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**VARITRONIX**

**VARITRONIX INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 710)**

**(1) SUBSCRIPTION OF NEW SHARES;**

**(2) APPLICATION FOR WHITEWASH WAIVER;**

**(3) INCREASE IN AUTHORISED SHARE CAPITAL;**

**AND**

**(4) RESUMPTION OF TRADING**

**THE SUBSCRIPTION**

On 3 February 2016 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement, pursuant to which, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, a total of 400,000,000 Subscription Shares at an issue price of HK\$3.50 per Subscription Share. The Subscription Shares represent (i) approximately 120.76% of the existing issued share capital of the Company; (ii) approximately 54.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares); and (iii) approximately 53.82% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming all Share Options are exercised in full and there is no change in the issued share capital of the Company other than the issue of the Subscription Shares). The aggregate Subscription Price amounts to approximately HK\$1,400,000,000. The Subscription Shares will be issued pursuant to the specific mandate to be obtained at the SGM.

## **APPLICATION FOR WHITEWASH WAIVER**

Upon Completion, the Subscriber will be interested in 400,000,000 Shares, representing approximately 120.76% of the issued share capital of the Company as at the date of this announcement, approximately 54.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares) and approximately 53.82% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming all Share Options are exercised in full and there is no change in the issued share capital of the Company other than the issue of the Subscription Shares). Under Rule 26.1 of the Takeovers Code, upon Completion, the Subscriber would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it, unless the Whitewash Waiver is obtained from the Executive. In this regard, the Subscriber will make an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the SGM by way of poll. Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. If the Whitewash Waiver is not granted by the Executive or is not approved by the Independent Shareholders, the Subscription will not complete unless such condition is waived by the Subscriber which is at the Subscriber's sole discretion. The Subscriber may or may not waive such condition. If such condition is waived by the Subscriber and completion of the Subscription occurs, the Subscriber will be obliged to make a mandatory general offer for all issued Shares not already owned or agreed to be acquired by Subscriber and parties acting in concert with it under Rule 26.1 of the Takeovers Code as a result of the Subscription.

In connection to the Subscription, the Board will consider declaring the Special Dividend of HK\$1.35 per Share conditional upon completion of the Subscription, the payment of which will be subject to and after completion of the Subscription. The record date for the Special Dividend shall not fall on a date earlier than the Completion Date. The Subscriber has agreed to waive its entitlement to the Special Dividend and accordingly no Special Dividend will be paid to the Subscriber. Further announcements with details including, among others, the timetable and the record date for the Special Dividend, will be made by the Company when the Board proposes to declare the Special Dividend. Pursuant to the Subscription Agreement, the Subscriber agrees to the proposed declaration and distribution of the Special Dividend. If the condition of the Whitewash Waiver is waived and an offer is materialized, the Company will apply for a waiver from the general requirement to obtain shareholders' approval under Rule 4 of the Takeovers Code in connection with the Special Dividend if required under the Takeovers Code. If the Whitewash Waiver is not approved by the Independent Shareholders or otherwise not granted, and if the condition of the Whitewash Waiver is not waived by the Subscriber, the Subscription will not complete and no Special Dividend will be paid.

## **INCREASE IN AUTHORISED SHARE CAPITAL**

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

## **APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER**

Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Subscription and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole, and to make a recommendation to the Independent Shareholders as to their voting on the proposed resolutions approving the Subscription and the Whitewash Waiver at the SGM. The appointment of Somerley Capital Limited as the independent financial adviser has been approved by the Independent Board Committee.

## **GENERAL**

A circular containing, among other things, (i) details of the Subscription and the Whitewash Waiver; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; (iii) the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; and (iv) a notice convening the SGM will be despatched to the Shareholders in compliance with the requirements of the Listing Rules and the Takeovers Code, and is expected to be despatched on or before 8 March 2016.

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares has been suspended with effect from 9:00 a.m. on 4 February 2016. An application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 17 February 2016.

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

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

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

## **INTRODUCTION**

Reference is made to the Rule 3.7 Announcement.

