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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in BOE VARITRONIX LIMITED, you should at once hand this circular and the enclosed proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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**

**AND**

**NOTICE OF SPECIAL GENERAL MEETING**

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

 **SOMERLEY CAPITAL LIMITED**

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A letter from the Board is set out on pages 4 to 14 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on page 15 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 31 of this circular.

A notice convening the SGM of the Company to be held at Units A – F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Thursday, 10 January 2019 at 10 a.m. is set out on pages 36 to 37 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the meeting or any adjourned meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjourned meeting if you so wish.

Hong Kong, 22 December 2018

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## DEFINITIONS

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

“associate(s)”	:	has the same meaning as ascribed to it under the Listing Rules
“Board”	:	the board of Directors
“BOE”	:	BOE Technology Group Co., Ltd
“BOE (HK)”	:	BOE Technology (HK) Limited, a company incorporated in Hong Kong with limited liability, is a wholly-owned subsidiary of BOE
“BOE Group”	:	BOE and its subsidiaries (excluding the Group for the purposes of this circular)
“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
“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

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## DEFINITIONS

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“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
“Latest Practicable Date”	:	20 December 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“LCD”	:	liquid crystal display
“Listing Rules”	:	the Rules Governing the Listing of Securities on the Stock Exchange
“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 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 Renewed Master Purchase Agreement and subject to Independent Shareholders’ approval under the Renewed Master Purchase Agreement

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## DEFINITIONS

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“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 of the Company to be convened and held at Units A-F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Thursday, 10 January 2019 at 10 a.m. for the Shareholders to consider and, if think fit, to pass the resolutions in respect of the CCT Agreements and the respective proposed annual caps
“Share(s)”	:	the ordinary share(s) of HK\$0.25 each in the share capital of the Company
“Shareholder(s)”	:	holders of the Share(s)
“Stock Exchange”	:	The Stock Exchange of Hong Kong Limited
“Subcontracting 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

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## LETTER FROM THE BOARD

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# BOE

## BOE VARITRONIX LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 710)**

### **Directors:**

#### *Executive Directors:*

Mr. Gao Wenbao (*Chairman*)

Ms. Ko Wing Yan, Samantha (*Co-Chief Executive Officer<sup>1</sup> and Chief Financial Officer*)

Mr. Su Ning (*Co-Chief Executive Officer<sup>2</sup>*)

#### *Non-executive Directors:*

Ms. Yang Xiaoping

Mr. Dong Xue

Mr. Yuan Feng

#### *Independent Non-executive Directors:*

Mr. Fung, Yuk Kan Peter

Mr. Chu, Howard Ho Hwa

Mr. Hou Ziqiang

#### *Notes:*

1. Ms. Ko Wing Yan, Samantha will be redesignated from a co-chief executive officer of the Company to the vice chairlady of the Company with effect from 1 January 2019.
2. Mr. Su Ning will be redesignated from a co-chief executive officer of the Company to the chief executive officer of the Company with effect from 1 January 2019.

### **Registered Office:**

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### **Head Office and Principal**

#### **Place of Business:**

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

22 December 2018

*To the Shareholders*

Dear Sir or Madam,

## **CONTINUING CONNECTED TRANSACTIONS**

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

**AND**

## **NOTICE OF SPECIAL GENERAL MEETING**

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## LETTER FROM THE BOARD

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### 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, 27 October 2016 and 22 November 2018 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.

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

### 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.

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## LETTER FROM THE BOARD

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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 threshold of the profit margin of 5% is determined with reference to the profit margin charged by the independent subcontractors to the Group.

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.



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## LETTER FROM THE BOARD

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### 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 hold(s) 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.

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## LETTER FROM THE BOARD

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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 request 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.

Since the Renewed Master Purchase Agreement covers many different products, and the specifications, market demand and supply of the said products or their required production materials may change from time to time, the Company considers that it is not practicable or in the best interests of the Company and its shareholders to pre-determine any specific range of unit price and discount rate.

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

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## LETTER FROM THE BOARD

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### 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 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 (including the independent non-executive Directors after considering the letter of advice from the Independent Financial Adviser) are of the view that the terms of the 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.

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## LETTER FROM THE BOARD

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### 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>	<b>Actual transaction amounts</b>			<b>Existing annual caps</b>		
	<b>For the year ended</b>		<b>For the</b>	<b>For the year ended</b>		<b>For the</b>
	<b>31 December</b>	<b>2017</b>	<b>nine months</b>	<b>31 December</b>	<b>2017</b>	<b>year ending</b>
	<b>2016</b>		<b>ended</b>	<b>2016</b>		<b>31 December</b>
			<b>30 September</b>			<b>2018</b>
			<b>2018</b>			<b>2018</b>
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>	<b>Proposed annual caps</b>		
	<b>For the year ending 31 December</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
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%.

As shown above, the proposed annual caps for the Purchase Transactions increase year after year. The Company considers that such increase is mainly attributable to the following reasons:

- (a) the development cycle of the Company's automotive display products which is divided into two stages (i) the project award and sample development stage which takes around 1.5 to 2.5 years; and (ii) the mass production stage which takes around 3 to 5 years or more. Because of such development cycle, for the orders received in 2016, 2017 and the nine months ended 30 September 2018, the mass production will mainly start in or after 2019. Likewise, for new orders to be received in 2019 and 2020, the mass production will start in or after 2020 and 2021 respectively. As such, with reference to the order book of the Group and ongoing discussions with BOE Group, the Company estimates that the sales amount of TFT/TP modules (which

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## LETTER FROM THE BOARD

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include, among others, (i) TFT modules to be assembled in the Group's manufacturing facilities (or part of the assembly process to be subcontracted to independent subcontractors/BOE Group) using the TFT panels sourced from independent suppliers and the BOE Group; and (ii) the TFT modules to be sourced from independent suppliers and the BOE Group) will increase in 2019, 2020 and 2021 by approximately 105.5%, 54.5% and 39.0% year on year; and

- (b) in addition to the increasing trend in sales amount of TFT/TP modules mentioned in (a), in view of the development cycle of the existing orders, the Company also expects that the purchases of TFT modules from the BOE Group will increase for the three years ending 31 December 2021 as compared to the historical period and will start mainly in 2019. The unit price of TFT modules is higher than that of the TFT panels and other products.

