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VARITRONIX

VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

**CONTINUING CONNECTED TRANSACTIONS –
(1) MASTER SUBCONTRACTING AGREEMENT; AND
(2) REVISION OF ANNUAL CAP AND
RENEWED MASTER PURCHASE AGREEMENT**

AND

NOTICE OF SPECIAL GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 5 to 24 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on page 25 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 41 of this circular.

A notice convening the SGM of the Company to be held at Units A – F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Thursday, 29 December 2016 at 10:00 a.m. is set out on pages 47 to 48 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.

Hong Kong, 12 December 2016

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DEFINITIONS

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

“associate(s)”	:	has the same meaning as ascribed to it under the Listing Rules
“Board”	:	the board of Directors
“BOE”	:	BOE Technology Group Co., Ltd
“BOE (HK)”	:	BOE Technology (HK) Limited, a company incorporated in Hong Kong with limited liability, is a wholly-owned subsidiary of BOE
“BOE Group”	:	BOE and its subsidiaries
“CCT Agreements”	:	collectively, the Master Subcontracting Agreement and the Renewed Master Purchase Agreement
“Company”	:	Varitronix International Limited (stock code: 710), a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	:	has the same meaning as ascribed to it under the Listing Rules
“controlling shareholder”	:	has the same meaning as ascribed to it under the Listing Rules
“Director(s)”	:	director(s) of the Company
“Effective Date”	:	the date on which the Independent Shareholders’ approval of the CCT Agreements and their respective proposed annual caps is obtained
“Group”	:	the Company and its subsidiaries
“HK\$”	:	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	:	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	:	an independent board committee of the Board, comprising all the independent non-executive Directors, namely Mr. Fung, Yuk Kan Peter, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang, to advise the Independent Shareholders in respect of the CCT Agreements and the respective proposed annual caps
“Independent Financial Adviser”	:	Somerville Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the CCT Agreements and the respective proposed annual caps
“Independent Shareholders”	:	Shareholders other than BOE (HK) and its associates
“Latest Practicable Date”	:	9 December 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“LCD”	:	liquid crystal display
“Listing Rules”	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Master Purchase Agreement”	:	the purchase agreement entered into between the Company and BOE dated 22 April 2016 pursuant to which the Group agreed to purchase TFT panels and other products including, but not limited to, raw materials for manufacturing TFT modules from the BOE Group up to 31 December 2016
“Master Subcontracting Agreement”	:	the master subcontracting agreement entered into between the Company and BOE dated 27 October 2016 pursuant to which the Group has agreed to engage the BOE Group to provide subcontracting services of manufacturing TFT/TP modules and other products on a non-exclusive basis up to 31 December 2018

DEFINITIONS

“Original Purchase Annual Cap”	:	the original annual cap of HK\$90 million for the transactions contemplated under the Master Purchase Agreement for the period from the effective date of the Master Purchase Agreement (i.e. 28 April 2016) up to 31 December 2016
“PRC”	:	the People’s Republic of China (which for the purpose of the CCT Agreements, excludes Hong Kong, the Macau Special Administrative Region and Taiwan)
“Purchase Transactions”	:	all transactions contemplated under the Renewed Master Purchase Agreement
“Renewed Master Purchase Agreement”	:	the renewed master purchase agreement entered into between the Company and BOE dated 27 October 2016 to extend the term of the Master Purchase Agreement up to 31 December 2018
“Renewed Purchase Annual Caps”	:	the proposed maximum aggregate annual transaction amounts payable by the Group to the BOE Group for the Purchase Transactions
“SFO”	:	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	:	a special general meeting of the Company to be convened and held at Units A-F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Thursday, 29 December 2016 at 10:00 a.m. for the Shareholders to consider and, if think fit, to pass the resolutions in respect of the CCT Agreements and the respective proposed annual caps
“Share(s)”	:	the ordinary share(s) of HK\$0.25 each in the share capital of the Company
“Shareholder(s)”	:	holders of the Share(s)
“Stock Exchange”	:	The Stock Exchange of Hong Kong Limited
“Subcontracting Annual Caps”	:	the proposed maximum aggregate annual transaction amounts payable by the Group to the BOE Group for the Subcontracting Transactions

DEFINITIONS

“Subcontracting Transactions”	:	all transactions contemplated under the Master Subcontracting Agreement
“Subscription”	:	the subscription of the 400,000,000 new Shares by BOE (HK) under the subscription agreement dated 3 February 2016 entered into between the Company and BOE
“Subscription Circular”	:	the circular of the Company dated 22 March 2016 in respect of, among others, the Subscription
“TFT”	:	thin film transistor
“TP”	:	touch panel
“%”	:	percentage

LETTER FROM THE BOARD



VARITRONIX

VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

Directors:

Executive Directors:

Mr. Yao Xiangjun (*Chairman*)

Ms. Ko Wing Yan, Samantha

Mr. Su Ning

Non-executive Directors:

Ms. Yang Xiaoping

Mr. Dong Xue

Mr. Yuan Feng

Independent Non-executive Directors:

Mr. Fung, Yuk Kan Peter

Mr. Chu, Howard Ho Hwa

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

12 December 2016

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS –
(1) MASTER SUBCONTRACTING AGREEMENT; AND
(2) REVISION OF ANNUAL CAP AND
RENEWED MASTER PURCHASE AGREEMENT**

AND

NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the Subscription Circular, the announcement of the Company dated 22 April 2016 in respect of the Master Purchase Agreement and the announcement of the Company dated 27 October 2016 in respect of the CCT Agreements and the respective annual caps.

LETTER FROM THE BOARD

On 27 October 2016 (after trading hours), the Company and BOE entered into (i) the Master Subcontracting Agreement, pursuant to which the Company has agreed the Group to engage the BOE Group to provide subcontracting services of manufacturing TFT/TP modules and other products on a non-exclusive basis; and (ii) the Renewed Master Purchase Agreement, pursuant to which the Company and BOE have agreed to extend the terms of the Master Purchase Agreement from up to 31 December 2016 to 31 December 2018.

The purpose of this circular is to provide you with information regarding (i) details of the CCT Agreements and the respective proposed annual caps; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the CCT Agreements and the respective proposed annual caps; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the CCT Agreements and the respective proposed annual caps; (iv) a notice convening the SGM; and (v) other information required under the Listing Rules.

THE MASTER SUBCONTRACTING AGREEMENT

The principal terms of the Master Subcontracting Agreement are as follows:

Date	:	27 October 2016 (after trading hours)
Parties	:	(i) The Company (ii) BOE
Subject	:	The Company has agreed the Group to engage the BOE Group to provide subcontracting services of manufacturing TFT/TP modules and other products on a non-exclusive basis. For the avoidance of doubt, the Group is not contractually bound to engage the BOE Group to provide the subcontracting services and is free to engage any other third party subcontractor for the provision of the subcontracting services during the term of the Master Subcontracting Agreement.

TFT modules are thin film transistor modules which generally refer to a unit comprises, among others, a panel, backlight and integrated circuits. TP modules are modules with touch panel displays. The other products are vehicle networking and automotive electronic systems (which include, among others, electronic communications devices within a vehicle such as remote control of the headlights/air-conditioner using a smartphone app or a remote control, navigation system, electronic monitoring system, global positioning system module, radio and head-up display).

LETTER FROM THE BOARD

The Group will provide major components and materials to the BOE Group. The BOE Group will further process and assemble the components and materials to manufacture TFT/TP modules and other products in accordance with the design and specifications provided by the Group.

The Group will enter into separate and definite agreements from time to time with the BOE Group to provide, among others, the exact quantity, specifications and quality requirement of the TFT/TP modules and other products, place and date of delivery, processing fee per unit and payment terms, in accordance with the principles set out in the Master Subcontracting Agreement.

- Term : The Master Subcontracting Agreement will become effective from the Effective Date up to 31 December 2018.
- Pricing policy : The BOE Group shall charge the Group the processing fee on a “cost-plus” basis, which will be determined based on the direct costs incurred by the BOE Group (including, among others, labour cost, power, utilities, equipment depreciation and management fee) with respect to the provision of the subcontracting services plus a profit margin which shall not be higher than 5% of the direct costs. The limit of profit margin of 5% is determined with reference to the average of the profit margins charged to the Group by its independent subcontractors in respect of subcontracting services. The BOE Group shall also charge the Group on an actual basis any expenses in relation to, among others, material, packaging, testing, transportation, after-sale service, insurance and storage.

LETTER FROM THE BOARD

The terms of subcontracting services (including the processing fee payable by the Group to the BOE Group) will be on normal commercial terms and determined between the Group and the BOE Group on an arm's length basis. The terms of the subcontracting services to be provided by the BOE Group to the Group shall be no less favourable than those provided to independent third parties under the same terms and conditions. The exact pricing of each order shall be subject to the Group's acceptance of the proposed terms of each agreement made by the BOE Group. Given that the profit margin shall not be higher than the average of the profit margins charged to the Group by its independent subcontractors, which represent comparable market rates, and the Group will only agree to engage the BOE Group to provide subcontracting service if the ultimate sale of the related TFT modules is profitable, the Company considers that such pricing basis is fair and reasonable, on normal commercial terms and is not prejudicial to the interests of the Company and its shareholders.

Payment : The Group shall settle the processing fee to the BOE Group within 60 days of delivery.

The Group will review requirements of its customers' orders which may include, among others, origin and specification of materials, complexity of the module design and quality requirement, and will source components from different suppliers (which may include TFT panels and other products to be sourced from the BOE Group under the Renewed Master Purchase Agreement). Depending on the Group's manufacturing capacity and capabilities and customers' orders specifications, the Group may engage the BOE Group to provide subcontracting services of manufacturing TFT/TP modules and other products to fulfill all or part of its customers' orders.