On 3 February 2016 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement pursuant to which, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for (or procure subscription by its wholly-owned subsidiary), a total of 400,000,000 Subscription Shares at an issue price of HK\$3.50 per Subscription Share. In connection with the Subscription Agreement, the Board will consider declaring the Special Dividend of HK\$1.35 per Share conditional upon completion of the Subscription, the payment of which will be subject to and after completion of the Subscription. The record date for the Special Dividend shall not fall on a date earlier than the Completion Date. The Subscriber has agreed to waive its entitlement to the Special Dividend and accordingly no Special Dividend will be paid to the Subscriber. The Company will make further announcements with details including, among others, the timetable and the record date for the Special Dividend. If the Subscriber chooses to waive the Whitewash Waiver condition and Completion occurs and, accordingly, an offer is materialized, it is expected that the record date of the Special Dividend will be a date falling before the period when the Shareholders may accept the offer then made by the Subscriber.

## **THE SUBSCRIPTION AGREEMENT**

Date : 3 February 2016 (after trading hours)

Issuer : The Company

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

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

### **The Subscription Shares**

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

### **The Subscription Price**

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

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber after taking into account the Special Dividend of HK\$1.35 per Share to be declared and distributed, the market price of the Shares, the consolidated net asset value per Share and the prospect of the Group's existing business, the undertakings as detailed in the section headed "Undertakings by the Subscriber", as well as the anticipated strategic value to be brought to the Company by the Subscriber. The Subscriber undertakes that after Completion, as long as the Subscriber or its affiliates holds 30% or more of the issued Shares, the Group shall be the Subscriber's sole development, manufacturing and distribution platform of automotive display module and system business, including but not limited to vehicle networking, automobile displays and electronic systems as soon as possible. The adjusted consolidated net asset value (as at 30 June 2015) per Share (based on the total issued share capital of the Company as at the date of this announcement) amounted to HK\$4.59 (based on the consolidated net asset value (as at 30 June 2015) per Share (based on the total issued share capital of the Company as at the date of this announcement) of approximately HK\$5.94 less the Special Dividend). In connection with the Subscription Agreement, the Board will consider declaring the Special Dividend of HK\$1.35 per Share. The Subscriber has agreed to waive its entitlement to the Special Dividend and accordingly it will not be paid any Special Dividend. As one of the conditions precedent to Completion, the unaudited net asset value (after deducting Final Dividend (if any), Special Dividend (if any), remuneration of the relevant directors and supervisors and share option expenses (if any)) per Share as at the Management Accounts Date shall not be less than HK\$4 (based on the number of issued Shares as at the Management Accounts Date).

The Subscription Price represents (i) a discount of approximately 33.71% to the closing price of HK\$5.28 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 33.38% to the average closing price of approximately HK\$5.254 per Share for the last ten consecutive trading days up to and including the Last Trading Day; and (iii) a discount of approximately 41.08% to the consolidated net asset value (as at 30 June 2015) per Share (based on the total issued share capital of the Company as at the date of this announcement) of approximately HK\$5.94.

The Subscription Price, when compared to the Adjusted Closing Price (being the adjusted closing prices of the Shares after taking into account the effect of the Special Dividend), represents (i) a discount of approximately 10.94% to the Adjusted Closing Price of HK\$3.93 per Share on the Last Trading Day; (ii) a discount of approximately 10.35% to the average Adjusted Closing Price of HK\$3.904 per Share for the last ten consecutive trading days up to and including the Last Trading Day; and (iii) a discount of approximately 23.75% to the adjusted consolidated net asset value (as at 30 June 2015) per Share (based on the total issued share capital of the Company as at the date of this announcement) of approximately HK\$4.59 (based on the consolidated net asset value (as at 30 June 2015) per Share (based on the total issued share capital of the Company as at the date of this announcement) of approximately HK\$5.94 less the Special Dividend).

