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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**

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.

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 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, 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.

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 think fit, to pass the resolutions in respect of 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 in compliance of the Listing Rules, and is expected to be despatched on or before 17 November 2016.

INTRODUCTION

Reference is made to the circular of the Company dated 22 March 2016 (the “Subscription Circular”) in respect of, among others, the Subscription, and the announcement of the Company dated 22 April 2016 in respect of the Master Purchase Agreement.

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 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).

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 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 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.

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
- 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).

- 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, the BOE Group shall offer the most favourable selling price to the Group with reference to the standard price list of the BOE Group and with discount. 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. 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.

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

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 Directors consider 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.

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 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>
				56.46
				(including approximately HK\$56.43 million incurred after the effective date of the Master Purchase Agreement (i.e. 28 April 2016))
Purchase of TFT panels and other products	3.7	6.7	7.4	

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

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) anticipated increase in the scale and business operation of the Group taking into account potential increase in number of customers after completion of the Subscription; (ii) anticipated increase in proportion of sourcing TFT panels and other products from the BOE Group with reference to customer specification including but not limited to panel size, technology and quality requirement; (iii) estimated market demand on automotive TFT displays; and (iv) the increase in the Group’s capacity and capabilities in manufacturing TFT/TP modules as a result of the Master Subcontracting Agreement. 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.

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 Subcontracting Annual Caps and the Renewed Purchase Annual Caps are fair and reasonable.

PRICING POLICIES AND GUIDELINES

Before entering into any agreement in respect of the Subcontracting Transactions or the Purchase Transactions, the 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) 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 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 to both co-chief executive officers for review and approval such major terms together with those offered by the independent subcontractors or suppliers. 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 their respective agreements.

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, both 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, both 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.

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 display products and has monochrome display manufacturing capacity. 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.

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 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, 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.

GENERAL

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 think fit, to pass the resolutions in respect of 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 in compliance of the Listing Rules, and is expected to be despatched on or before 17 November 2016.

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
“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
“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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), 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 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
“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
“SGM”	:	a special general meeting of the Company to be convened and held by the Company 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
“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
“TFT”	:	thin film transistor
“TP”	:	touch panel
“%”	:	percentage

By Order of the Board
Varitronix International Limited
Yao Xiangjun
Chairman

Hong Kong, 27 October 2016

As at the date of this announcement, the Board comprises nine Directors, of whom Mr. Yao Xiangjun, 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.