THE RENEWED MASTER PURCHASE AGREEMENT

The principal terms of the Renewed Master Purchase Agreement are as follows:

Date : 27 October 2016 (after trading hours)

Parties : (i) The Company

(ii) BOE

LETTER FROM THE BOARD

Subject : The Company has agreed the Group to purchase TFT panels and other products including, but not limited to, raw materials for manufacturing TFT modules from the BOE Group on a non-exclusive basis. For the avoidance of doubt, the Group is not contractually bound to purchase TFT panels and other products from the BOE Group and is free to purchase TFT panels and other products from any other third party supplier during the term of the Renewed Master Purchase Agreement.

The Group will enter into separate and definite agreements from time to time with the BOE Group to provide, among others, the exact quantity, specifications and quality requirement of the TFT panels and other products, place and date of delivery, price and payment terms, in accordance with the principles set out in the Renewed Master Purchase Agreement.

Term : The Renewed Master Purchase Agreement will become effective from the Effective Date up to 31 December 2018. The Master Purchase Agreement will no longer be effective since the Effective Date.

The Renewed Master Purchase Agreement will continue to be effective up to 31 December 2018 provided that BOE and/or its subsidiaries hold(s) at least 30% of the issued shares of the Company (i.e. if BOE and/or its subsidiaries holds less than 30% of the issued shares of the Company, the Renewed Master Purchase Agreement will be terminated).

LETTER FROM THE BOARD

Pricing policy : The terms of purchases (including the price payable by the Group to the BOE Group) will be on normal commercial terms and will be determined between the Group and the BOE Group on an arm's length basis.

With regard to the standardized TFT panels and other products, the BOE Group shall offer the most favourable selling price to the Group which shall represent a discount to the standard price of the BOE Group and such discount shall not be less than any discount offered by the BOE Group to any other customers of the BOE Group. In practice, when the Group delivers a purchase order to the BOE Group for standardized TFT panels and other products, the BOE Group will refer to its standard price list which applies to all customers of the BOE Group, including the Group and the BOE Group's independent customers, and provide discounts to the Group. In determining the amount of discount, the BOE Group takes into account different factors such as product types and the material supply and demand which vary from time to time each transaction is conducted. As such, the Group and the BOE Group consider that it is not practicable to pre-agree a discount range. In this regard, before the Group approves the quotation offered by the BOE Group, the Group refers to quotations from independent suppliers for the same standardized TFT panels and other products and requests the BOE Group to provide confirmation with any available transaction information between the BOE Group and its other customers for the past three months to ensure that the discount offered to the Group for the same standardized TFT panels and other products is not less than that offered to other customers. In general, the Company will solicit, on its best effort, quotations from at least two independent suppliers in order to determine the average market price. Given that such pricing mechanism is in line with market practice and the Group will only agree to make the purchase from the BOE Group if the ultimate sale of the related TFT modules is profitable, the Company considers that such pricing basis is fair and reasonable, on normal commercial terms and is not prejudicial to the interests of the Company and its shareholders.

LETTER FROM THE BOARD

With regard to the customized TFT panel and other products, the BOE Group shall offer to the Group a selling price which shall not be higher than the selling price offered to its customers. Before the BOE Group selling such customized TFT panel to its customers, the BOE Group shall obtain written consent from the Group and agree the lowest selling price with the Group. The exact pricing of each purchase shall be subject to the Group's acceptance of the proposed terms of each agreement made by the BOE Group. In practice, for the BOE Group to provide quotation, the Group will provide specifications of materials and components of customized TFT panels and other products. The BOE Group determines the selling price with reference to different factors such as complexity of the manufacturing process and the material supply and demand which vary from time to time each transaction is conducted. As such, the Group and the BOE Group consider that it is not practicable to pre-agree on specific unit price for the customized TFT panels and other products. In this regard, before the Group approves the quotation offered by the BOE Group, the Group refers to quotations from independent suppliers for orders of customized TFT panels and other products with similar requirements and/or specifications and requests the BOE Group to provide confirmation with any available transaction information between the BOE Group and its other customers for the past three months to ensure that the selling price offered to the Group for customized TFT panels and other products with similar requirements and specifications is not higher than that offered to other customers. In general, the Company will solicit, on its best effort, quotations from at least two independent suppliers in order to determine the average market price. Given that such pricing mechanism is in line with market practice and the Group will only agree to make the purchase from the BOE Group if the ultimate sale of the related TFT modules is profitable, the Company considers that such pricing basis is fair and reasonable, on normal commercial terms and is not prejudicial to the interests of the Company and its shareholders.

Payment : The Group shall settle the purchase price to the BOE Group within 60 days of delivery.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE MASTER SUBCONTRACTING AGREEMENT AND THE RENEWED MASTER PURCHASE AGREEMENT

The Master Subcontracting Agreement

As set out in the Subscription Circular, 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 a 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 capitalising on the Group's product and market position in monochrome displays.

Following completion of the Subscription, the Group has been discussing with the BOE Group to quickly further develop and expand its automotive TFT business segment. After considering the existing automotive TFT module manufacturing capacity and capabilities of the Group, the Company considers it beneficial for the Group to leverage on the manufacturing resources of the BOE Group by entering into the Master Subcontracting Agreement to quickly expand its automotive TFT business segment.

The Renewed Master Purchase Agreement

As set out in the Subscription Circular, the Group has been purchasing TFT panels from the BOE Group from time to time. As set out in the announcement of the Company dated 22 April 2016, on 22 April 2016, the Company entered into the Master Purchase Agreement with BOE to govern the purchase of TFT panels and other products including, but not limited to, raw materials by the Group from the BOE Group for the manufacturing of its LCDs and related products, in particular TFT modules, immediately following completion of the Subscription up to 31 December 2016.

With the continued business growth, improving market conditions and customer demand in TFT modules, the actual transaction amount under the Master Purchase Agreement for the nine months ended 30 September 2016 has already reached approximately 63% of the Original Purchase Annual Cap. Based on the existing orders for TFT modules received by the Company, the Company expects that the Original Purchase Annual Cap of HK\$90 million will not be sufficient for the Group's business growth, and thus proposes that the Original Purchase Annual Cap be revised. The Company also seeks to extend the arrangements under the Master Purchase Agreement for further two years to 31 December 2018. As such, the Directors consider it beneficial for the Group to revise the Original Purchase Annual Cap and to extend the term of the Master Purchase Agreement by entering into the Renewed Master Purchase Agreement. Apart from the BOE Group, the Group has been purchasing and shall continue to purchase TFT panels and other products from a number of other independent suppliers based on the Group's business needs from time to time. The Company is of the view that the Group will not be facing unjustifiable risk of relying on the BOE Group by purchasing TFT panels and other products for expanding its TFT module business.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors after considering the letter of advice from the Independent Financial Adviser) are of the view that the terms of the Master Subcontracting Agreement and the Renewed Master Purchase Agreement are fair and reasonable, and the transactions contemplated under the Master Subcontracting Agreement and the Renewed Master Purchase Agreement are on normal commercial terms, in the ordinary course of business and in the interests of the Company and the Shareholders as a whole.

HISTORICAL FIGURES AND PROPOSED ANNUAL CAPS

The Group had not engaged the BOE Group for transactions which are similar in nature to the Subcontracting Transactions, thus no historical transaction figure is available. The table below sets out the historical actual amounts paid by the Group in respect of its purchase of TFT panels and other products from the BOE Group for the three years ended 31 December 2013, 2014 and 2015, and for the nine months ended 30 September 2016.

	For the year ended 31 December			For the nine months ended 30 September
	2013	2014	2015	2016
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
	<i>(approximate)</i>	<i>(approximate)</i>	<i>(approximate)</i>	<i>(approximate)</i>
Purchase of TFT panels and other products	3.7	6.7	7.4	56.46 (including approximately HK\$56.43 million incurred after the effective date of the Master Purchase Agreement (i.e. 28 April 2016))

The table below sets out the Subcontracting Annual Caps and the Renewed Purchase Annual Caps for each of the three years ending 31 December 2016, 2017 and 2018.

	For the year ending 31 December		
	2016	2017	2018
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Subcontracting Transactions	10	73	138
Purchase Transactions	133	702	1,229

LETTER FROM THE BOARD

The Subcontracting Annual Caps are determined with reference to:

- (i) unit cost of processing fee which is estimated with reference to quotations from independent subcontractors for providing services similar to the Subcontracting Transactions;
- (ii) estimated demand on TFT/TP modules and other products taking into account the anticipated increase in the scale and business operation of the Group; and
- (iii) estimated amount of TFT/TP modules and other products to be subcontracted to the BOE Group which is estimated with reference to the production capacity of the Group.

The Original Purchase Annual Cap for the year ending 31 December 2016 under the Master Purchase Agreement is HK\$90 million. The actual transaction amount under the Master Purchase Agreement for the nine months ended 30 September 2016 has already reached approximately HK\$56.43 million, representing approximately 63% of the Original Purchase Annual Cap. As set out in the section headed “Reasons for and benefits of the Master Subcontracting Agreement and the Renewed Master Purchase Agreement” above, the Company expects that the Original Purchase Annual Cap will not be sufficient for the Group’s business growth. The Company proposes to revise the Original Purchase Annual Cap from HK\$90 million to HK\$133 million determined principally by reference to, among others, the existing orders for TFT modules received by the Group.