The combined effect of (i) estimated year-on-year increase of approximately 105.5% in sales amount of TFT/TP modules in 2019; and (ii) the fact that the purchases of TFT modules (which have a higher unit price) from the BOE Group will mainly start in 2019 has resulted in a higher proposed annual cap for the year ending 31 December 2019 for the Purchase Transactions which represents approximately 3.6 times of the annualized transaction amounts for the year ending 31 December 2018 (based on the actual transaction amounts for the nine months ended 30 September 2018). The proposed annual cap for the Purchase Transactions in 2020 will increase by approximately 50.0% as compared to that in 2019 and further increase by approximately 38.3% in 2021 as compared to that in 2020, which is in line with the estimated year-on-year increases in sales amount of TFT/TP modules of 54.5% and 39.0% in 2020 and 2021 respectively.

The TFT business is highly competitive. Through the subscription of new equity in the Company by BOE in 2016, the Company has realized a strategic business relationship with the BOE Group. Pursuant to the subscription agreement entered into between the Company and BOE on 3 February 2016, the BOE Group has undertaken to regard the Group as its strategic customer and supply the Group panel products with priority at the most favourable market price, provided that BOE or its affiliates holds not less than 30% of the issued shares of the Company. In view of growing its TFT business, the Company considers that the favourable commercial terms offered by the BOE Group under the Renewed Master Purchase Agreement are essential for the Group to enhance its competitiveness. Under the proposed annual caps for the Purchase Transactions for the three years ending 31 December 2021, the Company expects that the purchase of TFT panels, TFT modules and other products from the BOE Group will not be higher than 40% of the Group's total cost of inventories (which comprise carrying amount of inventories sold, write-down of inventories and reversal of write-down of inventories) for each of the three years ending 31 December 2021. Given that the Group is not committed on an exclusive basis under the Renewed Master Purchase Agreement, the Group is not obliged to source from the BOE Group and has access to independent suppliers. The Company continues to maintain active business discussions with other independent suppliers. It is possible for the Company not to rely on any one major supplier if the Company considers it to be in the interests of the Company and the Shareholders to do so.

The Group has over 15 years of experience in serving customers in the automotive industry. The Group has accumulated extensive experience in manufacturing products according to customers' specific requirements, specific modular assembly technologies and stringent product quality control. The Group has its own facilities to produce the monochrome panels and modules, and assemble the TFT modules. Furthermore, the Group has established a stable customer network in automotive industry after over 15 years of serving customers in this industry and has its own marketing team in Hong Kong, Asia, Europe and the United States which has been set up for over 10 years.

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## LETTER FROM THE BOARD

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Considering that the Company (i) is financially independent from the BOE Group; (ii) has independent access to sources of supplies/raw materials for production; (iii) maintains independent production/operation capabilities; and (iv) has independent channels of customers and independent management, the Company considers that the Group will not be facing unjustifiable risk of relying on the BOE Group for supplying TFT panels, TFT modules and other materials for expanding its TFT business.

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 (including the independent non-executive Directors after considering the letter of advice from 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. In view of the redesignation of co-chief executive officers as mentioned in the Company's announcement dated 5 December 2018, with effect from 1 January 2019, the purchasing department of the Group will report to the vice chairlady and the chief executive officer 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.



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## LETTER FROM THE BOARD

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### 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 Latest Practicable Date. BOE is an associate of BOE (HK) and is thus a connected person of the Company under the Listing Rules. As such, 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 reporting, announcement, circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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.

### INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

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

Somerley Capital Limited has been appointed 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.

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## LETTER FROM THE BOARD

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### GENERAL

A notice convening the SGM is set out on pages 36 to 37 of this circular. The SGM will be convened and held at Units A-F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Thursday, 10 January 2019 at 10 a.m. for the purposes of considering and, if thought fit, approving the CCT Agreements and the respective proposed annual caps. The voting in relation to the CCT Agreements and respective proposed annual caps at the SGM will be conducted by way of a poll.

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

Any Shareholders with a material interest in the CCT Agreements shall abstain from voting on the relevant resolutions at the SGM. BOE (HK), a substantial shareholder of the Company and a subsidiary of BOE, shall abstain from voting at the SGM. As at the Latest Practicable Date, BOE (HK) held 400,000,000 Shares, representing approximately 54.41% of the total issued share capital of the Company.

### RECOMMENDATION

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

Your attention is drawn to:

- (a) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 15 of this circular; and
- (b) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 16 to 31 of this circular.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
By Order of the Board  
**BOE Varitronix Limited**  
**Mr. Gao Wenbao**  
*Chairman*





**BOE VARITRONIX LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 710)**

22 December 2018

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**RENEWAL OF SUBCONTRACTING TRANSACTIONS  
AND PURCHASE TRANSACTIONS**

We refer to the circular of the Company dated 22 December 2018 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to advise you as to whether, in our opinion, (i) the terms of the CCT Agreements and the respective proposed annual caps are fair and reasonable; (ii) the Subcontracting Transactions and the Purchase Transactions are in the ordinary and usual course of business of the Group; (iii) the terms of the CCT Agreements are on normal commercial terms; (iv) the CCT Agreements and the respective proposed annual caps are in the interests of the Company and the Shareholders as a whole; and (v) the Independent Shareholders should vote in favour of the ordinary resolutions to approve the CCT Agreements and the respective proposed annual caps at the SGM. Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 16 to 31 of the Circular.

