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# BOE

**BOE VARITRONIX LIMITED**  
*(Incorporated in Bermuda with limited liability)*  
**(Stock Code: 710)**

## **CONTINUING CONNECTED TRANSACTIONS**

### **RENEWAL OF SUBCONTRACTING TRANSACTIONS AND PURCHASE TRANSACTIONS**

The Group has been carrying out the Subcontracting Transactions and the Purchase Transactions with the BOE Group under the Master Subcontracting Agreement and the Master Purchase Agreement which will expire on 31 December 2018. On 22 November 2018 (after trading hours), the Company and BOE entered into the Renewed Master Subcontracting Agreement and the Renewed Master Purchase Agreement, subject to the terms and conditions therein, to extend the respective terms of the agreements to 31 December 2021.

BOE(HK), a wholly-owned subsidiary of BOE, is a substantial shareholder of the Company holding approximately 54.41% of the issued share capital of the Company as at the date of this announcement. BOE is an associate of BOE(HK) and is thus a connected person of the Company under the Listing Rules. As such, the Subcontracting Transactions and the Purchase Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Having considered the background of the Subcontracting Transactions and the Purchase Transactions and the relevant counterparty of the CCT Agreements, pursuant to the Rule 14A.81 of the Listing Rules, the Directors consider that the Subcontracting Transactions and the Purchase Transactions shall be aggregated for the purpose of satisfying the connected transactions requirements under the Listing Rules.

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

The Independent Board Committee comprising all the independent non-executive Directors 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 as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the CCT Agreements and the respective proposed annual caps.

A SGM will be convened and held by the Company to consider and, if thought fit, pass resolutions to approve the CCT Agreements and the respective proposed annual caps. A circular containing, among other things, (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; and (iv) a notice convening the SGM will be despatched to the Shareholders on or before 12 December 2018.

## **INTRODUCTION**

The Group has been carrying out the Subcontracting Transactions and the Purchase Transactions with the BOE Group. Reference is made to the announcements of the Company dated 22 April 2016 and 27 October 2016 as well as the circular of the Company dated 12 December 2016 in relation to the Subcontracting Transactions and the Purchase Transactions.

The Master Subcontracting Agreement and the Master Purchase Agreement will expire on 31 December 2018. On 22 November 2018 (after trading hours), the Company and BOE entered into the Renewed Master Subcontracting Agreement and the Renewed Master Purchase Agreement, subject to the terms and conditions therein, to extend the respective terms of the agreements to 31 December 2021.

## **RENEWED MASTER SUBCONTRACTING AGREEMENT**

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

Date : 22 November 2018

Parties : (i) The Company  
(ii) BOE

Subject : Subject to the terms and conditions of the Renewed Master Subcontracting Agreement, the Group may from time to time engage the BOE Group to provide subcontracting services in respect 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 Renewed Master Subcontracting Agreement.

TFT modules are thin film transistor modules which generally refer to a unit comprising, 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 other things, 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.

Under the Renewed Master Subcontracting Agreement, the Group may provide major components and materials to the BOE Group who will further process and assemble such components and materials to manufacture TFT/TP modules and other products in accordance with the design and specifications provided by the Group.

The Group may enter into separate and definitive agreements from time to time with the BOE Group to set out, among others, the exact quantity, specifications and quality requirements of the TFT/TP modules and other products, place and date of delivery, processing fee per unit and payment terms, pursuant to the terms of the Renewed Master Subcontracting Agreement.

Term : Subject to approval of Independent Shareholders, the Renewed Master Subcontracting Agreement will become effective from 1 January 2019 up to 31 December 2021.

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 BOE Group shall offer to charge the Group subcontracting fees no less favourable than those provided by the BOE Group to independent third parties under the same terms and conditions. In assessing the prices offered by the BOE Group, the purchasing department of the Group will invite on a best effort basis quotations from at least two independent subcontractors for orders based on substantially the same requirements and/or specifications, and review, among other things, the price, the delivery time, the payment terms, quality standards and technical capabilities of the subcontractor 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. Furthermore, the Group will only agree to engage the BOE Group to provide any subcontracting service if the ultimate sale of the related TFT modules is profitable. The Company considers that such pricing basis is in line with market practice, fair and reasonable and on normal commercial terms.