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

### **Mandate for the issue of the Subscription Shares**

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

## **Ranking**

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

## **Listing application**

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

## **Conditions of the Subscription**

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

1. all necessary approvals for the Subscription, the Whitewash Waiver and the transactions contemplated under the Subscription Agreement required under the Bye-laws, the applicable laws, the Listing Rules, the Takeovers Code and all other requisite approvals having been obtained, including:
  - (a) the passing of resolutions by the Shareholders or Independent Shareholders (as the case may be) in the SGM in accordance with the requirements of the relevant laws and regulations (including the Listing Rules and the Takeovers Code) approving, among other things:
    - (i) the increase in authorised share capital of the Company to 800,000,000 Shares;
    - (ii) the specific mandate for the allotment and issue of the Subscription Shares, the Subscription and the transactions contemplated under the Subscription Agreement;
    - (iii) the Subscription and the Whitewash Waiver;
    - (iv) the payment of the Special Dividend; and
    - (v) (in the event the Company does not have sufficient distributable reserves under Bermuda law to declare and pay the Special Dividend and/or the Final Dividend (if any)) the Capital Reduction such that the Company has sufficient distributable reserves to declare and pay the Special Dividend and/or the Final Dividend (if any);
  - (b) the grant of the approval for the listing of, and permission to deal in the Subscription Shares by the Listing Committee of the Stock Exchange and such approval not having been withdrawn;
2. all necessary third party approvals and consents required for the Subscription Agreement and the transactions contemplated thereunder having been obtained;
3. the warranties given by the Company under the Subscription Agreement remaining true, accurate, complete, or to the extent that any of such warranties is untrue, inaccurate or incomplete, the Group's business, operation, business performance, financial position or prospects or the Group's ability to complete the transactions contemplated under the Subscription Agreement have not been materially affected on the Completion Date;

4. the Company having performed all of its obligations under the Subscription Agreement and the representations and undertakings of the Company not having been breached in any material respect on or before the Completion Date;
5. there being no event having a material adverse effect on the Group from the date of the Subscription Agreement to the Completion Date;
6. no injunction, interim or otherwise, having been granted by any authority in respect of the Company which would prohibit the Company from entering into and perform its obligations under the Subscription Agreement;
7. the warranties given by the Subscriber under the Subscription Agreement remaining true, accurate, complete, or to the extent that such warranties are untrue, inaccurate or incomplete, the ability of the Subscriber to complete the transactions contemplated under the Subscription Agreement has not been materially affected on the Completion Date;
8. the Subscriber having obtained all relevant approvals and authorisations required for the Subscription Agreement and the transactions contemplated thereunder;
9. the SFC having granted the Whitewash Waiver;
10. the listing of the Shares not having been cancelled, the Shares continuing to be listed and traded on the Stock Exchange on or before the Completion Date (except for temporary suspension of trading pending the issue of an announcement in connection with the Subscription Agreement) and neither the Stock Exchange nor the SFC having indicated that it will or may object the continued listing of the Shares on the Stock Exchange as a result of the Subscription Agreement and the transactions contemplated thereunder;
11. the Board having declared and approved the Special Dividend in accordance with the Bermuda Law, the Bye-laws and the Listing Rules; and
12. the unaudited net asset value (after deducting Final Dividend (if any), Special Dividend (if any), remuneration of the relevant directors and supervisors and share option expenses, if any) per Share as at the Management Accounts Date is not less than HK\$4 (based on the number of Shares in issue as at the Management Accounts Date).

The Subscriber may at any time by notice in writing to the Company waive any of the conditions set out in paragraphs 1(a)(iii), 2, 3, 4, 5, 9, 10 and 12 above. The Company may at any time by notice in writing to the Subscriber waive the condition set out in paragraph 7 above. The other conditions cannot be waived by the Company or the Subscriber. If conditions set out in paragraphs 1(a)(iii) and 9 are waived by the Subscriber and the parties to the Subscription Agreement proceed to Completion, the Subscriber will be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by Subscriber or parties acting in concert with it under Rule 26.1 of the Takeovers Code as a result of the Subscription.

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

The Company is considering and reviewing as to whether the Capital Reduction is required. Further announcements will be made by the Company if the Company proposes to conduct the Capital Reduction as and when appropriate.

As at the date of this announcement, none of the conditions precedent has been fulfilled.

## **Completion**

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

## **Undertakings by Mr. Ko**

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

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

## **Undertakings by the Subscriber**

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

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



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

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

### **Board composition**

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

Mr. Ko and Mr. Ho Te Hwai, Cecil will resign upon Completion.

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

The Group is principally engaged in the design, manufacture and sale of small-to-medium sized liquid crystal displays ("LCDs") and related products worldwide. The Group is headquartered in Hong Kong and operates in Europe, America, Hong Kong, China, Japan and Korea. The Group has two major business segments – the automotive display business and industrial display business. It offers a range of LCDs products, including monochrome LCDs, monochrome character/graphics LCDs modules and thin film transistor ("TFT") modules. The Group is a prominent monochrome display module manufacturer in the automobile segment. More high-end vehicle models are using coloured TFT displays instead of monochrome LCD displays. Apart from automobile, there are some other applications of the Group's TFT modules, such as industrial and medical sectors. In view of this trend, capitalizing on the Group's product and market position in monochrome displays, the Group commenced the design, manufacture and sale of automobile TFT display modules in 2011 and has been investing more resources in the design, production and quality control in TFT module manufacturing. Further, most of the existing customers of the Group's TFT module business are automobile companies and some of them are also customers of the Group's monochrome business. The Company therefore considers that it is a good opportunity to capitalise on this fundamental and expand into this growing market segment.