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

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

**Fung, Yuk Kan Peter**

**Chu, Howard Ho Hwa**

**Hou Ziqiang**

*Independent non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



### **SOMERLEY CAPITAL LIMITED**

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

22 December 2018

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

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS**

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

#### **INTRODUCTION**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with (i) the Subcontracting Transactions contemplated under the Renewed Master Subcontracting Agreement; and (ii) the Purchase Transactions contemplated under the Renewed Master Purchase Agreement, and their respective proposed annual caps for each of the three years ending 31 December 2019, 2020 and 2021. Details of the Subcontracting Transactions and the Purchase Transactions and their respective proposed annual caps are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 22 December 2018 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

BOE (HK), a wholly-owned subsidiary of BOE, is the substantial and controlling shareholder of the Company holding approximately 54.41% of the issued share capital of the Company as at the Latest Practicable Date. BOE is therefore a connected person of the Company under the Listing Rules and the Subcontracting Transactions and the Purchase Transactions constitute continuing connected transactions of the Company. 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, the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Subcontracting Transactions and the Purchase Transactions contemplated under the CCT Agreements are subject to the reporting, announcement, circular (including independent financial advice) and the independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Fung, Yuk Kan Peter, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang, has been established to consider and make a recommendation to the Independent Shareholders on whether (1) the Subcontracting Transactions and the Purchase Transactions contemplated under the CCT Agreements are in the ordinary and usual course of business of the Group; (2) the terms of the CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (3) the entering into of the Subcontracting Transactions and the Purchase Transactions contemplated under the CCT Agreements is in the interests of the Company and the Shareholders as a whole; and (4) the proposed annual caps in respect of each of the Subcontracting Transactions and the Purchase Transactions contemplated under the CCT Agreements for the three financial years ending 31 December 2021 are fair and reasonable so far as the Independent Shareholders are concerned. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to continuing connected transactions as detailed in the Company's circular dated 12 December 2016. The past engagement was limited to providing independent advisory services to independent board committee and independent shareholders of the Company pursuant to the Listing Rules. Under the past engagement, Somerley Capital Limited received normal professional fees from the Company. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group and the BOE Group that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (1) the Subcontracting Transactions and the Purchase Transactions contemplated under the CCT Agreements; and (2) their respective proposed annual caps for each of the three years ending 31 December 2019, 2020 and 2021 as detailed in the Circular.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether (a) the terms of the CCT Agreements and the proposed annual caps in respect of each of the Subcontracting Transactions and the Purchase Transactions contemplated under the CCT Agreements for the three financial years ending 31 December 2021 are fair and reasonable so far as the Independent Shareholders are concerned; (b) the Subcontracting Transactions and the Purchase Transactions contemplated under the CCT Agreements are on normal commercial terms and in the ordinary and usual course of business of the Group; and (c) the entering into of the Subcontracting Transactions and the Purchase Transactions contemplated under the CCT Agreements is in the interests of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

#### 1. Background to and reasons for the continuing connected transactions

The Group is principally engaged in the automotive and industrial display business and has monochrome display manufacturing capacity and TFT module assembly capacity. As disclosed in the section headed “Historical figures and proposed annual caps” in the “Letter from the Board” contained in the Circular, the Group has over 15 years of experience in serving customers in the automotive industry. The Group has accumulated extensive experience in manufacturing products according to customers’ specific requirements, specific modular assembly technologies and stringent product quality control. The Group has its own facilities to produce the monochrome panels and modules, and assemble the TFT modules. Furthermore, the Group has established a stable customer network in automotive industry after over 15 years of serving customers in this industry and has its own marketing team in Hong Kong, Asia, Europe and the United States which has been set up for over 10 years.

BOE, the substantial and controlling shareholder of the Company with its shares 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. BOE became the substantial and controlling shareholder of the Company since the completion of the subscription as detailed in the Company’s circular dated 22 March 2016 (the “**Subscription Circular**”). As set out in the Subscription Circular, the Group shall become BOE’s sole development, manufacturing and distribution platform of automotive display module and system business, including but not limited to vehicle networking, automotive displays and electronic systems.

As stated in the Company’s 2017 annual report, the automotive display business generated revenue of HK\$2,048 million in 2017, representing an increase of approximately 38% from the revenue of HK\$1,487 million recorded in 2016. It is also stated in the Company’s 2018 interim report that the revenue generated by the automotive display business was HK\$1,178 million, representing an increase of approximately 30% as compared to the same period in 2017. As advised by the executive Directors, the Group’s revenue from TFT business increased by over 340% from 2016 to 2017.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 the BOE Group's competitive edges, such as panel research and automated manufacturing process, the BOE Group has supplied the Group with TFT panels with customised design and comprehensive quality support at prices considered to be fair and reasonable by the Company. As advised by the executive Directors, the Group has been satisfied with the quality of the subcontracting services and products provided/supplied by the BOE Group.

As set out in a research report (the “**Research Report**”) for automotive display market dated October 2018 issued by an independent research company listed on NASDAQ, the global sales of automotive TFT modules is forecasted to increase from approximately US\$8,058 million in 2018 to approximately US\$8,635 million in 2019 and further increase to approximately US\$8,900 million in 2020. We consider that the Group's TFT business will be benefited from the forecasted increase in global sales of automotive TFT modules as mentioned above.