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

## RENEWED MASTER PURCHASE AGREEMENT

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

- Date : 22 November 2018
- Parties : (i) The Company  
(ii) BOE
- Subject : Subject to the terms and conditions of the Renewed Master Purchase Agreement, the Group may from time to time purchase TFT panels, TFT modules 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, TFT modules and other products from the BOE Group and is free to purchase TFT panels, TFT modules and other products from any other third party supplier during the term of the Renewed Master Purchase Agreement.

The Group may enter into separate and definitive agreements from time to time with the BOE Group to provide, among others, the exact quantity, specifications and quality requirement of the TFT panels, TFT modules and other products, place and date of delivery, price and payment terms, pursuant to the terms of the Renewed Master Purchase Agreement.

- Term : Subject to approval of Independent Shareholders, the Renewed Master Purchase Agreement will become effective from 1 January 2019 up to 31 December 2021.

The Renewed Master Purchase Agreement will continue to be effective up to 31 December 2021 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).

- Pricing policy : With regard to the standardized TFT panels, TFT modules 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 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 when each transaction is conducted. As such, the Group and the BOE Group consider that it is not practicable to pre-determine a discount range.

In assessing the prices offered by the BOE Group, the purchasing department of the Group will invite on a best effort basis quotations from at least two independent suppliers for the same standardized TFT panels, TFT modules 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, TFT modules and other products is not less than that offered to other customers. Furthermore, 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 in line with market practice, fair and reasonable, and on normal commercial terms.

With regard to the customized TFT panel, TFT modules 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 the BOE Group's other customers. The price is determined with reference to factors such as the complexity of the manufacturing process and the supply and demand situation of the relevant material which may vary from time to time. As such, the Group and the BOE Group consider that it is not practicable to pre-determine any specific unit price for the customized TFT panels, TFT modules and other products.

In assessing the prices offered by the BOE Group, the purchasing department of the Group will invite on a best effort basis quotations from at least two independent suppliers for orders of customized TFT panels, TFT modules and other products based on substantially the same 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, TFT modules and other products with similar requirements and specifications is not higher than that offered to other customers. Furthermore, 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 in line with market practice, fair and reasonable, and on normal commercial terms.

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

## **REASONS FOR AND BENEFITS OF THE TRANSACTIONS**

The Group is principally engaged in the automotive and industrial display business and has monochrome display manufacturing capacity and TFT module assembly capacity. The Group manages its business as a single unit and, accordingly, the design, manufacture and sale of liquid crystal displays and related products is the only reporting segment and virtually all of the revenue and operating profits is derived from this business segment.

BOE, a company whose shares are listed on the Shenzhen Stock Exchange, together with its subsidiaries supply/provide semiconductor display technologies, products and services. The BOE Group's products are widely used in a broad spectrum of applications such as mobile phones, tablets, notebooks, monitors, TVs, vehicle displays and digital information displays. Pursuant to the Master Subcontracting Agreement and the Master Purchase Agreement, the Group has from time to time since 2016 engaged the BOE Group to provide subcontracting services for the manufacturing of TFT/TP modules (and other products), and purchased from the BOE Group, TFT panels and other products including, but not limited to, raw materials for the manufacturing of its LCDs and related products, in particular TFT modules. Leveraging its competitive edges, such as panel research and automated manufacturing process, the BOE Group has supplied the Group with TFT panels with customized design and comprehensive quality support at prices considered to be fair and reasonable by the Company.

The TFT modules business is expected to grow continuously. The Group is also developing standardized platform TFT modules to promote to its customers in order to achieve further economies of scale. The Group is the sole platform of automotive display module and system business within BOE and will leverage on BOE's various competitive edges, such as panel research and automated manufacturing process, to strengthen the cooperation and business development with BOE in proximity to BOE's TFT panel production facilities. The Group will further develop high-value areas, especially in system business, automotive head-up display, touch panel and display related technology research. The Company will continue to explore ways to streamline operation and production in order to achieve higher efficiency and effectiveness and to leverage further the competitive advantage of the BOE Group.