As set out in the annual report of the Company for the year ended 31 December 2014, the Group's business is divided into automotive display business and industrial display business which generated revenue of approximately HK\$1,816 million and approximately HK\$797 million for the year ended 31 December 2014, representing approximately 70% and 30% of the Group's total turnover, respectively. As set out in the interim report of the Company for the six months ended 30 June 2015, the Group's automotive display business and industrial display business generated revenue of approximately HK\$899 million and approximately HK\$384 million for the six months ended 30 June 2015, representing approximately 70% and 30% of the Group's total turnover, respectively.

Currently, the Group's major display technology is mainly monochrome, accounting for more than 90% of the Group's total revenue for the year ended 31 December 2014. For the year ended 31 December 2014, the Group's TFT modules accounted for approximately 6% of the Group's total revenue. Benefiting from the growing market, the Directors consider that the sales of TFT module will see substantial growth from the 6% contribution to revenue. The Group does not have a production line for TFT displays and has been sourcing TFT displays from various TFT display suppliers including, among others, the Subscriber Group.

According to the Subscriber, (i) it was founded in April 1993 and the issued shares of which are listed on the Shenzhen Stock Exchange; (ii) it is a supplier of semiconductor display technologies, products and services; and (iii) its products are widely used in a broad spectrum of applications such as mobile phones, tablets, notebooks, monitors, TVs, vehicle displays and digital information displays. The Company has been purchasing TFT displays from the Subscriber Group which amounted to approximately HK\$2.8 million for the six months ended 30 June 2015 and approximately HK\$6.7 million for the year ended 31 December 2014, representing approximately 0.38% and approximately 0.46% of the Group's total purchase for the respective periods.

According to the Subscriber, the Subscriber is one of the major suppliers of TFT displays in the global market. It also has production lines for manufacturing TFT modules mainly for consumer products like TVs and is planning to tap into automobile TFT module business. The Subscriber currently engages subcontractors to produce display modules for its automobile customers. Upon Completion, the Subscriber will become the controlling Shareholder of the Company. Subject to the terms of the Subscription Agreement as set out in paragraph (c) of the section headed "Undertakings by the Subscriber" above, the Subscriber has undertaken that the Group shall become the Subscriber's sole development, manufacturing and distribution platform of automotive display module and system business, including but not limited to vehicle networking, automobile displays and electronic systems. The Company considers that the Subscription will provide substantial funding and establish a strategic relationship with the Subscriber to quickly further expand its TFT module business whilst maintaining a stable development of the Group's monochrome business. Whilst the strategic relationship between the Group and the Subscriber will enhance the Group's competitiveness in the TFT display supply chain, after Completion, the Company shall continue to purchase TFT displays from other suppliers based on the Group's business needs from time to time. Purchases from the Subscriber will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. In addition, the Company may consider acquiring certain production lines for manufacturing TFT modules from the Subscriber subject to further assessment after Completion. If the Company decides to purchase production lines from the Subscriber, the purchase may constitute a notifiable and/or connected transaction for the Company. The Company will comply with all relevant Listing Rules as and when appropriate.

Pursuant to the Subscription Agreement, the Company undertakes to the Subscriber, among other things, that the Company (i) shall use its best endeavour to ensure the stability of its key employee team; and (ii) shall not encourage and procure resignation of those key employees. The existing senior management team of the Group has accumulated valuable experience and knowledge in serving international automobile companies and meeting their product requirements and demands. The Company believes that this has placed the Group in a good position to successfully expand its automobile TFT module business. On the other hand, the Subscriber, has also established business relationships with a number of automobile companies in the PRC.

The Company believes that leveraging (i) the Group's experience and expertise in display module design and manufacturing, and its established business relationships with many international companies, including many leading automobiles manufacturing companies; and (ii) the market position of the Subscriber in TFT display design and manufacturing, and the established business relationships with many automobile manufacturing companies in the PRC, there is great synergy between the cooperation of the Group and the Subscriber in the automobile and industrial TFT module business.