As to the Renewed Purchase Annual Caps for each of the two years ending 31 December 2017 and 2018, they are determined principally with reference to, among others, (i) an estimated increasing global market demand on automotive TFT modules; (ii) the anticipated increase in the Group’s TFT module business operation based on the increasing target market share to be achieved and taking into account potential increase in number of orders after completion of the Subscription including the orders to be subcontracted to the BOE Group under the Master Subcontracting Agreement; and (iii) the estimated proportion of purchase amount of the TFT panels and other products from the BOE Group with reference to customer specifications including but not limited to panel size, technology and quality requirement. Detail of the above three major factors are further elaborated below:

1. Estimated increasing global market demand on automotive TFT modules

The Company has referred to the report titled “Automotive Display Market Tracker – Q1 2016” dated 10 May 2016 (the “Report”) issued by IHS. Inc., an independent research company which was listed on the New York Stock Exchange. Considering the company size of IHS. Inc and that its research reports have widely been referred to in the display industry, the Directors consider that it is reasonable to make reference to the Report when determining the Renewed Purchase Annual Caps. The global sale of automotive TFT module is forecast to increase from approximately US\$6,281 million in 2016 to approximately US\$6,621 million in 2017 and further increase to approximately US\$6,960 million in 2018.

LETTER FROM THE BOARD

2. Anticipated increase in the Group's TFT module business operation based on the increasing target market share

2.1 Anticipated increase in the Company's revenue generated from automotive TFT modules

Due to the heavy capital investment requirement, whilst the Group has commenced its TFT module production since 2011, the Group had only been able to develop and grow its TFT product segment moderately before the Subscription. As set out in the Subscription Circular, the Company intends to leverage the manufacturing resources of the BOE Group and quickly expand its existing automotive TFT module product segment as BOE's sole development, manufacturing and distribution platform of automotive display module and system business flagship after completion of the Subscription. The Group has a relatively small market share in the TFT module market as the Group has not invested sufficient resources in this product segment prior to the Subscription. With a strong supply chain support from the BOE Group, the Company considers that there is a high growth potential in this product segment and has formulated a business plan to quickly expand its TFT module product segment through, among others, purchase of new equipment and machinery for assembly of TFT modules and increase in its production capacity and workforce.

After completion of the Subscription, the Group has been gradually rolling out its business plan on TFT modules and has received very positive feedback from target customers. The BOE Group has also been referring new business to the Group for the production of TFT modules. There is an increase in orders for automotive TFT modules from the Group's customers after the Subscription. As such, the Company believes that it is a great opportunity to expand its TFT module product segment.

Based on the global sale of automotive TFT module in 2015 mentioned in the Report and the Group's revenue generated from sale of TFT module in the same period, the Group's market share in the TFT module market in 2015 was about 0.5%. However, in view of (i) the existing orders for supplying TFT modules received by the Group up to 30 September 2016 (including those from existing customers and new customers); (ii) the prospective orders indicated to the Group or being discussed; (iii) the usual long term recurring purchase pattern of automotive companies; (iv) the continuing growing market; (v) and the Group's existing relationships with many automotive companies and the aggressive expansion strategy and plan, the Company considers it in the Shareholders' best interests and reasonable to target a substantial increase in its market share in the global automotive TFT module market during the term of the Renewed Master Purchase Agreement. The Company estimates that this can substantially increase the Group's production and sale in TFT modules and thus optimistically can achieve a higher market share of 5% by 2018 from the currently relatively smaller scale. The Directors would like to draw the attention of the Shareholders and the potential investors of the Company that the target market share is determined by the Company after taking into account different factors mentioned above. As such, the actual sale of the Group's TFT modules during the

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term of the Renewed Master Purchase Agreement may or may not be the same as the Group's target market share and the Group's target market share does not represent the profitability and level of business of the Group in the future. To determine the Renewed Purchase Annual Caps, the Company estimates its revenue generated from automotive TFT modules using the product of (i) the estimated global market demand on automotive TFT modules mentioned in the Report; and (ii) its target market share in the global automotive TFT module market during the term of the Renewed Master Purchase Agreement.

2.2 Anticipated increase in the Company's revenue generated from automotive TFT modules which requires materials sourced from the BOE Group

As mentioned in the Subscription Circular, whilst the Company has established its production line for TFT modules, it is the Company's strategy to gain a strong upstream support in TFT panel to expand its TFT module product segment. To select a supplier, the Group will review, among others, the price, the delivery time, the payment terms, quality standard and technical capability. BOE is a leading supplier of TFT panels and are experienced in fulfilling customer specification (e.g. panel size, technology and quality requirement) and the Company has been sourcing TFT panels from the BOE Group. After the Subscription, the BOE Group regards the Group as its strategic customer and, under the Master Purchase Agreement, the BOE Group will supply TFT panels and other products to the Group with priority at the most favourable market price. The cooperation with the BOE Group allows the Group to secure a reliable stable supply of quality TFT panels meeting the specification and required standards of the Group's existing and target automotive customers. The Company considers this is a very essential element for enhancing the Group's competitiveness. As such, the Directors (including the independent non-executive Directors after considering the letter of advice from the Independent Financial Adviser) considers that it is in the interests of the Company and its shareholders for the Company to establish a strategic relationship with the BOE Group in order to enhance the Group's competitiveness in the TFT panel supply chain.

Prior to the Subscription, the BOE Group had been building up its TFT module operation and has established business relationships with a few automotive companies in respect of the supply of TFT modules by the BOE Group. After the Subscription, the BOE Group, together with the Group, has been discussing with those automotive companies with a view to transferring those TFT module business to the Group. It is expected that continued sourcing of TFT panels and/or other parts from the BOE Group in respect of the production and sale of TFT modules to these automotive companies will greatly help give customers confidence in product quality and thus secure further sales.

In view of the above, the Company therefore anticipates that the sale of TFT modules which requires sourcing of materials from the BOE Group will increase and considers that it will be good to provide better flexibility in allowing the Group to purchase more TFT panels and other products from the BOE Group to enjoy economies of scale and support the Group to generate a higher revenue. As such, to determine the

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Renewed Purchase Annual Caps, the Company estimates its revenue generated from automotive TFT modules which requires materials sourced from the BOE Group using the product of (i) the estimated revenue generated from automotive TFT modules as mentioned in section 2.1 above; and (ii) proportion of revenue generated from automotive TFT modules requiring materials sourced from the BOE Group which is expected to increase as explained in this paragraph 2.2 above.

3. Estimated proportion of purchase amount of the TFT panels and other products from the BOE Group

The Company has also considered the proportion of purchase amount of the TFT panels and other products from the BOE Group to determine the Renewed Purchase Annual Caps. As mentioned above, the BOE Group has been referring new business to the Group for the production of TFT modules after completion of the Subscription. For these referred orders, whilst the Group will directly handle the orders with the customers, most of the terms including product specifications have already been agreed with and accepted by the customers and therefore fixed, and the BOE Group has already arranged sourcing raw materials with suppliers. Whilst the Group will, from time to time, liaise with the suppliers and the customers referred by the BOE Group for the arrangement of sourcing the raw materials, the Company considers that it is more efficient for the Group to follow the purchase arrangement that the BOE Group has agreed with the related customers and/or suppliers. This as a result has led to a larger proportion of raw materials (including TFT panels and other raw materials) being sourced from the BOE Group in respect of these referred orders. Accordingly, the Company estimates in 2016 a higher proportion of purchase amount of TFT panels and other products from the BOE Group. The Company anticipates that in 2017 and 2018, the Group will source more TFT panels and other products directly from suppliers for the orders referred by the BOE Group. As such, the proportion of purchase of the TFT panels and other products from the BOE Group will gradually decrease in 2017 and 2018 and back to a level closer to that in 2015.

By using the product of (i) estimated revenue generated from automotive TFT modules which requires materials sourced from the BOE Group as mentioned in section 2.2 above; and (ii) the proportion of purchase of the TFT panels and other products from the BOE Group as described in this paragraph 3 above, the Company has proposed the Renewed Purchase Annual Caps to be HK\$702 million and HK\$1,229 million for the two years ending 31 December 2017 and 2018 respectively.

In general, the cost structure of the Group's TFT module products primarily includes materials, staff, electricity and transportation costs. With reference to the estimated production scale of the Group's monochrome display and TFT display products during the term of the Renewed Master Purchase Agreement, the Company believes that the costs which the Group may incur for the purchases of TFT panels and other products under the Renewed Purchase Annual Caps will not form a major part of the total material costs of the Group.

The Purchase Transactions which will be conducted pursuant to the Renewed Master Purchase Agreement will be subject to compliance with the Renewed Purchase Annual Caps for the three years ending 31 December 2018.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors after considering the letter of advice from the Independent Financial Adviser) are of the view that the Subcontracting Annual Caps and the Renewed Purchase Annual Caps are fair and reasonable.

Moreover, the Directors (including the independent non-executive Directors after considering the letter of advice from the Independent Financial Adviser) are of the view that the Company will not be facing unjustifiable risk of relying on the BOE Group by purchasing TFT panels and other products based on the Renewed Purchase Annual Caps after considering that:

- (a) the Renewed Master Purchase Agreement does not preclude the Group from purchasing TFT panels and other products from other suppliers;
- (b) the Group has been purchasing TFT panels and other products from a number of other suppliers (apart from the BOE Group) based on its business needs from time to time; and will continue to do so based on objective selection criteria including, among others, pricing, quality and ability to meet customer's specification;
- (c) the Renewed Purchase Annual Caps represent the upper limit of the value of purchase from the BOE Group that may be transacted under the Renewed Master Purchase Agreement, and are not the committed purchase amount from the BOE Group by the Group for the three years ending 31 December 2018; and
- (d) under the Renewed Master Purchase Agreement, the BOE Group shall offer the most favourable price for selling TFT panels to the Group. The Group has established its internal control as detailed in the section headed "Pricing Policies and Guidelines" to make sure that the terms offered by the BOE Group are no less favourable than those offered by independent third party suppliers.