In view of the expiration of the Master Subcontracting Agreement and the Master Purchase Agreement on 31 December 2018, the Company therefore entered into the Renewed Master Subcontracting Agreement and the Renewed Master Purchase Agreement, subject to Independent Shareholders' approval, to extend the terms of the agreements to 31 December 2021. Taking into account the aforesaid factors including the reasons for the transactions and the terms of the transactions including the pricing policy, the Directors (excluding the independent non-executive Directors, whose view will be provided after taking into account the advice of the Independent Financial Adviser) are of the view that the terms of the Renewed Master Subcontracting Agreement and the Renewed Master Purchase Agreement are fair and reasonable, and the transactions contemplated under the Renewed 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 table below sets out (1) the historical actual amounts of the Subcontracting Transactions and the Purchase Transactions for the two years ended 31 December 2016 and 2017 and for the nine months ended 30 September 2018; and (2) the existing annual caps for the Subcontracting Transactions and the Purchase Transactions for the three years ending 31 December 2018.

<i>(in HK\$'000)</i>	Actual transaction amounts			Existing annual caps		
	For the year ended		For the	For the year ended		For the
	31 December		nine months	31 December		year ending
	2016	2017	ended	2016	2017	31 December
		30 September			2018	2018
Subcontracting Transactions	–	13,978	632	10,000	73,000	138,000
Purchase Transactions	106,347	442,874	340,035	133,000	702,000	1,229,000

The table below sets out the proposed annual caps for the Subcontracting Transactions and the Purchase Transactions for each of the three years ending 31 December 2019, 2020 and 2021.

<i>(in HK\$'000)</i>	Proposed annual caps		
	For the year ending 31 December		
	2019	2020	2021
Subcontracting Transactions	53,000	67,000	72,000
Purchase Transactions	1,621,000	2,431,000	3,362,000

The proposed annual caps are determined after taking into account, among other things,

- (i) the existing orders of the Group for TFT/TP modules and other products in which the terms including the estimated quantity, product specifications and planned delivery schedule have already been agreed with and accepted by the customers;
- (ii) the estimated amount of the Subcontracting Transactions and the Purchase Transactions for new orders for TFT/TP modules in 2019 and 2020 which is estimated with reference to the actual orders received for the nine months ended 30 September 2018; and
- (iii) an additional buffer of approximately 5%.

The Purchase Transactions and the Subcontracting Transactions will be conducted pursuant to the Renewed Master Purchase Agreement and the Renewed Master Subcontracting Agreement respectively, and will be subject to compliance with the respective proposed annual caps for the three years ending 31 December 2021 as mentioned in the table above. The Directors (excluding the independent non-executive Directors, whose view will be provided after taking into account the advice of the Independent Financial Adviser) are of the view that the above respective proposed annual caps are fair and reasonable.

## INTERNAL CONTROL

As set out in the pricing policy under the Renewed Master Subcontracting Agreement and the Renewed Master Purchase Agreement, in assessing the prices offered by the BOE Group, the purchasing department of the Group will invite on a best effort basis quotations from at least two independent subcontractors or suppliers (as the case may be) for orders with similar requirements and/or specifications, and review, among other things, 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 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 report to both co-chief executive officers who will review and approve such major terms.

The senior management of the purchasing department of the Group will conduct regular checks on a monthly basis to review and assess whether the Subcontracting Transactions and the Purchase Transactions are conducted in accordance with the terms of the respective agreements. Moreover, the internal audit department will semi-annually review the Group's internal control procedures to ensure that they 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.

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.

## **LISTING RULES IMPLICATIONS**

BOE(HK), a wholly-owned subsidiary of BOE, is a substantial shareholder of the Company holding approximately 54.41% of the issued share capital of the Company as at the date of this announcement. BOE is an associate of BOE(HK) and is thus a connected person of the Company under the Listing Rules. As such, the Subcontracting Transactions and the Purchase Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Having considered the background of the Subcontracting Transactions and the Purchase Transactions and the relevant counterparty of the CCT Agreements, pursuant to the Rule 14A.81 of the Listing Rules, the Directors consider that the Subcontracting Transactions and the Purchase Transactions shall be aggregated for the purpose of satisfying the connected transactions requirements under the Listing Rules.