Following Completion, the Company intends to continue its existing principal business in automobile and industrial LCD display and modules business. In addition, as set out in the preceding paragraphs, the Company intends to leverage on the manufacturing resources of the Subscriber Group to quickly expand its existing automobile TFT module manufacturing business segment in view of the market trends and opportunities. Under the Subscription Agreement, the Subscriber shall regard the Group as its strategic customer, and shall supply the Group panel products with priority at the most favorable market price under the same conditions. The Group has been purchasing TFT displays from the Subscriber Group and may increase such purchase to enhance its competitiveness in the TFT module business given the favourable purchasing arrangement after Completion.

In view of the above potential benefits and synergies as a result of the Subscription and having considered the terms of the Subscription Agreement, the Directors (excluding the independent non-executive Directors whose views will be given after taking into account the opinion of the independent financial adviser as to the fairness and reasonableness of the terms of the Subscription and the Whitewash Waiver) consider that the terms of the Subscription are fair and reasonable and the Subscription is in the interests of the Shareholders as a whole.

In connection to the Subscription, the Board will consider declaring the Special Dividend of HK\$1.35 per Share conditional upon completion of the Subscription. Completion is conditional on, among other things, the Company declaring and the Shareholders approving the Special Dividend. No Special Dividend will be paid to the Subscriber as it has agreed to waive its entitlement. The Company will make further announcements with details including, among others, the timetable and the record date for the Special Dividend. If the Subscriber chooses to waive the Whitewash Waiver condition and Completion occurs and, accordingly, an offer is materialised, it is expected that (i) the record date of the Special Dividend will be a date falling before the period when the Shareholders may accept the offer then made by the Subscriber; and (ii) the Company will apply for a waiver from the general requirement to obtain shareholders' approval under Rule 4 of the Takeovers Code in connection with the Special Dividend if required under the Takeovers Code. If the Whitewash Waiver is not approved by the Independent Shareholders or otherwise not granted, and if the condition of the Whitewash Waiver is not waived by the Subscriber, the Subscription will not complete and no Special Dividend will be paid. The working capital requirements for the Group's monochrome module business will be replenished by part of the proceeds from the Subscription.

## EFFECT ON SHAREHOLDING STRUCTURE

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

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

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

*Note:*

- Mr. Ko holds these Shares through Rockstead Technology Limited and Omnicorp Limited, both of them are wholly-owned by Mr. Ko.

## **INFORMATION ON THE GROUP**

The Group was established in 1978 and established its factories in the PRC since 1983. The Shares were listed on the Main Board of the Stock Exchange in 1991. The Group is principally engaged in automobile display products and has monochrome display manufacturing capacity. Since its incorporation, the Company has been combining scientific and technological research, innovative product design, flexible product specifications and efficient manufacturing for many applications, including automotive components, industrial and consumer products, also providing complete display solutions for its customers. In addition to supplying standard products, the Group also provides tailor-made liquid crystal displays and modules for the specific needs of its customers.

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

## **DEALING AND INTEREST OF THE SUBSCRIBER AND PARTIES ACTING IN CONCERT WITH IT IN THE SECURITIES OF THE COMPANY**

Save for the Subscription, the Subscriber confirmed that as at the date of this announcement, neither it, nor, to the best knowledge of it having made all reasonable inquiries, any parties acting in concert with it:

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

## **FUTURE INTENTIONS OF THE SUBSCRIBER REGARDING THE GROUP**

The Company and the Subscriber shall explore future business opportunities in automotive and industrial display business segments. As at the date of this announcement, save for the framework relating to the future cooperation of TFT business segment set out in the Subscription Agreement as explained in the section headed “Reasons for and benefits of the Subscription” above, there is no agreement, definitive proposals or timetable have been determined for any such possible future transaction or arrangement between the Group and the Subscriber and the parties acting in concert with it.