The executive Directors are of the view that further development and expansion of the Group's TFT business will be beneficial to the Group. The Group will proactively seize opportunities for development and to expand the Group's market share. As stated in the Company's 2018 interim report, as the sole platform of automotive display module and system business within the BOE Group, the Group will leverage on BOE's various competitive edges as mentioned above and to strengthen the cooperation and business development with BOE's TFT panel production facilities. In view of the positive outlook of the TFT business, the executive Directors anticipated a need to leverage on the manufacturing resources of the BOE Group through the Purchase Transactions and the Subcontracting Transactions to satisfy the estimated increase in demand for TFT/TP modules. Considering (i) the quality and standard of existing TFT manufacturing facilities of the BOE Group, which are considered to be capable to meet the requirements of the Group's TFT customers; and (ii) the BOE Group has been the Group's supplier for TFT panels and the Group has been satisfied with the quality of products supplied by the BOE Group, the executive Directors are of the view that it is beneficial for the Group to leverage on the manufacturing resources of the BOE Group through the Subcontracting Transactions and to purchase products through the Purchase Transactions.

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. As set out in the section headed “Renewed Master Subcontracting Agreement” and “Renewed Master Purchase Agreement” of the “Letter from the Board” contained in the Circular, the Group is not contractually bound to (a) engage the BOE Group to provide the subcontracting services; and (b) purchase TFT panels, TFT modules and other products from the BOE Group. The Group is free to (a) engage any third party subcontractor for the provision of the subcontracting services; and (b) purchase TFT panels, TFT modules and other products from any other third party supplier during the term of the CCT Agreements. We have discussed with and understand from the executive Directors that the BOE Group is and will only be one

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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of the subcontractors for the provision of the subcontracting services and one of the suppliers for TFT panels, TFT modules and other products for the Group. The Group has established an internal control system in respect of the Subcontracting Transactions and the Purchase Transactions contemplated under the CCT Agreements, and will only enter into transactions with the BOE Group under the CCT Agreements if it is in the interests of the Company and the Shareholders as a whole.

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

### **2. Principal terms of the continuing connected transactions**

Set out below is a summary of the principal terms of the CCT Agreements. Further details of the CCT Agreements are set out in the “Letter from the Board” contained in the Circular.

#### ***(A) The Renewed Master Subcontracting Agreement***

##### *(i) Subject of the agreement*

The Renewed Master Subcontracting Agreement was entered into on 22 November 2018 between the Company and BOE, whereby the Company has agreed 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. 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 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 may 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.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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.

*(ii) Duration*

The Renewed Master Subcontracting Agreement will become effective from 1 January 2019 up to 31 December 2021.

*(iii) Pricing policy*

The BOE Group shall charge the Group the processing fee on a “cost-plus” basis, which will be determined based on the direct costs incurred by the BOE Group (including, among others, labour cost, power, utilities, equipment depreciation and management fee) with respect to the provision of the subcontracting services plus a profit margin which shall not be higher than 5% of the direct costs. The BOE Group shall also charge the Group on an actual basis any expenses in relation to, among others, material, packaging, testing, transportation, after-sale service, insurance and storage. The threshold of the profit margin of 5% is determined with reference to the profit margin charged by the independent subcontractors to the Group. 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. 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.

We have obtained from the Company quotations from independent third party subcontractors for subcontracting of different products and note that the highest margin for subcontracting is approximately 4.8%. The profit margin for the Subcontracting Transactions contemplated under the Renewed Master Subcontracting Agreement, being not higher than 5% of the direct costs, is in line with the profit margin as set out in the quotations obtained from independent third party subcontractors as mentioned above.

*(iv) Payment*

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

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *(B) The Renewed Master Purchase Agreement*

#### *(i) Subject of the agreement*

The Renewed Master Purchase Agreement was entered into on 22 November 2018 between the Company and BOE, whereby the Company has agreed 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. 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.

#### *(ii) Duration*

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).

#### *(iii) Pricing policy*

With regard to the standardised 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. With regard to the customised 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. The Company considers that such pricing basis is in line with market practice, fair and reasonable, and on normal commercial terms.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Since the Renewed Master Purchase Agreement covers many different products, and the specifications, market demand and supply of the said products or their required production materials may change from time to time, the Company considers that it is not practicable or in the best interests of the Company and its Shareholders to pre-determine any specific range of unit price and discount rate.

*(iv) Payment*

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

We have obtained from the Company purchase orders dated 2018 placed with independent third party suppliers for purchasing different products. As noted from those purchase orders, the payment terms offered by the independent third party suppliers are within 30 days of delivery or 30 days after month end. The payment term for the Purchases Transactions is no less favorable than those offered by the independent third party suppliers.

**3. Internal control measures and review of the Subcontracting Transactions and the Purchase Transactions**

*(A) Internal control measures regarding continuing connected transactions*

The Group has established an internal control system in respect of the Subcontracting Transactions and the Purchase Transactions. Details of the internal control system are set out in the section headed “Internal control” in the “Letter from the Board” contained in the Circular. As set out in the aforesaid section in the Circular, the Group’s purchasing department 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 before entering into the Subcontracting Transactions and the Purchase Transactions. The purchasing department will then review a number of factors including, among other things, price, delivery time, payment terms, quality standard and technical capability from the quotations (including quotations from the BOE Group). As advised by the executive Directors, the Group will only enter into the Subcontracting Transactions and the Purchase Transactions with the BOE Group if the major terms offered by the BOE Group are no less favourable than the terms available to the Group from independent subcontractors or suppliers. Further details of the Group’s internal control system are set out in the aforesaid section in the Circular.

