotive TFT module business;
 - approximately HK\$17 million for research and development – as a result of the expansion of the Group's automotive TFT module business, the Company expects that it shall enhance its existing automotive TFT products and develop new automotive TFT products to maintain its competitiveness in the market; and
 - approximately HK\$46 million for selling and administrative costs – these mainly include staff costs for marketing and administrative staff, freight charges and operating lease charges, the Company expects that these expenditures shall increase in line with the expansion of the automotive TFT module business; and
- (ii) approximately HK\$400 million for working capital for the Group's existing monochrome manufacturing operations after the Special Dividend amounting a total cash payment of approximately HK\$447.2 million (based on the number of Shares in issue as at the Latest Practicable Date).

The net proceeds raised per Subscription Share upon Completion and payment in full of the Subscription Price will represent a net price of approximately HK\$3.48 per Subscription Share.

Based on the preliminary assessment of the Company, the Group will have sufficient working capital for the next 12 months upon Completion and the Company had no plan for further equity fund raising activities as at the Latest Practicable Date.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company had not conducted any equity fund raising activities in the past 12 months immediately prior to the date of the Announcement.

APPLICATION FOR WHITEWASH WAIVER

Upon Completion, the Subscriber (through BOE (HK)) will be interested in 400,000,000 Shares, representing approximately 120.76% of the issued share capital of the Company as at the Latest Practicable Date, and approximately 54.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares) and approximately 53.82% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming all Share Options are exercised in full and there is no change in the issued share capital of the Company other than the issue of the Subscription Shares).

Under Rule 26.1 of the Takeovers Code, upon Completion, BOE (HK) would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber, BOE (HK) and parties acting in concert with any of them, unless the Whitewash Waiver is obtained from the Executive. In this regard, BOE (HK) has made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the SGM by way of poll. Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. If the Whitewash Waiver is not granted by the Executive or is not approved by the Independent Shareholders, the Subscription will not complete unless such condition is waived by the Subscriber which is at the Subscriber's sole discretion. The Subscriber may or may not waive such condition. If such condition is waived by the Subscriber and Completion occurs, BOE (HK) will be obliged to make a mandatory general offer for all issued Shares not already owned or agreed to be acquired by the Subscriber, BOE (HK) and parties acting in concert with any of them under Rule 26.1 of the Takeovers Code as a result of the Subscription.

If the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders and the Subscription becomes unconditional, the aggregate shareholding of the Company held by BOE (HK) will exceed 50% upon Completion. BOE (HK) may further increase its shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

INCREASE IN AUTHORISED SHARE CAPITAL

The authorised share capital of the Company is HK\$100,000,000 divided into 400,000,000 Shares of HK\$0.25 each. As a condition precedent to the Subscription, the Board proposes to increase the authorised share capital of the Company to HK\$200,000,000 divided into 800,000,000 Shares by the creation of an additional 400,000,000 new Shares. The new Shares shall rank pari passu with the existing Shares upon issue. The Increase in Authorised Share Capital is subject to the approval of the Shareholders by way of an ordinary resolution at the SGM.

CAPITAL REDUCTION

The Company is required under the Subscription Agreement to undertake to declare and pay the Special Dividend after Completion. In the event that the distributable reserve of the Company is insufficient to fund the proposed distribution of the Special Dividend or the Final Dividend, the Company is required under the Subscription Agreement as a condition precedent to implement the Capital Reduction by cancelling the entire amount standing to the credit of the Share Premium Account as at the Effective Date and transferring the credit arising from such cancellation to the Contributed Surplus Account or other account of the Company which may be utilised by the Directors as a distributable reserve in accordance with the Bye-laws and applicable laws in Bermuda.

The implementation of the Capital Reduction is conditional upon:

- (i) the passing of a special resolution approving the Capital Reduction by the Shareholders at the SGM; and
- (ii) compliance by the Company with section 46(2) of the Companies Act under the Companies Act 1981 of Bermuda.

Subject to the above conditions being fulfilled, the Capital Reduction is expected to become effective on the Effective Date. Upon the Capital Reduction becoming effective, the balance of the Share Premium Account will become nil.

As at 31 December 2015, the amount standing to the credit of the Share Premium Account was approximately HK\$719,921,000, the amount standing to the credit of the Contributed Surplus Account was approximately HK\$51,636,000, and the amount of retained earnings of the Company was approximately HK\$814,855,000.