## **USE OF PROCEEDS**

The gross proceeds and the net proceeds from the Subscription are approximately HK\$1,400 million and approximately HK\$1,392 million (after deduction of professional fees and estimated expenses of approximately HK\$8.0 million payable by the Group in connection with the Subscription) respectively. The Directors expect to use the net proceeds from the Subscription for the followings:

- (i) approximately HK\$992 million for expanding the Group’s existing TFT module business, including (a) approximately HK\$100 million in respect of the purchase of equipment and machinery for the assembly of TFT modules; and (b) approximately HK\$892 million in respect of the development and expanding operation of the Group’s TFT business segment, including:
- 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 automobile TFT module business which is the major item required for an increasing production level;
  - 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 automobile TFT module business;
  - research and development – as a result of the expansion of the Group’s automobile TFT module business, the Company expects that it shall enhance its existing automobile TFT products and develop new automobile TFT products to maintain its competitiveness in the market; and
  - 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 automobile TFT module business; and
- (ii) approximately HK\$400 million for working capital for the Group’s existing monochrome manufacturing operations after the Special Dividend amounting a total cash payment of approximately HK\$447.2 million (based on the number of Shares in issue as at the date of this announcement).

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

## **FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS**

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

## **APPLICATION FOR WHITEWASH WAIVER**

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

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

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

## **INCREASE IN AUTHORISED SHARE CAPITAL**

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

## **APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER**

Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Subscription and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole, and to make a recommendation to the Independent Shareholders as to their voting on the proposed resolutions approving the Subscription and the Whitewash Waiver at the SGM. The appointment of Somerley Capital Limited as the independent financial adviser has been approved by the Independent Board Committee.

## **GENERAL**

The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the Subscription and the Whitewash Waiver.

The voting in relation to the Subscription and the Whitewash Waiver at the SGM will be conducted by way of a poll whereby the Subscriber and parties acting in concert with it, Mr. Ko, Ms. Ko Wing Yan, Samantha and their respective associates and parties acting in concert with any of them, and other Shareholders who are interested or involved in the Subscription and/or the Whitewash Waiver shall abstain from voting on the relevant resolutions to be proposed at the SGM to approve the matters.

A circular containing, among other things, (i) details of the Subscription and the Whitewash Waiver; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; (iii) the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; and (iv) a notice convening the SGM will be despatched to the Shareholders in compliance with the requirements of the Listing Rules and the Takeovers Code, and is expected to be despatched on or before 8 March 2016.

## **DEALING DISCLOSURE**

As required under Rule 3.8 of the Takeovers Code, associates (as defined in the Takeovers Code) of the Company and the Subscriber (including but not limited to a person who owns or controls 5% or more of any class of relevant securities (as defined in paragraphs (a) to (d) in Note 4 to Rule 22 of the Takeovers Code)) are reminded to disclose their dealings in the securities of the Company pursuant to the requirements of the Takeovers Code. Reproduced below is the full text of Note 11 to Rule 22 of the Takeovers Code in accordance with Rule 3.8 of the Takeovers Code.

### ***“Responsibilities of stockbrokers, banks and other intermediaries***

*Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than HK\$1 million.*

*This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.*

*Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.*



## RESUMPTION OF TRADING

At the request of the Company, trading in the Shares has been suspended with effect from 9:00 a.m. on 4 February 2016. An application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 17 February 2016.

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

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

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

## DEFINITIONS

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

“acting in concert”	has the same meaning as ascribed to it under the Takeovers Code
“Adjusted Closing Price”	the closing price per Share as quoted on the Stock Exchange on the relevant trading days, adjusted to reflect the effect of the Special Dividend (being the closing price of Shares on each relevant trading day less the Special Dividend of HK\$1.35 per Share)
“associate(s)”	has the same meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than Saturday or Sunday or public holiday and days on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong) on which commercial banks in Hong Kong and the PRC are open for general business
“Bye-laws”	bye-laws of the Company
“Capital Reduction”	the proposed reduction of the amount standing to the credit of the share premium account of the Company
“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