We have discussed with the management of the Company and reviewed sample documents provided by the Company (including, among other things, purchase orders and quotations between the Group and the BOE Group or independent third party subcontractors or suppliers (as the case may be)) with respect to the Subcontracting Transactions and the Purchase Transactions during the period from 1 January to 30 September 2018. Based on the documents reviewed, we note that the pricing and payment terms of the subcontracting services/products provided/supplied by the BOE Group were no less favourable than those offered by independent third party subcontractors or suppliers to the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

### ***(B) Review of the continuing connected transactions by auditors***

The auditors of the Company were engaged to report on the Group’s continuing connected transactions in relation to the Master Purchase Agreement and the Master Subcontracting Agreement as set out in the 2016 and 2017 annual report (the “**Past Transactions**”) in accordance with *Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”* and with reference to *Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules”* issued by the Hong Kong Institute of Certified Public Accountants. We understood from the executive Directors that the auditors were of the conclusion that (a) nothing had come to their attention that caused them to believe that the Past Transactions have not been approved by the Board; (b) nothing had come to their attention that caused them to believe that the Past Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (c) with respect to the aggregate amount of the Past Transactions, nothing had come to their attention that caused them to believe that the Past Transactions had exceeded the annual cap as set by the Company.

Based on the obligations of the Directors to comply with the Listing Rules to conduct the continuing connected transactions on normal commercial terms, we consider that the continuing connected transactions will be conducted on normal commercial terms.

#### **4. Proposed annual caps**

The Subcontracting Transactions and the Purchase Transactions are subject to their respective proposed annual caps for each of the three financial years ending 31 December 2019, 2020 and 2021. The value of the Subcontracting Transactions and the Purchase Transactions will not exceed the applicable annual amounts stated in the “Letter from the Board” contained in the Circular.

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

### ***(A) The Renewed Master Subcontracting Agreement***

The Group has been engaging the BOE Group to provide subcontracting services of manufacturing TFT/TP modules since the entering of the existing Master Subcontracting Agreement. As set out in the section headed “Historical figures and proposed annual caps” in the “Letter from the Board” contained in the Circular, the subcontracting services

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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provided by the BOE Group to the Group amounted to approximately HK\$14.0 million in 2017 and approximately HK\$0.6 million from 1 January 2018 to 30 September 2018. As advised by the executive Directors, new products launched by the Group normally take about 1.5 to 2.5 years for testing and modifying before mass production to be carried out. From 2016 to 2018, many new TFT/TP modules are in their early stage of development so less subcontracting services were required from the BOE Group.

In determining the proposed annual caps for the Subcontracting Transactions, the management has considered the expected quantity of products to be subcontracted to the BOE Group and the expected unit subcontracting cost for the three years ending 31 December 2021. As advised by the executive Directors, when estimating the quantity of products to be subcontracted to the BOE Group, they have taken into account mainly the estimated sales volume of TFT/TP modules in the three years ending 31 December 2021, which include (i) estimated sales volume based on current sales of TFT/TP modules to existing customers; (ii) estimated sales volume based on orders received for TFT/TP modules in 2017 and 2018; and (iii) estimated sales volume based on new orders to be received in 2019 and 2020 which is estimated with reference to the orders received for the nine months ended 30 September 2018. The management of the Company estimated the sales volume of TFT/TP modules, in which TFT panels will be purchased from the BOE Group for manufacturing of TFT/TP modules through subcontracting services provided by the BOE Group, by adding up the estimated sales volume of item (i), (ii) and (iii) above.

As set out in the sub-section headed “Background to and reasons for the continuing connected transactions” of this letter above, the Research Report for automotive display market dated October 2018 forecasted the global sales of automotive TFT modules to increase from approximately US\$8,058 million in 2018 to approximately US\$8,635 million in 2019 (representing a year on year increase of approximately 7.2% from 2018 to 2019) and further increase to approximately US\$8,900 million in 2020 (representing a year on year increase of approximately 3.1% from 2019 to 2020). We note from the latest annual reports published by companies listed on Korean Exchange and Taiwan Stock Exchange which are engaging in the display industry, that references to the aforesaid Research Report for automotive display market data were made. As advised by the executive Directors, the Group has been proactively seizing opportunities for development and to expand the Group’s market share, especially for TFT/TP modules. It is expected that more marketing activities will be carried out by the Group to expand the Group’s market share for TFT/TP modules in the coming few years. Based on the above, we concur with the executive Directors that it is reasonable to estimate an increase in the sales volume of TFT/TP modules in the coming few years. The executive Directors advised us that the Group will not be able to take up all the sales orders of TFT/TP modules in view of, among other things, the Group’s current manufacturing capacity. With the support from the BOE Group through the entering into of the Renewed Master Subcontracting Agreement, it is expected that the Group will be able to take up more sales orders of TFT/TP modules as a result of the subcontracting services provided by the BOE Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We obtained and reviewed a list of orders received for TFT/TP modules in 2017 and 2018 in which terms including the estimated quantity, product specifications and planned delivery schedule have already been agreed with and accepted by the customers. For the amount of estimated sales from new orders to be received in 2019 and 2020 which is estimated with reference to the orders received for the nine months ended 30 September 2018, we understand from the executive Directors that they have estimated such amount after considering (1) potential purchase orders currently under negotiation with new customers; and (2) estimated increase in sales and marketing activities in the coming few years. In view of the above, we concur with the executive Directors that the basis adopted for estimating the sales volume of TFT/TP modules as discussed above to be reasonable.