PRICING POLICIES AND GUIDELINES

Before confirming any order in respect of the Subcontracting Transactions or the Purchase Transactions, the designated operation staff of purchasing department of the Group will solicit on a best effort basis quotation from at least two independent subcontractors or suppliers (as the case may be) from the Group's list of approved subcontractors/suppliers for order in similar requirements and/or specifications, and review, among others, the price, the delivery time, the payment terms, quality standard and technical capability to determine if the major terms offered by the BOE Group are fair and reasonable and no less favorable than the terms available to the Group from independent subcontractors or suppliers. If the senior manager of the purchasing department of the Group considers that the major terms of the Subcontracting Transactions and the Purchase Transactions are on normal commercial terms or better, it shall submit the documents to the two co-chief executive officers who will review the aforesaid documents submitted by the purchasing department (including whether the transactions are conducted in accordance with the pricing policies of the Group) and make the decision on selecting the suppliers/subcontractors. Moreover, the accounting department will

LETTER FROM THE BOARD

weekly generate a report to the senior manager of the purchasing department, the financial controller and the company secretary in order to monitor the Subcontracting Transactions and the Purchase Transactions, and ensure that the Subcontracting Annual Caps and the Renewed Purchase Annual Caps are not exceeded. Both the senior management of the purchasing department and the financial controller will conduct regular checks by the end of each month to review, among others, pricing, product quality, delivery and payment of all orders entered in respect of the Subcontracting Transactions and the Purchase Transactions, and compare with the principal terms stated in the Master Subcontracting Agreement and the Renewed Master Purchase Agreement in order to assess whether the Subcontracting Transactions and the Purchase Transactions are conducted in accordance with the terms of their respective agreements.

Moreover, the internal audit department will semi-annually review the aforementioned work of the purchasing department (including that of the designated operation staff and the senior manager) and the review work by the two co-chief executive officers to ensure that the internal control measures in respect of the Subcontracting Transactions and the Purchase Transactions remain effective and adequate. The internal audit department will report semi-annually to the independent non-executive directors of the Company during audit committee meetings.

The independent non-executive Directors will review the Subcontracting Transactions and the Purchase Transactions semi-annually to check and confirm whether such transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's external auditors will review the Subcontracting Transactions and the Purchase Transactions annually to check and confirm, among others, whether the pricing terms have been adhered to and whether the relevant caps have been exceeded.

As mentioned in the announcement of the Company dated 22 April 2016, the pricing policy for the transactions contemplated under the Master Purchase Agreement were supervised and monitored by the chief operating officer of the Company. Starting from 31 July 2016, the two co-chief executive officers have taken up the responsibility of the chief operating officer and supervise and monitor the pricing policy for the transactions contemplated under the Master Purchase Agreement. With effect from the Effective Date, the two co-chief executive officers will be responsible to supervise and monitor the pricing policies for the Subcontracting Transactions and the Purchase Transactions as set out in the preceding paragraph.

The Directors consider that the internal control system of the Group is adequate to ensure that the Subcontracting Transactions and the Purchase Transactions will be on normal commercial terms and no less favourable to the Company than those offered by independent third parties.

LETTER FROM THE BOARD

INFORMATION ON THE PARTIES TO THE MASTER SUBCONTRACTING AGREEMENT AND THE RENEWED MASTER PURCHASE AGREEMENT

The Group was established in 1978 and built its factories in the PRC in 1983. The Group is principally engaged in automobile and other industrial display products. The Shares were listed on the Main Board of the Stock Exchange in 1991. 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 has been focusing markets in Europe, America, Hong Kong, China, Japan and Korea. 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. The Group has been focusing on selling its TFT module products to automobile companies which are also buying monochrome display products from the Group. The Group's marketing teams are mainly divided by geographic areas and customers. The sale of monochrome and TFT display products to the same customer will be handled by the same marketing team.

For illustration purpose, for the nine months ended 30 September 2016, the top 5 customers for the Group's monochrome display products are principally engaged in automotive and industrial sectors while the top 5 customers for the Group's TFT display products are principally engaged in automotive sector. In addition, for the nine months ended 30 September 2016, the top 5 suppliers for the Group's monochrome display products supplied the Group with polarizers, integrated circuits, glass and backlights while the top 5 major suppliers (including the BOE Group) for the Group's TFT display products supplied the Group with panels, backlights, polarizers and integrated circuits. The Company confirmed that other than the BOE Group, all top 5 customers and suppliers are third parties independent of the Company and its connected persons.

The Group has designated production facilities for the manufacture of both monochrome and TFT products. The production facilities and process of both monochrome and TFT products are materially similar involving processes like cleaning, auto optical inspection, polarizer sticking and backlight assembly. The major differences between the two production processes are panel technology and product requirements like the temperature range, tolerance and precision levels of parameters. The total area of the Group's production facilities and the number of workers in respect of monochrome modules are approximately 44,200 m² and approximately 4,100 workers respectively; and the Group has established production facilities for TFT modules with a total area of approximately 2,500 m² and approximately 350 workers. Under the expansion plan of the Company, the Company intends to expand its production facilities for TFT modules to about 7,800 m² and about 550 workers by the first quarter of 2017.

LETTER FROM THE BOARD

Monochrome display has been the Group's major revenue source accounted for approximately 87.6% of the Group's total revenue for the nine months ended 30 September 2016. As set out in the interim report of the Company for the six months ended 30 June 2016, although the Group's current monochrome display product segment is under pressure from the expanding TFT market, monochrome display products still have room for growth in the mid-to-low automotive sectors and among industrial customers, benefited from its reliability and price competitiveness. The Group will seek to maintain steady development for its monochrome display business, while driving growth in the TFT business.

As set out in the Subscription Circular, 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 product segment, 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 with an accelerated growing TFT module business.

The Board considers that there has been no significant changes to the Group's business model following completion of the Subscription and the Company would continue to 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.

As set out in the Subscription Circular, the Group intended to spend approximately HK\$992 million for expanding its 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 to develop and expand operation of its TFT business segment up to the first quarter of 2017 through:

- (a) 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;
- (b) 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;

LETTER FROM THE BOARD

- (c) 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
- (d) 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.

As at the Latest Practicable Date, the Directors confirmed that there was no material change to the future development plan and the capital expenditure requirements for the Group’s TFT display business development set out above.

BOE was founded in April 1993 and the issued shares of which are listed on the Shenzhen Stock Exchange. It is a supplier of semiconductor display technologies, products and services and 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.

LISTING RULES IMPLICATIONS

BOE (HK), a wholly-owned subsidiary of BOE, is the controlling shareholder of the Company holding approximately 54.42% of the issued share capital of the Company as at the Latest Practicable Date. BOE is an associate of BOE (HK) and is thus a connected person of the Company under the Listing Rules. As such, each of the Subcontracting Transactions and the Purchase Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Based on the proposed annual caps of the transactions contemplated under the Master Subcontracting Agreement and the Renewed Master Purchase Agreement and the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules, each of the Subcontracting Transactions and the Purchase Transactions are subject to reporting, announcement, circular (including independent financial advice) and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Each of Mr. Yao Xiangjun (“Mr. Yao”), an executive Director, and Mr. Dong Xue (“Mr. Dong”), a non-executive Director, held 100,000 A shares of BOE as at the Latest Practicable Date. In addition, Mr. Yao is a director and a member of executive committee of BOE, a senior vice president, a joint chief operating officer and the chief executive officer of the smart system business group of BOE. Mr. Dong is a vice president and the chief technical officer for display panel business of BOE. Moreover, Mr. Su Ning (“Mr. Su”), an executive Director, is the general manager of the application business department of Beijing BOE Display Technology Co., Ltd., a subsidiary of BOE. Ms. Yang Xiaoping (“Ms. Yang”), a non-executive Director, is a vice president and a deputy financial controller of BOE. Ms. Yang is also a director or supervisor of a number of subsidiaries of BOE. Mr. Yuan Feng (“Mr. Yuan”), a non-executive Director, is a vice president and the chief strategic marketing officer of BOE. Mr. Yuan is also the chairman of the board of directors of Beijing BOE Sales Co., Ltd, a subsidiary of BOE, and a director of a number of subsidiaries of BOE.

LETTER FROM THE BOARD

In view of the above, Mr. Yao, Mr. Dong, Mr. Su, Ms. Yang and Mr. Yuan might be considered having interests in the CCT Agreements and thus have abstained from voting on the board resolution to approve the CCT Agreements and the respective proposed annual caps.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Fung, Yuk Kan Peter, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang, has been formed to advise the Independent Shareholders in respect of the CCT Agreements and the respective proposed annual caps.

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 CCT Agreements and the respective proposed annual caps.

GENERAL

A notice convening the SGM is set out on pages 47 to 48 of this circular. 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, 29 December 2016 at 10:00 a.m. for the purposes of considering and, if thought fit, approving the CCT Agreements and the respective proposed annual caps. The voting in relation to the CCT Agreements and respective proposed annual caps at the SGM will be conducted by way of a poll.

A form of proxy for use at the SGM is enclosed with 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.

Any Shareholders with a material interest in the CCT Agreements shall abstain from voting on the relevant resolutions at the SGM. BOE (HK), the controlling shareholder of the Company and a subsidiary of BOE, shall abstain from voting at the SGM. As at the Latest Practicable Date, BOE (HK) held 400,000,000 Shares, representing approximately 54.42% of the total issued share capital of the Company.

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 CCT Agreements and the respective proposed annual caps are fair and reasonable, and 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.

LETTER FROM THE BOARD

Your attention is drawn to:

- (a) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 25 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 26 to 41 of this circular.

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
Varitronix International Limited
Mr. Yao Xiangjun
Chairman



VARITRONIX

VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

12 December 2016

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS –
(1) MASTER SUBCONTRACTING AGREEMENT; AND
(2) REVISION OF ANNUAL CAP AND
RENEWED MASTER PURCHASE AGREEMENT**

We refer to the circular of the Company dated 12 December 2016 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to advise you as to whether, in our opinion, (i) the terms of the CCT Agreements and their respective proposed annual caps are fair and reasonable; (ii) the Subcontracting Transactions and the Purchase Transactions are in the ordinary and usual course of business of the Group; (iii) the terms of the CCT Agreements are on normal commercial terms; (iv) the CCT Agreements and their respective proposed annual caps are in the interests of the Company and the Shareholders as a whole; and (v) the Independent Shareholders should vote in favour of the ordinary resolutions to approve the CCT Agreements and their respective proposed annual caps at the SGM. Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 26 to 41 of the Circular.