“Completion”	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
“Completion Date”	the date falling on 7th Business Days after all of conditions precedent (save for conditions 3, 4, 5, 6, 7 and 10 – which shall remain fulfilled until Completion) set out in the section headed “Conditions of the Subscription” having been fulfilled (or, if applicable, waived), or any other date as agreed by the parties to the Subscription Agreement in writing
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Final Dividend”	if any, final dividend of the Company that may be declared and distributed to the Shareholders for the year ended 31 December 2015
“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
“Increase in Authorised Share Capital”	the proposed increase in authorised share capital of the Company from HK\$100,000,000 to HK\$200,000,000 by the creation of an additional 400,000,000 new Shares
“Independent Board Committee”	an independent board committee of the Board, comprising all the non-executive Directors, namely Dr. Lo Wing Yan, William J.P., Mr. Chau Shing Yim, David and Mr. Hou Ziqiang, to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription and the Whitewash Waiver and as to voting
“Independent Shareholders”	Shareholders other than the Subscriber and parties acting in concert with it, Mr. Ko, Ms. Ko Wing Yan, Samantha and their respective associates and parties acting in concert with any of them, and other Shareholders who are interested or involved in the Subscription and/or the Whitewash Waiver
“Last Trading Day”	3 February 2016, being the last trading day of the Shares immediately prior to the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	30 September 2016 (or such other date as may be agreed by the parties to the Subscription Agreement in writing)

“Management Accounts Date”	the month end date preceding the date on which conditions set out in paragraphs 1, 2, 8, 9 and 11 under the section headed “Conditions of the Subscription” having been satisfied or waived, provided that conditions set out in paragraphs 3, 4, 5, 6, 7 and 10 under the section headed “Conditions of the Subscription” have not been violated
“Mr. Ko”	Mr Ko Chun Shun, Johnson
“Optionholder(s)”	holder(s) of Share Option(s)
“PRC”	the People’s Republic of China (which for the purpose of the Subscription Agreement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan)
“Rule 3.7 Announcement”	the announcement of the Company dated 3 February 2016 made pursuant to Rule 3.7 of the Takeovers Code and Rule 13.09 of the Listing Rules
“SFC”	the Securities and Futures Commission of Hong Kong
“SGM”	a special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve, among others, the Subscription and the Whitewash Waiver, and the Increase in Authorised Share Capital
“Share(s)”	the ordinary share(s) of HK\$0.25 each in the share capital of the Company
“Share Option(s)”	share options to subscribe for an aggregate of 12,030,000 Shares which remain outstanding as at the date of this announcement that were granted by the Company pursuant to its share option schemes adopted on 12 May 2003 and 3 June 2013
“Shareholder(s)”	holder(s) of Share(s)
“Special Dividend”	subject to Completion, the proposed special cash dividend of HK\$1.35 per Share to be declared and distributed by the Company to the Shareholders whose names appear on the register of members of the Company at the close of business on a record date to be determined by the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	BOE Technology Group Co., Ltd. (京東方科技集團股份有限公司), a joint stock company established in the PRC and the issued shares of which are listed on the Shenzhen Stock Exchange with stock code 000725 for its A shares and stock code 200725 for its B shares
“Subscriber Group”	the Subscriber and its subsidiaries

“Subscription”	the subscription of the Subscription Shares under the Subscription Agreement
“Subscription Agreement”	the subscription agreement entered into between the Company and the Subscriber dated 3 February 2016 in respect of the Subscription
“Subscription Price”	HK\$3.50 per Subscription Share
“Subscription Shares”	400,000,000 new Shares to be subscribed by the Subscriber and issued by the Company under the Subscription Agreement
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC as amended from time to time
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscriber to make a mandatory general offer for all of the Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it which would otherwise arise as a result of Completion
“%”	percentage

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

Hong Kong, 16 February 2016

*As at the date of this announcement, the Board comprises six Directors, of which Mr. Ko Chun Shun, Johnson, Ms. Ko Wing Yan, Samantha and Mr. Ho Te Hwai, Cecil are executive Directors, and Dr. Lo Wing Yan, William J.P., Mr. Chau Shing Yim, David and Mr. Hou Ziqiang are independent non-executive Directors.*

*The Directors jointly and severally accept full responsibility for the accuracy of the information (other than that relating to the Subscriber) contained in this announcement and confirm having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement (other than those expressed by the Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statement in this announcement misleading.*

*The directors of the Subscriber, namely Mr. Wang Dongsheng, Mr. Xie Xiaoming, Mr. Chen Yanshun, Ms. Wang Jing, Mr. Zhang Jinsong, Mr. Liu Xiaodong, Mr. Song Jie, Ms. Dong Youmei, Mr. Ji Guoping, Mr. Yu Ning, Mr. Lu Tingjie and Mr. Wang Huacheng, jointly and severally accept full responsibility for the accuracy of the information relating to the Subscriber contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed by the Subscriber have been arrived at after due and careful consideration, and there are no other facts not contained in this announcement the omission of which would make any statement in this announcement misleading.*