When estimating the unit subcontracting cost for the three years from 2019 to 2021, the executive Directors have made reference to the average subcontracting cost of approximately US\$5 per unit for different TFT/TP modules and subcontracting services based on quotations obtained from independent third party subcontractors. By considering the expected type of TFT/TP modules to be sold by the Group and the expected type of subcontracting services to be provided by the BOE Group, the executive Directors have estimated the average unit subcontracting cost (as determined in accordance with the pricing policy as set out in the sub-section headed “Principal terms of the continuing connected transactions” of this letter above) to be approximately HK\$39 for the three years ending 31 December 2021. We have reviewed the relevant quotations from independent third party subcontractors and concur with the executive Directors that the basis adopted in estimating the unit subcontracting cost for the three years from 2019 to 2021 to be reasonable.

Taking into account the aforesaid factors, the proposed annual caps for the Subcontracting Transactions are set as follows:

	<b>Financial year ending 31 December</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Proposed annual caps for the Subcontracting Transactions	53	67	72

### ***(B) The Renewed Master Purchase Agreement***

As advised by the executive Directors, since the completion of the subscription on 28 April 2016 as detailed in the Subscription Circular and the entering into of the existing Master Purchase Agreement, the Group has been developing into BOE's sole development, manufacturing and distribution platform of automotive display module and system business. As disclosed in the section headed “Historical figures and proposed annual caps” in the “Letter from the Board” contained in the Circular, pursuant to the subscription agreement entered into between the Company and BOE, the BOE Group has undertaken to regard the Group as its strategic customer and supply the Group panel products with priority at the most favourable market price, provided that BOE or its affiliates holds not less than 30% of the issued shares of the Company. In view of growing its TFT business, the Company considers that the favourable commercial terms offered by

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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the BOE Group under the Renewed Master Purchase Agreement are essential for the Group to enhance its competitiveness. As set out in the section headed “Historical figures and proposed annual caps” in the “Letter from the Board” contained in the Circular, purchase of TFT panels and other products by the Group from the BOE Group amounted to approximately HK\$106.3 million and HK\$442.9 million respectively in 2016 and 2017, and approximately HK\$340.0 million from 1 January 2018 to 30 September 2018. The year on year increase of purchase of TFT panels was driven by the increase in the Group’s revenue from TFT businesses as set out in the sub-section headed “Background to and reasons for the continuing connected transactions” in the letter above.

For the three years ending 31 December 2021, the Group will purchase (a) TFT modules manufactured by the BOE Group according to the Group’s design; and (b) TFT panels for the Group’s self-manufacturing of TFT/TP modules and for manufacturing of TFT/TP modules involving subcontracting services provided by the BOE Group. In assessing the reasonableness of the proposed annual caps in respect of the Purchase Transactions contemplated under the Renewed Master Purchase Agreement, we have discussed with the executive Directors the basis and underlying assumptions for the purpose of setting the proposed annual caps. We understand from the executive Directors that they have considered, among other things, the Group’s estimated sales amount of TFT/TP modules, including (i) estimated sales based on current sales of TFT/TP modules to existing customers; (ii) estimated sales based on orders received for TFT/TP modules in 2017 and 2018; and (iii) estimated sales based on new orders to be received in 2019 and 2020 which is estimated with reference to the orders received for the nine months ended 30 September 2018. It is expected that the Group’s total sales amount of TFT/TP modules in 2019, 2020 and 2021 will increase by approximately 105.5%, 54.5% and 39.0% year on year. The executive Directors estimate that the sales amount of TFT/TP modules, in which TFT modules to be manufactured by the BOE Group according to the Group’s design, by adding up the estimated sales of item (i), (ii) and (iii) above. For the sales amount of TFT/TP modules in which TFT panels will be purchased from the BOE Group for the Group’s self-manufacturing of TFT/TP modules and for manufacturing of TFT/TP modules involving subcontracting services provided by the BOE Group, it is expected the total sales amount will increase by approximately 76.6% for the year ending 31 December 2019, and further increase year-on-year by approximately 42.2% and 39.3% for 2020 and 2021 respectively.

As discussed in paragraph (A) above, we have obtained and reviewed the Research Report for automotive display market dated October 2018, in which the global sales of automotive TFT modules is expected to increase in the coming few years. It is also expected that more marketing activities will be carried out by the Group to expand the Group’s market share for TFT/TP modules in the coming few years. Taking into account the above, it is expected that more new projects will be carried out by the Group in each of 2019, 2020 and 2021. As disclosed in the section headed “Historical figures and proposed annual caps” in the “Letter from the Board” contained in the Circular, the development cycle of the Company’s automotive display products is divided into two stages: (i) the project award and sample development stage which takes around 1.5 to 2.5 years; and (ii) the mass production stage which takes around 3 to 5 years or more. Because of such development cycle, for the orders received in 2016, 2017 and the nine months ended 30 September 2018, the mass production will mainly start in or after 2019.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Likewise, for new orders to be received in 2019 and 2020, the mass production is expected to start in or after 2020 and 2021 respectively. Considering new projects are expected in each of the coming few years and the development time-span of the Company's automotive display products ranging from 4.5 to 7.5 years in general, we concur with the executive Directors that it is reasonable to estimate an increasing trend in the sales amount of TFT modules in the coming few years. The proposed annual caps in respect of the Purchase Transactions for the year ending 31 December 2019 represent approximately 3.6 times of the annualised transaction amounts for the year ending 31 December 2018 (based on the actual transaction amounts for the nine months ended 30 September 2018). We understand from the Company that purchases of TFT modules from the BOE Group starts mainly in 2019. As the unit price of TFT modules is higher than TFT panels and other products, other than the expected year on year increase in the Group's total sales amount of TFT/TP modules in 2019 of approximately 105.5% as mentioned above, a higher nominal unit price of TFT modules has partly contributed to a higher proposed annual cap in 2019 as compared to the annualised transaction amounts for the year ending 31 December 2018 (i.e. approximately HK\$453 million). We have obtained and reviewed an analysis showing the estimated price of TFT modules and TFT panels and noted that the unit price of TFT modules is substantially higher than TFT panels. The proposed annual cap for the Purchase Transactions in 2020 will further increase by approximately 50.0% as compared to that of 2019, and further increase by approximately 38.3% in 2021 as compared to that of 2020. We consider such growing trend is generally in line with the respective expected increase of approximately 54.5% and 39.0% in the Group's total sales amount of TFT/TP modules in 2020 and 2021 as set out above.