Having considered the terms of the CCT Agreements and their respective proposed annual caps, and the advice of the Independent Financial Adviser, we are of the opinion that (i) the terms of the CCT Agreements and their respective proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the Subcontracting Transactions and the Purchase Transactions are in the ordinary and usual course of business of the Group; (iii) the terms of the CCT Agreements are on normal commercial terms; and (iv) the CCT Agreements and their respective proposed annual caps are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve them.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Fung, Yuk Kan Peter

Chu, Howard Ho Hwa

Hou Ziqiang

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

12 December 2016

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS –
(1) MASTER SUBCONTRACTING AGREEMENT
AND
(2) REVISION OF ANNUAL CAP AND
RENEWED MASTER PURCHASE AGREEMENT**

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with (i) the Subcontracting Transactions contemplated under the Master Subcontracting Agreement; and (ii) the Purchase Transactions contemplated under the Renewed Master Purchase Agreement, and their respective proposed annual caps for each of the three years ending 31 December 2016, 2017 and 2018. Details of the Subcontracting Transactions and the Purchase Transactions and their respective proposed annual caps are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders dated 12 December 2016 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

BOE (HK), a wholly-owned subsidiary of BOE, is the controlling shareholder of the Company holding approximately 54.42% of the issued share capital of the Company as at the Latest Practicable Date. BOE is therefore a connected person of the Company under the Listing Rules and each of the Subcontracting Transactions and the Purchase Transactions will constitute continuing connected transactions of the Company. Based on their respective proposed annual caps, each of the Subcontracting Transactions and the Purchase Transactions will be subject to reporting, announcement, circular and independent shareholders’ approval requirements under the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Fung, Yuk Kan Peter, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang, has been established to consider and make a recommendation to the Independent Shareholders on whether (1) the Subcontracting Transactions and the Purchase Transactions are in the ordinary and usual course of business of the Group; (2) the terms of the Master Subcontracting Agreement and the Renewed Master Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (3) the entering into of the Subcontracting Transactions and the Purchase Transactions is in the interests of the Company and the Shareholders as a whole; and (4) the proposed annual caps in respect of each of the Subcontracting Transactions and the Purchase Transactions for the three financial years ending 31 December 2016, 2017 and 2018 are fair and reasonable so far as the Independent Shareholders are concerned. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to a subscription of new shares and application for whitewash waiver as detailed in the Company's circular dated 22 March 2016. The past engagement was limited to providing independent advisory services to independent board committee and independent shareholders of the Company pursuant to the Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong. Under the past engagement, Somerley Capital Limited received normal professional fees from the Company. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group and the BOE Group that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (1) the continuing connected transactions contemplated under the Master Subcontracting Agreement and the Renewed Master Purchase Agreement; and (2) the proposed annual caps in respect of the Subcontracting Transactions and the Purchase Transactions as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the SGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group and BOE, nor have we carried out any independent verification of the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether (a) the terms of the Subcontracting Transactions and the Purchase Transactions and their respective proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned; (b) the Subcontracting Transactions and the Purchase Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group; and (c) the entering into of the Subcontracting Transactions and the Purchase Transactions is in the interests of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for the continuing connected transactions

The Group is principally engaged in the design, manufacture and sale of LCDs and related products. Monochrome and TFT modules are two major product lines of the Group's principal display products. BOE, the controlling shareholder of the Company, is a supplier of semiconductor display technologies, products and services with its shares listed on the Shenzhen Stock Exchange. BOE became the controlling shareholder of the Company since the completion of the Subscription as detailed in the Subscription Circular.

As set out in the Subscription Circular, 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. As advised by the executive Directors, the Group's revenue from TFT display products for the three years ended 31 December 2013, 2014 and 2015 were approximately HK\$116 million, HK\$158 million and HK\$218 million respectively, representing an increase of approximately 36% from 2013 to 2014 and 38% from 2014 to 2015. Revenue from TFT display products amounted to approximately HK\$202 million for the nine months ended 30 September 2016, representing an increase of approximately 24% on an annualised basis from 2015. As set out in the research report (the "Research Report") for automotive display market, with title of "Automotive Display Market Tacker – Q1 2016", dated 10 May 2016 from IHS. Inc., which is subsequently merged with Markit Ltd. to form IHS Markit Ltd. ("IHS"), and as advised by the executive Directors, the global sale of automotive TFT modules is forecasted to increase from approximately US\$6,281 million in 2016 to approximately US\$6,621 million in 2017 and further increase to approximately US\$6,960 million in 2018. Further details of IHS are set out in the in the sub-section headed "Proposed annual caps" of this letter below. We consider that the Group's TFT display business will be benefited from the expected increase in the use of coloured displays and forecasted increase in global sale of automotive TFT modules as mentioned above.

It is also stated in the Subscription Circular that the Group shall become BOE'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 advised by the executive Directors, the Group's competitiveness in the TFT panel supply chain has been enhanced as a result of the strategic relationship between the Group and the BOE Group. The executive Directors are of the view that further development and expansion of the Group's TFT product line segment will be beneficial to the Group. The Group will proactively seize opportunities for development and to expand the Group's market share. Being the major platform of BOE in developing automotive and industrial display business, the executive Directors are of the view that BOE's customer base will be gradually migrated to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of the positive outlook of the coloured displays business and the Group's plan to further develop and expand its TFT product line segment, the executive Directors anticipate a need to increase the Group's TFT module manufacturing capacity. The Group has been discussing with the BOE Group after completion of the Subscription. Considering (a) the time needed for increasing its own manufacturing capacity and (b) quality and standard of existing TFT manufacturing facilities of the BOE Group, which are considered to be capable to meet the requirements of the Group's TFT customers, the executive Directors are of the view that it is beneficial for the Group to leverage on the manufacturing resources of the BOE Group through the Subcontracting Transactions to quickly expand its automotive TFT business segment.

In addition, the BOE Group has been the Group's supplier for TFT panels from time to time before the completion of the Subscription. The Group has been satisfied with the quality of the products supplied by the BOE Group. The Group has entered into the Master Purchase Agreement with BOE on 22 April 2016 to govern the purchase of TFT panels and other products including, but not limited to, raw materials for the manufacturing of LCDs and related products, in particular TFT modules. As set out in the section headed "Reasons for and benefits of the Master Subcontracting Agreement and the Renewed Master Purchase Agreement" in the "Letter from the Board" contained in the Circular, the actual transaction amount under the existing Master Purchase Agreement for the nine months ended 30 September 2016 has already reached approximately 63% (with an amount of approximately HK\$56.46 million) of the Original Purchase Annual Cap. Based on the existing orders for TFT modules received by the Company, the Company expects that the Original Purchase Annual Cap of HK\$90 million will not be sufficient. Taking into account the expected growth in the TFT product line segment, the Group has decided to enter into the Renewed Master Purchase Agreement. As set out in the sub-section headed "Proposed annual caps" of this letter below, the Renewed Purchase Annual Caps for the three years ending 31 December 2016, 2017 and 2018 are HK\$133 million, HK\$702 million and HK\$1,229 million respectively, representing approximately 1.6 times, 8.4 times and 14.8 times respectively of the transaction amount of approximately HK\$56.43 million for the period from the effective date of the Master Purchase Agreement (i.e. 28 April 2016) up to 30 September 2016 on an annualised basis. Further details of the Renewed Purchase Annual Caps which we consider to be fair and reasonable are set out in the sub-section headed "Proposed annual caps" of this letter below. As set out in the section headed "The Renewed Master Purchase Agreement" of the "Letter from the Board" contained in the Circular, the Group is not contractually bound to purchase TFT panels and other products from the BOE Group and is free to purchase TFT panels and other products from any other third party supplier during the term of the Renewed Master Purchase Agreement. We have discussed with and understand from the executive Directors that the BOE Group is and will only be one of the suppliers for TFT panels and other products for the Group. The Group has established an internal control system in respect of, among other things, the Purchase Transactions and will only enter into transactions with the BOE Group under the Renewed Master Purchase Agreement if it is in the interests of the Company and the Shareholders as a whole. When determining the Renewed Purchase Annual Caps, the executive Directors estimate that the Renewed Purchase Annual Caps will account for approximately 9%, 27% and 34% respectively of the estimated Group's total purchases for each of the three years ending 31 December 2016, 2017 and 2018. Accordingly, we consider that the entering into of the Renewed Master Purchase Agreement and setting of the Renewed Purchase Annual Caps would allow the Group to capture future business opportunities, but not resulting in excessive reliance of the Company on the BOE Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above and given that the Subcontracting Transactions and the Purchase Transactions will be conducted on normal commercial terms (as more particularly discussed in the sub-section headed “Principal terms of the continuing connected transactions” below), we concur with the Company that the entering into of the Master Subcontracting Agreement and the Renewed Master Purchase Agreement will benefit the Group and facilitate its development in the TFT business segment.

2. Principal terms of the continuing connected transactions

Details of the Master Subcontracting Agreement and the Renewed Master Purchase Agreement are set out in the “Letter from the Board” contained in the Circular. Set out below is a summary of the principal terms of the Master Subcontracting Agreement and the Renewed Master Purchase Agreement.

(A) The Master Subcontracting Agreement

(i) Subject of the agreement

The Master Subcontracting Agreement was entered into on 27 October 2016 between the Company and BOE, whereby the Company has agreed the Group to engage the BOE Group to provide subcontracting services of manufacturing TFT/TP modules and other products on a non-exclusive basis. The Group is not contractually bound to engage the BOE Group to provide the subcontracting services and is free to engage any other third party subcontractor for the provision of the subcontracting services during the term of the Master Subcontracting Agreement.