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

## GENERAL

As at the Latest Practicable Date, Mr. Gao Wenbao (“Mr. Gao”), an executive Director, held 90,700 A shares of BOE, Mr. Su Ning (“Mr. Su”), an executive Director, held 30,000 A shares of BOE, Ms. Yang Xiaoping (“Ms. Yang”), a non-executive Director, held 121,200 A shares of BOE, Mr. Dong Xue (“Mr. Dong”), a non-executive Director, held 355,400 A shares of BOE, and Mr. Yuan Feng (“Mr. Yuan”), a non-executive Director, held 47,000 A shares of BOE. In addition, Mr. Gao is the chief executive officer of Display and Sensor Business Group of BOE. Mr. Su is the general manager of the application business department of Beijing BOE Display Technology Co., Ltd., a subsidiary of BOE. Ms. Yang is a vice president and a deputy financial controller of BOE, and a director or supervisor of a number of subsidiaries of BOE. Mr. Dong is a senior vice president and the chief technical officer for display panel business of BOE. Mr. Yuan is a vice president and the chief marketing officer of BOE.

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

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 as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the CCT Agreements and the respective proposed annual caps.

A SGM will be convened and held by the Company to consider and, if thought fit, pass the resolutions to approve the CCT Agreements and the respective proposed annual caps. A circular containing, among other things, (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; and (iv) a notice convening the SGM will be despatched to the Shareholders on or before 12 December 2018.

## DEFINITIONS

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

“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 (excluding the Group for the purposes of this announcement)
“CCT Agreements”	:	collectively, the Renewed Master Subcontracting Agreement and the Renewed Master Purchase Agreement
“Company”	:	BOE Varitronix 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
“Director(s)”	:	director(s) of the Company
“GPS”	:	global positioning system
“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
“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”	:	Somerley 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
“LCD”	:	liquid crystal display
“Listing Rules”	:	the Rules Governing the Listing of Securities on the Stock Exchange

“Master Purchase Agreement”	:	the master purchase agreement entered into between the Company and BOE dated 22 April 2016 (as renewed by an agreement dated 27 October 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 effective up to 31 December 2018
“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 effective up to 31 December 2018
“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 Master Purchase Agreement and subject to Independent Shareholders’ approval under the Renewed Master Purchase Agreement
“Renewed Master Purchase Agreement”	:	the renewed master purchase agreement entered into between the Company and BOE dated 22 November 2018 to extend the term of the Master Purchase Agreement up to 31 December 2021
“Renewed Master Subcontracting Agreement”	:	the renewed master subcontracting agreement entered into between the Company and BOE dated 22 November 2018 to extend the term of the Master Subcontracting Agreement up to 31 December 2021
“SFO”	:	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	:	a special general meeting to be convened and held by the Company to consider and, if thought fit, pass resolutions to approve the CCT Agreements and the respective proposed annual caps
“Shareholder(s)”	:	holders of the Share(s)
“Shares”	:	the ordinary share(s) of HK\$0.25 each in the share capital of the Company
“Stock Exchange”	:	The Stock Exchange of Hong Kong Limited
“Subcontracting Transactions”	:	all transactions contemplated under the Master Subcontracting Agreement and subject to Independent Shareholders’ approval under the Renewed Master Subcontracting Agreement

“substantial shareholder”	:	has the same meaning as ascribed to it under the Listing Rules
“TFT”	:	thin film transistor
“TP”	:	touch panel
“%”	:	Percentage

By Order of the Board  
**BOE Varitronix Limited**  
**Gao Wenbao**  
*Chairman*

Hong Kong, 22 November 2018

*As at the date of this announcement, the Board comprises nine Directors, of whom Mr. Gao Wenbao, Ms. Ko Wing Yan, Samantha and Mr. Su Ning are executive Directors, Ms. Yang Xiaoping, Mr. Dong Xue and Mr. Yuan Feng are non-executive Directors, and Mr. Fung, Yuk Kan Peter, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang are independent non-executive Directors.*