The executive Directors advised that the sales amount to existing customers are estimated with reference to historical sales amount with existing customers for the nine months ended 30 September 2018. In view of the above estimation of sales amount made by the executive Directors when determining the proposed annual caps, we have, in addition to our discussions with the executive Directors as mentioned above, obtained the management accounts of the Group for the nine months ended 30 September 2018 and note that the abovementioned estimated sales amount to existing customers for 2019, 2020 and 2021 is in line with the annualised historical transaction amounts based on the nine months ended 30 September 2018 as set out in such management accounts. As discussed in paragraph (A) above, we obtained a list of orders received for TFT/TP modules in 2017 and 2018 in which terms including the estimated quantity, product specifications and planned delivery schedule have already been agreed with and accepted by the customers. For the amount of estimated sales from new orders to be received in 2019 and 2020 which is estimated with reference to the orders received for the nine months ended 30 September 2018, we understand from the executive Directors that they have estimated such amount after considering, among other things, (1) potential purchase orders currently under negotiation with new customers; and (2) estimated increase in sales and marketing activities in the coming few years. In view of the above, we concur with the executive Directors that the basis adopted for estimating the sales amount of TFT/TP modules in the coming few years to be reasonable.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The executive Directors have further estimated the proposed annual caps for the Purchase Transactions by considering, among other things, the (i) Group's historical average gross profit margin for sales of TFT/TP modules; (ii) the Group's historical average costs to sales ratio, which is representing by the average unit material cost of TFT/TP modules to the average unit selling price of TFT/TP modules; and (iii) the Group's historical panel cost ratio, which is representing by the average unit panel cost of TFT/TP modules to the average unit material cost of TFT/TP modules. For the sales amount of TFT/TP modules in which TFT modules to be manufactured by the BOE Group according to the Group's design, we understand from the executive Directors that they have considered the Group's historical average gross profit margin for sales of TFT/TP modules and the estimated margin is applied on the abovementioned estimated sales amount to calculate the estimated cost of TFT modules to be purchased from the BOE Group, which forms estimated amount for purchases of TFT modules from the BOE Group. In estimating the proposed annual caps for the purchase of panels (for the Group's self-manufacturing of TFT/TP modules and for manufacturing of TFT/TP modules involving subcontracting services provided by the BOE Group) from the BOE Group, the executive Directors made reference to the Group's historical average costs to sales ratio and panel cost ratio as discussed above and the estimated ratios are applied to the estimated sales amount to calculate the estimated costs of panels to be purchased from the BOE Group, which forms the estimated amount for purchases of TFT panels from the BOE Group. In view of the above estimation of purchases amount made by the executive Directors, we have obtained the analysis of total sales and costs for the major TFT/TP modules in 2017 and we concur with the executive Directors that the basis adopted in estimating the abovementioned margin and ratios to be reasonable.

As disclosed in the section headed "Historical figures and proposed annual caps" in the "Letter from the Board" contained in the Circular, under the proposed annual caps for the Purchase Transactions for the three years ending 31 December 2021, the Company expects that the purchase of TFT panels, TFT modules and other products from the BOE Group will not be higher than 40% of the Group's total cost of inventories (which comprise carrying amount of inventories sold, write-down of inventories and reversal of write-down of inventories) for each of the three years ending 31 December 2021. Given that the Group is not committed on an exclusive basis under the Renewed Master Purchase Agreement, the Group is not obliged to source from the BOE Group and has access to independent suppliers.

Taking into account the aforesaid factors, the proposed annual caps in respect of the Purchase Transactions are set as follows:

	<b>Financial year ending 31 December</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Proposed annual caps for the			
Purchase Transactions	1,621	2,431	3,362

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered the basis on which the proposed annual caps are determined as described above, we are of the view that the proposed annual caps in respect of each of the Subcontracting Transactions and the Purchase Transactions for the three financial years ending 31 December 2021 are fair and reasonable so far as the Independent Shareholders are concerned.

### 5. Conditions of the continuing connected transactions

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

- (i) the proposed annual caps for the Subcontracting Transactions and the Purchase Transactions for each of the three financial years ending 31 December 2019, 2020 and 2021 will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the Subcontracting Transactions and the Purchase Transactions and confirm in the Company's annual report whether the Subcontracting Transactions and the Purchase Transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the Subcontracting Transactions and the Purchase Transactions and they must confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether anything has come to their attention that causes them to believe that the Subcontracting Transactions and the Purchase Transactions: (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Group if the Subcontracting Transactions and the Purchase Transactions involve the provision of goods or services by the Group; (c) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing the Subcontracting Transactions and the Purchase Transactions; and (d) have exceeded the proposed annual caps with respect to the Subcontracting Transactions and the Purchase Transactions;
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;
- (v) the Company must allow, and ensure that BOE allows, the auditors of the Company sufficient access to their records of the Subcontracting Transactions and the Purchase Transactions for the purpose of the auditors' reporting on the Subcontracting Transactions and the Purchase Transactions. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of each of the Subcontracting Transactions and the Purchase Transactions exceed the relevant proposed annual caps, or that there is any material amendment to the terms of (i) the Renewed Master Subcontracting Agreement; and (ii) the Renewed Master Purchase Agreement.