TFT modules are thin film transistor modules which generally refer to a unit comprises, among others, a panel, backlight and integrated circuits. TP modules are modules with touch panel displays. The other products are vehicle networking and automotive electronic systems (which include, among others, electronic communications devices within a vehicle such as remote control of the headlights/air-conditioner using a smartphone app or a remote control, navigation system, electronic monitoring system, global positioning system module, radio and head-up display).

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As advised by the executive Directors, the Group will provide major components and materials to the BOE Group. The BOE Group will further process and assemble the components and materials to manufacture TFT/TP modules and other products in accordance with the design and specifications provided by the Group.

(ii) Duration

The Master Subcontracting Agreement will be effective from the Effective Date up to 31 December 2018.

(iii) Pricing policy

The BOE Group shall charge the Group the processing fee on a “cost-plus” basis, which will be determined based on the direct costs incurred by the BOE Group (including, among others, labour cost, power, utilities, equipment depreciation and management fee) with respect to the provision of the subcontracting services plus a profit margin which shall not be higher than 5% of the direct costs. The BOE Group shall also charge the Group on an actual basis any expenses in relation to, among others, material, packaging, testing, transportation, after-sale service, insurance and storage. The terms of subcontracting services (including the processing fee payable by the Group to the BOE Group) will be on normal commercial terms and determined between the Group and the BOE Group on an arm’s length basis. The terms of the subcontracting services to be provided by the BOE Group to the Group shall be no less favourable than those provided to independent third parties by the BOE Group under the same terms and conditions. The exact pricing of each order shall be subject to the Group’s acceptance of the proposed terms of each agreement made by the BOE Group.

We have obtained from the Company nine quotations dated August and September 2016 from independent third party subcontractors for subcontracting of different products and note that the highest margin for subcontracting is approximately 5%. The profit margin for the Subcontracting Transactions, being not higher than 5% of the direct costs, is in line with the profit margin as set out in the quotations obtained from independent third party subcontractors as mentioned above.

(iv) Payment

The Group shall settle the processing fee to the BOE Group within 60 days of delivery.

As we note from the quotations as mentioned in sub-paragraph (iii) above, the payment term offered by the independent third party subcontractors is 30 days after month end. The payment term for the Subcontracting Transactions is no less favourable than those offered by the independent third party subcontractors.

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(B) The Renewed Master Purchase Agreement

(i) Subject of the agreement

The Renewed Master Purchase Agreement was entered into on 27 October 2016 between the Company and BOE, whereby the Company has agreed the Group to purchase TFT panels and other products including, but not limited to, raw materials for manufacturing TFT modules, from the BOE Group on a non-exclusive basis. As set out in the section headed “The Renewed Master Purchase Agreement” in the “Letter from the Board” contained in the Circular, the Group is not contractually bound to purchase TFT panels and other products from the BOE Group and is free to purchase TFT panels and other products from any other third party supplier during the term of the Renewed Master Purchase Agreement.

(ii) Duration

The Renewed Master Purchase Agreement will be effective from the Effective Date up to 31 December 2018 and the Master Purchase Agreement will no longer be effective since the Effective Date.

The Renewed Master Purchase Agreement will continue to be effective up to 31 December 2018 provided that BOE and/or its subsidiaries hold(s) at least 30% of the issued shares of the Company (i.e. if BOE and/or its subsidiaries hold(s) less than 30% of the issued shares of the Company, the Renewed Master Purchase Agreement will be terminated).

(iii) Pricing policy and payment terms

As set out in the section headed “The Renewed Master Purchase Agreement” in the “Letter from the Board” contained in the Circular, the terms of purchases (including the price payable by the Group to the BOE Group) will be on normal commercial terms and will be determined between the Group and the BOE Group on an arm’s length basis. With regard to the standardized TFT panels, the BOE Group shall offer the most favourable selling price to the Group which shall represent a discount to the standard price list of the BOE Group and such discount shall not be less than any discount offered by the BOE Group to any other customers of the BOE Group. The amount of discount that the BOE Group may offer to the Group may vary subject to different factors from time to time such as the product types and the then material supply and demand. With regard to the customized TFT panel, the BOE Group shall offer to the Group a selling price which shall not be higher than the selling price offered to its customers. The BOE Group shall obtain written consent from the Group and agree the lowest selling price with the Group before the BOE Group sells such customized TFT panel to its customers. The Group shall settle the purchase price to the BOE Group within 60 days of delivery.

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3. Internal control measures regarding the Subcontracting Transactions and the Purchase Transactions

The Group has established an internal control system in respect of the Subcontracting Transactions and the Purchase Transactions. Details of the internal control system are set out in the section headed “Pricing policies and guidelines” in the “Letter from the Board” contained in the Circular. As set out in the aforesaid section in the Circular, the designated operation staff of the Group’s purchasing department will solicit on a best effort basis quotation from at least two independent subcontractors or suppliers (as the case may be) from the Group’s list of approved subcontractors/suppliers for order in similar requirements and/or specifications before entering into the Subcontracting Transactions or the Purchase Transactions. The purchasing department will then review a number of factors including, among other things, price, delivery time, payment terms, quality standard and technical capability from the quotations (including quotations from the BOE Group). As advised by the executive Directors, the Group will only enter into the Subcontracting Transactions or the Purchase Transactions with the BOE Group if the major terms offered by the BOE Group are no less favourable than the terms available to the Group from independent subcontractors or suppliers. Further details of the Group’s internal control system are set out in the aforesaid section in the Circular.

We have discussed with and reviewed sample documents provided by the Company (including, among other things, purchase orders and quotations between the Group and the BOE Group or independent third party suppliers, and quotations from the BOE Group to its customers) with respect to purchase of products (three products were selected based on transaction amount) under the existing Master Purchase Agreement during the period from 28 April 2016 to 30 September 2016. Based on the documents reviewed, we note that (i) the pricing and payment terms of the products offered by the BOE Group were no less favourable than those offered by independent third party supplier to the Group; and (ii) the pricing terms offered by the BOE Group to the Group were not higher than the selling price offered to its customers.

We consider that the abovementioned measures are in the interests of the Independent Shareholders as their interests are safeguarded by (a) obtaining and comparing independent third party quotations; and (b) the monitoring measures of the Company as detailed in the section headed “Pricing policies and guidelines” in the “Letter from the Board” contained in the Circular.

4. Proposed annual caps

The Subcontracting Transactions and the Purchase Transactions are subject to the Subcontracting Annual Caps and the Renewed Purchase Annual Caps respectively whereby for each of the three financial years ending 31 December 2016, 2017 and 2018, the value of the Subcontracting Transactions and the Purchase Transactions will not exceed the applicable annual amounts stated in the “Letter from the Board” contained in the Circular.

In assessing the reasonableness of the Subcontracting Annual Caps and the Renewed Purchase Annual Caps, we have discussed with the executive Directors and management of the Company the basis and underlying assumptions for the purpose of setting the proposed annual caps.

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(A) The Master Subcontracting Agreement

Up to the Latest Practicable Date, the Group has not engaged the BOE Group for transactions which are similar in nature to the Subcontracting Transactions. In determining the Subcontracting Annual Caps, the management has considered the expected amount of products to be subcontracted to the BOE Group and the expected unit cost of processing fee for the three years ending 31 December 2016, 2017 and 2018.

As advised by the executive Directors, when estimating the quantity of products to be subcontracted by the BOE Group, they have taken into account mainly the expected transaction volume of sales of TFT modules in the three years ending 31 December 2016, 2017 and 2018. As set out in the sub-section headed “Background to and reasons for the continuing connected transactions” of this letter above, it is expected that demand in the coloured displays (including TFT displays) will grow. As set out in the section headed “Historical figures and proposed annual caps” in the “Letter from the Board” contained in the Circular, the executive Directors made reference to the Research Report from IHS which forecasts the global sale of automotive TFT modules to increase from approximately US\$6,281 million in 2016 to approximately US\$6,621 million in 2017 and further increase to approximately US\$6,960 million in 2018. IHS is an independent research company listed on NASDAQ (stock code: INFO). We note from the website of IHS that it serves 50,000 customers in over 140 countries with over 800 experts spanning 14 countries for the automotive industries. We further note from the 2015 annual reports of (a) LG Display Co., Ltd. (a company listed on Korean Exchange with market capitalisation of approximately KRW10.9 trillion (equivalent to approximately HK\$72.3 billion) as at the Latest Practicable Date and a manufacturer of TFT LCD panels, OLEDs and flexible displays); (b) AU Optronics Corp. (a company listed on Taiwan Stock Exchange with market capitalisation of approximately TWD114.5 billion (equivalent to approximately HK\$28.0 billion) as at the Latest Practicable Date and a manufacturer of TFT LCD panels); and (c) InnoLux Corporation (a company listed on Taiwan Stock Exchange with market capitalisation of approximately TWD112.0 billion (equivalent to approximately HK\$27.3 billion) as at the Latest Practicable Date and a display solutions provider offering a range of LCD panels and touch-control screens), that references to study of IHS were made in their respective annual reports with respect to study of the display industry. Based on the above, we concur with the executive Directors that it is reasonable to make reference to the Research Report from IHS when determining the proposed annual caps. With reference to the Research Report, the executive Directors estimated that shipment of TFT LCD will be approximately 130.6 million, 140.5 million and 149.5 million for each of the year ending 31 December 2016, 2017 and 2018 respectively, representing an increase of approximately 7.6% in 2017 and 6.4% in 2018. We have obtained from the Company a copy of the Research Report and noted that the estimated shipment of TFT LCD made by the Group is consistent with the Research Report.