Other than the relevant expenses incurred, the implementation of the Capital Reduction will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Group or the interests of the Shareholders as a whole. The Board believes that the Capital Reduction alone will not have any material adverse effect on the financial position of the Company and that on the date the Capital Reduction is to become effective, there are no reasonable grounds for believing that the Company is, or after the Capital Reduction would be, unable to pay its liabilities as they become due. The Capital Reduction will not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any unpaid capital of the Company, nor will it result in any change in the relative rights of the Shareholders.

As at the Latest Practicable Date, the Company had certain Share Options to subscribe for 12,030,000 Shares. Assuming that all of the outstanding Share Options are exercised in full prior to the Effective Date, an additional 12,030,000 Shares will be in issue and an additional credit of approximately HK\$54,116,000 will arise from the Capital Reduction. All such credit, if so arise, will be transferred to the Contributed Surplus Account or other account of the Company which may be utilised by the Directors as a distributable reserve in accordance with the Bye-laws and applicable laws in Bermuda.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Lo Wing Yan, William *J.P.*, Mr. Chau Shing Yim, David and Mr. Hou Ziqiang, has been established to give recommendation to the Independent Shareholders in respect of the Subscription and the Whitewash Waiver.

Somerley Capital Limited has been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to the Subscription and the Whitewash Waiver.

SGM

The SGM will be convened and held at Units A-F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Thursday, 21 April 2016 at 10:00 a.m. for the purposes of considering and, if thought fit, approving, among other things, the Subscription, the Whitewash Waiver, the Special Dividend, the Increase in Authorised Share Capital and the Capital Reduction. The voting in relation to the Subscription, the Whitewash Waiver, the Special Dividend, the Increase in Authorised Share Capital and the Capital Reduction at the SGM will be conducted by way of a poll.

As regards the Subscription and the Whitewash Waiver, the Subscriber, BOE (HK) and parties acting in concert with any of them, Mr. Ko, Ms. Ko Wing Yan, Samantha and their respective associates and parties acting in concert with any of them, and other Shareholders who are interested or involved in the Subscription and/or the Whitewash Waiver shall abstain from voting on the relevant resolutions to be proposed at the SGM to approve them.

As regards the Special Dividend, the Increase in Authorised Share Capital and the Capital Reduction, any Shareholders who have a material interest in the matters shall abstain from voting on the resolutions to be proposed at the SGM to approve them. None of the Shareholders had a material interest in the matters as at the Latest Practicable Date. Accordingly, no Shareholders will be required to abstain from voting at the SGM in respect of the resolutions relating to the matters.

As at the Latest Practicable Date, Mr. Ko (through Rockstead and Omnicorp, both of which are wholly owned by Mr. Ko) held 54,651,000 Shares, representing approximately 16.50% of the total issued share capital of the Company, and Ms. Ko Wing Yan, Samantha held 247,000 Shares, representing approximately 0.07% of the total issued share capital of the Company. The Subscriber, BOE (HK) and parties acting in concert with any of them did not hold any Shares as at the Latest Practicable Date.

A notice convening the SGM is set out on pages 139 to 141 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the meeting or any adjourned meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjourned meeting if you so wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors after considering the letter of advice from the Independent Financial Adviser) consider that the terms of the Subscription are fair and reasonable, and the Subscription and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions.

Your attention is drawn to:

- (a) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 33 of this circular; and
- (b) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 34 to 63 of this circular.

The Directors consider that the Special Dividend, the Increase in Authorised Share Capital and the Capital Reduction are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Warning: The Subscription is subject to the fulfilment or waiver (as the case may be) of a number of conditions precedent which are set out under the section headed "Conditions of the Subscription" in this circular, including approval at the SGM by the Independent Shareholders of the Subscription and the Whitewash Waiver, and the grant of the Whitewash Waiver by the Executive. As such, the Subscription may or may not proceed.

The distribution of the Special Dividend is subject to the completion of the Subscription. If the Whitewash Waiver is not approved by the Independent Shareholders or otherwise not granted, and if the condition of the Whitewash Waiver is not waived by the Subscriber, the Subscription will not complete and no Special Dividend will be paid. As such, the Special Dividend may or may not be declared and paid.

Shareholders, Optionholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

By Order of the Board
Varitronix International Limited



Ko Chun Shun, Johnson
Chairman