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The executive Directors advised us that customers have been discussing with the Group for provision of TFT products by the Group. As a result of the increase in TFT product segment, the Group has received about 27% more of request for quotations for TFT products for the ten months from January to October 2016 compared to same period in 2015. The executive Directors advised us that the Group might not be able to take up all the sales orders of TFT products in view of, among other things, insufficient supply of TFT panels and current manufacturing capacity, and hence the Group might not be able to capture all the business opportunities in the TFT product segment. With the support from the BOE Group through the entering into of the Master Subcontracting Agreement and the Renewed Master Purchase Agreement, it is expected that the Group will be able to take up more sales orders of TFT products as a result of a stable supply of TFT panels from the BOE Group from the Purchase Transactions and the subcontracting of manufacturing of TFT products to the BOE Group from the Subcontracting Transactions. As set out in the section headed “Historical figures and proposed annual caps” in the “Letter from the Board” contained in the Circular, the Company targets an increase in market share in the global automotive TFT module market of the Group during the term of the Master Subcontracting Agreement and the Renewed Master Purchase Agreement. Based on the existing sales of TFT products and the anticipated sales orders to be received, the executive Directors have estimated the number of TFT modules to be sold by the Group for the year ending 31 December 2016. Together with the plan to increase in sales and marketing activities and the gradual migration of BOE’s customer base to the Group as explained above and as set out in the “Letter from the Board” contained in the Circular, the executive Directors estimate that the Group will achieve more TFT module sales for the year ending 31 December 2017 and 2018, with an estimated increase in number of approximately 3 times and 78% respectively.

The executive Directors have further estimated the quantities of products to be subcontracted to the BOE Group by considering, among other things, the Group’s production plan, anticipated types of TFT modules to be sold by the Group and anticipated subcontracting capacity as advised by the BOE Group. On this basis, the executive Directors estimate that more TFT products will be subcontracted to the BOE Group in 2017 and 2018 in view of the estimated increase in number of TFT modules sales as mentioned above. When estimating the unit subcontracting cost for the three years from 2016 to 2018, the executive Directors have made reference to the average subcontracting cost of approximately US\$4.48 (at an exchange rate of US\$1:RMB6.90) for different TFT products based on quotations obtained from independent third party subcontractors. By considering the expected product type for subcontracting to the BOE Group, the executive Directors have estimated the average unit subcontracting cost (as determined in accordance with the pricing policy as set out in the sub-section headed “Principal terms of the continuing connected transactions” of this letter above) to be US\$4 for 2016 and US\$5 for both 2017 and 2018. We have reviewed the relevant quotations from independent third party subcontractors as provided by the Company and did not note any inconsistency from the above. We are further advised by the executive Directors that they have also considered the estimated amount of other products (i.e. vehicle networking and automotive electronic systems) to be subcontracted to the BOE Group in 2016 to 2018 when determining the Subcontracting Annual Caps.

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Taking into account the aforesaid factors, the Subcontracting Annual Caps are set as follows:

	Financial year ending 31 December		
	2016	2017	2018
	HK\$'million	HK\$'million	HK\$'million
Proposed annual caps for			
the Subcontracting Transactions	10 (<i>Note</i>)	73	138

Note: Proposed annual cap for the period from the Effective Date up to 31 December 2016

(B) The Renewed Master Purchase Agreement

As set out in the section headed “Historical figures and proposed annual caps” in the “Letter from the Board” contained in the Circular, purchase of TFT panels and other products by the Group from the BOE Group amounted to approximately HK\$3.7 million, HK\$6.7 million and HK\$7.4 million respectively in 2013, 2014 and 2015, and approximately HK\$0.03 million from 1 January 2016 to 27 April 2016 (i.e. before completion of the Subscription on 28 April 2016). As set out in the sub-section headed “Background to and reasons for the continuing connected transactions” of this letter above, the BOE Group has been the Group’s supplier for TFT panels before completion of the Subscription. As advised by the executive Directors, since the completion of the Subscription and the entering into of the existing Master Purchase Agreement, the Group has been developing into BOE’s sole development, manufacturing and distribution platform of automotive display module and system business. The Group has purchased approximately HK\$56.43 million of TFT panels and other products from the BOE Group since the completion of the Subscription on 28 April 2016.

As discussed in paragraph (A) of this sub-section above, the executive Directors estimate that more TFT modules (pieces) will be sold by the Group in 2017 and 2018. We have discussed with the executive Directors and understand the underlying rationale for the estimated increase in sales of TFT modules (pieces). We understand from the executive Directors that they have considered different factors when estimating the amount of sales of TFT modules, including, among other things, (a) estimated sales to existing customers of TFT products; (b) estimated migrated orders from the BOE Group (i.e. orders referred from the BOE Group to the Group); and (c) estimated sales to new customers of TFT products. We understand from the executive Directors that the amounts of sales to existing customers are estimated with reference to historical transaction amounts with existing customers for the nine months ended 30 September 2016. As explained in the sub-section headed “Background to and reasons for the continuing connected transactions” of this letter above, the executive Directors are of the view that BOE’s customer base will be gradually migrated to the Group. They have discussed with the BOE Group when estimating the amounts of migrated orders for each of 2016, 2017 and 2018. Also, as explained in paragraph (A) of this sub-section above, the executive Directors expect that the Group will be able to take up more sales orders of TFT products

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as a result of support from the BOE Group. The Group will also continue to increase its sales and marketing activities and negotiate with new customers for sales of TFT products.

In view of the above estimation made by the executive Directors when determining the Renewed Purchase Annual Caps, we have, in addition to our discussions with the executive Directors as mentioned above, (i) obtained an extract of the management accounts of the Group for the nine months ended 30 September 2016 and note that the abovementioned estimated sales to existing customers for 2016 is consistent with the annualised historical transaction amounts (excluding those migrated orders) based on the amount for the nine months ended 30 September 2016. We understand from the executive Directors that a growth rate of 10% is applied in the estimated sales to existing customers for both 2017 and 2018 after taking into account the estimated market condition and expected demand of TFT products; (ii) obtained from the Company lists of purchase orders (including both actual and potential purchase orders) from customers to be migrated to the Group for the three years of 2016, 2017 and 2018 and note that the abovementioned Group's estimated sales from migrated orders are generally in line with the amounts of aforesaid purchase orders, taking into account also the amount of historical sales from migrated orders in 2016. We understand from the executive Directors that the amounts of potential purchase orders have been estimated based on the Group's discussions with the potential customers; and (iii) obtained from the Company a list of purchase orders (including both actual and potential purchase orders) from new customers for sales of TFT products in 2017 and note that the abovementioned Group's estimated sales to new customers for 2017 is generally in line with the amounts of purchase orders. For the amount of estimated sales to new customers for 2018, we understand from the executive Directors that they have estimated such amount after considering (1) potential purchase orders currently under negotiation with new customers; (2) anticipated expansion in production capacity of TFT products of the Group; and (3) estimated increase in sales and marketing activities of the Group in 2017 and 2018. Based on the above, we consider the executive Directors' estimate of an increased sales (pieces) of TFT products in 2017 and 2018 to be reasonable.

The executive Directors have made reference to the Research Report and estimated that the average selling prices for the TFT modules will be approximately US\$48.1, US\$47.1 and US\$46.5 respectively for 2016, 2017 and 2018. We note that the above estimated average selling price is consistent with the Research Report. As advised by the executive Directors, the Group will continue to source for raw materials (including TFT panels) for production of the TFT modules from both the BOE Group and third party suppliers in 2016 to 2018 based on the Group's business needs from time to time. With the increasing need of TFT panels, the executive Directors are of the view that more purchase orders may be placed to the BOE Group in the future so as to enjoy an economy of scale. As set out in the section headed "Historical figures and proposed annual caps" in the "Letter from the Board" contained in the Circular, it is considered that the cooperation with the BOE Group will allow the Group to secure a reliable stable supply

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of quality TFT panels meeting the specification and required standards of the Group's existing and target automotive customers, and it is a very essential element for enhancing the Group's competitiveness. Accordingly, the executive Directors estimate that more sales of TFT modules as mentioned above will involve sourcing of raw materials from the BOE Group from 2016 to 2017 and to 2018. With reference to the estimated sales of TFT modules and the expected increase in cooperation between the Group and the BOE Group as mentioned above, the executive Directors anticipate that the Group will engage the BOE Group in sourcing of raw materials for a larger amount of TFT sales transaction, with an estimated increase of approximately 543% in 2017 and 89% in 2018.

The executive Directors advised us that they have estimated the cost of raw materials (including TFT panels and other raw materials) to be sourced from the BOE Group in connection with the abovementioned sales of TFT modules when arriving at the Renewed Purchase Annual Caps. As advised by the executive Directors, orders for TFT modules have been/will be migrated from the BOE Group to the Group after the completion of the Subscription. As the BOE Group has already agreed with the customers of the migrated orders the details and specifications of raw materials to be used in production of the TFT modules, the executive Directors consider that it is more efficient for the Group to purchase the raw materials from the BOE Group (which has already scheduled/made purchases of relevant raw materials) than sourcing all the raw materials by itself. Thus, larger portion of raw materials (including TFT panels and other raw materials) have to be purchased from the BOE Group for those migrated orders. We have obtained from the Company an extract of a sales contract between the Group and an independent third party customer and note that any modification to the product in relation to, among other things, details of manufacturing, will need prior approval by the customer. We concur with the executive Directors that larger portion of raw materials (including TFT panels and other raw materials) have to be sourced from the BOE Group for those migrated orders if the Group will not re-negotiate with the respective customers for raw materials specifications. The executive Directors anticipate that the proportion of purchase of TFT panels and other products from the BOE Group in 2017 and 2018 will decrease when the Group begins to directly deal with the customers of the migrated orders and sources more sales orders from new customers. The executive Directors have estimated the cost of raw materials to be purchased from the BOE Group in 2016, 2017 and 2018 with reference to the anticipated quantity of TFT modules to be sold, the expected amount of migrated orders from the BOE Group and expected types of TFT panels needed.

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Taking into account the aforesaid factors, the Renewed Purchase Annual Caps are set as follows:

	Financial year ending 31 December		
	2016	2017	2018
	HK\$'million	HK\$'million	HK\$'million
Proposed annual caps for the Purchase Transactions	133 (<i>Note</i>)	702	1,229

Note: Proposed annual cap for the period from the effective date of the Master Purchase Agreement (i.e. 28 April 2016) up to 31 December 2016

Having considered the basis on which the Subcontracting Annual Caps and the Renewed Purchase Annual Caps are determined as described above, we are of the view that the proposed annual caps for the Subcontracting Transactions and the Purchase Transactions are fair and reasonable.

5. Conditions of the continuing connected transactions

In compliance with the Listing Rules, the Subcontracting Transactions contemplated under the Master Subcontracting Agreement and the Purchase Transactions contemplated under the Renewed Master Purchase Agreement are subject to a number of conditions which include, among other things:

- (i) the proposed annual caps for the Subcontracting Transactions and the Purchase Transactions for each of the three financial years ending 31 December 2016, 2017 and 2018 will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review the Subcontracting Transactions and the Purchase Transactions every year and confirm in the Company's annual report whether the Subcontracting Transactions and the Purchase Transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company must, in accordance with the Listing Rules, review the Subcontracting Transactions and the Purchase Transactions every year and they must confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether anything has come to their attention that causes them to believe that the Subcontracting Transactions and the Purchase Transactions: (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; (c) were not entered into, in all material

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respects, in accordance with the relevant agreements governing the Subcontracting Transactions and the Purchase Transactions; and (d) have exceeded the proposed annual caps with respect to the Subcontracting Transactions and the Purchase Transactions;

- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;
- (v) the Company must allow, and ensure that BOE allows, the auditors of the Company sufficient access to their records of the Subcontracting Transactions and the Purchase Transactions for the purpose of the auditors' reporting on the Subcontracting Transactions and the Purchase Transactions. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and
- (vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of each of the Subcontracting Transactions and the Purchase Transactions exceed the relevant proposed annual caps, or that there is any material amendment to the terms of the Master Subcontracting Agreement and/or the Renewed Master Purchase Agreement.

In light of the conditions imposed on the Subcontracting Transactions and the Purchase Transactions, in particular, (1) the limit of the value of the Subcontracting Transactions and the Purchase Transactions by way of the relevant proposed annual caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the Subcontracting Transactions and the Purchase Transactions; and (3) the on-going review by the auditors of the Company confirming the relevant proposed annual caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Subcontracting Transactions and the Purchase Transactions and safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (1) the Subcontracting Transactions and the Purchase Transactions are in the ordinary and usual course of business of the Group; (2) the terms of the Master Subcontracting Agreement and the Renewed Master Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (3) the entering into of the Subcontracting Transactions and the Purchase Transactions is in the interests of the Company and the Shareholders as a whole; and (4) the proposed annual caps in respect of each of the Subcontracting Transactions and the Purchase Transactions for the three years ending 31 December 2016, 2017 and 2018 are fair and reasonable so far as the Independent Shareholders are concerned.

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Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Stephanie Chow
Director

Ms. Stephanie Chow is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over seven years' experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS

As at Latest Practicable Date, the interests and shorts positions of the Directors and chief executives 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 which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(a) (i) Interests in shares of the Company

Name of Director	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
Ko Wing Yan, Samantha	Personal Interest	247,000	0.03%

(a) (ii) **Interests in shares of BOE Technology Group Co., Ltd. (“BOE”) (an associated corporation) (Note 1)**

Name of Director	Capacity	Number of A shares in BOE held	Approximate percentage of the total issued share capital of BOE
Yao Xiangjun	Personal Interest	100,000	0.00%
Dong Xue	Personal Interest	100,000	0.00%

Notes:

1. BOE subscribed 400,000,000 shares, representing 54.42% of the issued share capital of the Company.
2. The above interest represented long positions.

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

Name of Director	Date of grant	Number of share options as at the Latest Practicable Date	Exercisable period	Exercise price per share option
Ko Wing Yan, Samantha	9 July 2015	2,000,000	(Note1)	HK\$5.72
Hou Ziqiang	9 July 2015	300,000	(Note1)	HK\$5.72

Notes:

1. Exercisable period:
 - (i) the first 40% of the options shall be exercisable from 1 September 2015 to 31 August 2018;
 - (ii) the second 30% of the options shall be exercisable from 1 September 2016 to 31 August 2018; and
 - (iii) the remaining 30% of the options shall be exercisable from 1 September 2017 to 31 August 2018.
2. The above interests represented long positions.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executives or any of their associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or the Model Code.

As at the Latest Practicable Date, BOE(HK), a wholly-owned subsidiary of BOE, held 400,000,000 Shares, representing approximately 54.42% of the issued share capital of the Company. Mr. Yao Xiangjun, an executive Director, is a director and a member of executive committee of BOE, a senior vice president, a joint chief operating officer and the chief executive officer of the smart system business group of BOE. Mr. Su Ning, an executive Director, is the general manager of the application business department of Beijing BOE Display Technology Co., Ltd., a subsidiary of BOE. Ms. Yang Xiaoping, a non-executive Director, is a vice president and a deputy financial controller of BOE. Ms. Yang is also a director or supervisor of a number of subsidiaries of BOE. Mr. Dong Xue, a non-executive Director, is a vice president and the chief technical officer for display panel business of BOE. Mr. Yuan Feng, a non-executive Director, is a vice president and the chief strategic marketing officer of BOE. Mr. Yuan is also the chairman of the board of directors of Beijing BOE Sales Co., Ltd, a subsidiary of BOE, and a director of a number of subsidiaries of BOE.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had, or was deemed to have, an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any proposed director of the Company or their respective close associate(s) had any interests in a business which competed or might compete with the business of the Group and had any other conflicts of interests with the Group.

5. DIRECTORS' INTERESTS IN CONTRACT AND ASSETS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant to the business of the Group. As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2015, the date to which the latest published audited financial statements of the Company were made up.

6. MATERIAL ADVERSE CHANGES

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any other material adverse change in the financial or trading position of the Group since 31 December 2015, being the date of the latest published audited financial statements of the Group.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given an opinion or advice, which is contained or referred to in this circular:

Name	Qualification
Somerley Capital Limited	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Somerley Capital Limited has given and confirmed that it has not withdrawn its written consent to the issue of this circular, with the inclusion herein of its letter, report, advice, opinion and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Somerley Capital Limited did not have any shareholding, direct or indirect, 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 which carry voting rights in any member of the Group.

As at the Latest Practicable Date, Somerley Capital Limited did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2015, the date to which the latest published audited financial statements of the Company were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on any weekday (except for public holiday) at the registered and principal office of the Company at Units A-F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the Master Subcontracting Agreement;
- (b) the Renewed Master Purchase Agreement;
- (c) the Master Purchase Agreement; and
- (d) the subscription agreement entered into between the Company and BOE dated 3 February 2016 in respect of the Subscription.

NOTICE OF SGM



VARITRONIX

VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting of Varitronix International Limited (the “Company”) will be held at Units A – F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Thursday, 29 December 2016 at 10:00 a.m. for the following purposes:

ORDINARY RESOLUTIONS

1. **“THAT:**

- (a) the terms of the renewed master purchase agreement (the “Renewed Master Purchase Agreement”) (a copy of which is tabled at the meeting and marked “A” for identification purposes) dated 27 October 2016 entered into between the Company and BOE Technology Group Co., Ltd (“BOE”) and the Company’s execution and delivery thereof be and are hereby approved in all respects;
- (b) the transactions contemplated under the Renewed Master Purchase Agreement for the three years ending 31 December 2018 (the “Purchase Transactions”) and the Company’s entering into and implementation thereof from time to time thereunder and the latest terms governing the same be and are hereby approved in all respects;
- (c) the proposed annual caps as set out in the circular of the Company dated 12 December 2016 (the “Circular”) in respect of the Purchase Transactions for the three years ending 31 December 2018 be and are hereby approved in all respects; and
- (d) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute and deliver all such documents, instruments or agreements and to do all such other acts or things which he/she/they may in his/her/their absolute discretion consider necessary or desirable in connection with or incidental to any of the matters contemplated under the Purchase Transactions for the three years ending 31 December 2018 and/or the said annual caps.”

NOTICE OF SGM

2. “**THAT:**
- (a) the terms of the master subcontracting agreement (the “Master Subcontracting Agreement”) (a copy of which is tabled at the meeting and marked “B” for identification purposes) dated 27 October 2016 entered into between the Company and BOE and the Company’s execution and delivery thereof be and are hereby approved in all respects;
 - (b) the transactions contemplated under the Master Subcontracting Agreement for the three years ending 31 December 2018 (the “Subcontracting Transactions”) and the Company’s entering into and implementation thereof from time to time thereunder and the latest terms governing the same be and are hereby approved in all respects;
 - (c) the proposed annual caps as set out in the Circular in respect of the Subcontracting Transactions for the three years ending 31 December 2018 be and are hereby approved in all respects; and
 - (d) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute and deliver all such documents, instruments or agreements and to do all such other acts or things which he/she/they may in his/her/their absolute discretion consider necessary or desirable in connection with or incidental to any of the matters contemplated under the Subcontracting Transactions for the three years ending 31 December 2018 and/or the said annual caps.”

By Order of the Board
Varitronix International Limited
Mr. Yao Xiangjun
Chairman

Hong Kong, 12 December 2016

Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, 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. To be valid, a proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited 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, Wanchai, Hong Kong not less than 48 hours before the appointed time for holding the meeting or any adjourned meeting.
4. Whether or not you intend to attend and vote at the meeting, you are requested to complete and return the form of proxy. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.