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

### OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (1) the Subcontracting Transactions and the Purchase Transactions are in the ordinary and usual course of business of the Group; (2) the terms of the CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (3) the entering into of the Subcontracting Transactions and the Purchase Transactions is in the interests of the Company and the Shareholders as a whole; and (4) the proposed annual caps in respect of each of the Subcontracting Transactions and the Purchase Transactions contemplated under the CCT Agreements for each of the three financial years ending 31 December 2019, 2020 and 2021 are fair and reasonable so far as the Independent Shareholders are concerned.

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

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

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

## 1. RESPONSIBILITY STATEMENT

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

## 2. DIRECTORS' INTERESTS

As at Latest Practicable Date, the interests and shorts positions of the Directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

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

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

## (a) (ii) Interests in shares of BOE (an associated corporation) (Note 1)

Name of Director	Capacity	Number of A shares in BOE held	Approximate percentage of the total issued share capital of BOE
Gao Wenbao	Personal Interest	90,700	0.0003%
Su Ning	Personal Interest	30,000	0.0001%
Yang Xiaoping	Personal Interest	121,200	0.0003%
Dong Xue	Personal Interest	355,400	0.0010%
Yuan Feng	Personal Interest	47,000	0.0001%

*Notes:*

1. BOE subscribed 400,000,000 shares, representing 54.41% of the issued share capital of the Company.
2. The above interests represent long positions.

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

As at the Latest Practicable Date, BOE(HK), a wholly-owned subsidiary of BOE, held 400,000,000 Shares, representing approximately 54.41% of the issued share capital of the Company. Mr. Gao Wenbao, an executive director, is the chief executive officer of Display and Sensor Business Group of BOE. Mr. Su Ning, an executive Director, is the general manager of the application business department of Beijing BOE Display Technology Co., Ltd., a subsidiary of BOE. Ms. Yang Xiaoping, a non-executive Director, is a vice president and a deputy financial controller of BOE, and a director or supervisor of a number of subsidiaries of BOE. Mr. Dong Xue, a non-executive Director, is a senior vice president and the chief technical officer for display panel business of BOE. Mr. Yuan Feng, a non-executive Director, is a vice president and the chief marketing officer of BOE.

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

### 3. DIRECTORS' SERVICE CONTRACTS

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

### 4. COMPETING INTERESTS

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

### 5. DIRECTORS' INTERESTS IN CONTRACT AND ASSETS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant to the business of the Group. As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2017, the date to which the latest published audited financial statements of the Company were made up.

### 6. MATERIAL ADVERSE CHANGES

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any other material adverse change in the financial or trading position of the Group since 31 December 2017, being the date of the latest published audited financial statements of the Group.

### 7. EXPERT AND CONSENT

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

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

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

As at the Latest Practicable Date, Somerley Capital Limited did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities which carry voting rights in any member of the Group.

As at the Latest Practicable Date, Somerley Capital Limited did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2017, the date to which the latest published audited financial statements of the Company were made up.

## **8. DOCUMENTS AVAILABLE FOR INSPECTION**

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

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

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## NOTICE OF SGM

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### **BOE VARITRONIX LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 710)**

#### **NOTICE OF SPECIAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the special general meeting of BOE Varitronix Limited (the “Company”) will be held at Units A – F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Thursday, 10 January 2019 at 10 a.m. for the following purposes:

#### **ORDINARY RESOLUTIONS**

1. **“THAT:**

- (a) the terms of the renewed master purchase agreement (the “Renewed Master Purchase Agreement”) (a copy of which is tabled at the meeting and marked “A” for identification purposes) dated 22 November 2018 entered into between the Company and BOE Technology Group Co., Ltd (“BOE”) and the Company’s execution and delivery thereof be and are hereby approved in all respects;
- (b) the transactions contemplated under the Renewed Master Purchase Agreement for the three years ending 31 December 2021 (the “Purchase Transactions”) and the Company’s entering into and implementation thereof from time to time thereunder and the latest terms governing the same be and are hereby approved in all respects;
- (c) the proposed annual caps as set out in the circular of the Company dated 22 December 2018 (the “Circular”) in respect of the Purchase Transactions for the three years ending 31 December 2021 be and are hereby approved in all respects; and
- (d) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute and deliver all such documents, instruments or agreements and to do all such other acts or things which he/she/they may in his/her/their absolute discretion consider necessary or desirable in connection with or incidental to any of the matters contemplated under the Purchase Transactions for the three years ending 31 December 2021 and/or the said annual caps.”

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## NOTICE OF SGM

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2. “**THAT:**

- (a) the terms of the renewed master subcontracting agreement (the “Renewed Master Subcontracting Agreement”) (a copy of which is tabled at the meeting and marked “B” for identification purposes) dated 22 November 2018 entered into between the Company and BOE and the Company’s execution and delivery thereof be and are hereby approved in all respects;
- (b) the transactions contemplated under the Renewed Master Subcontracting Agreement for the three years ending 31 December 2021 (the “Subcontracting Transactions”) and the Company’s entering into and implementation thereof from time to time thereunder and the latest terms governing the same be and are hereby approved in all respects;
- (c) the proposed annual caps as set out in the Circular in respect of the Subcontracting Transactions for the three years ending 31 December 2021 be and are hereby approved in all respects; and
- (d) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute and deliver all such documents, instruments or agreements and to do all such other acts or things which he/she/they may in his/her/their absolute discretion consider necessary or desirable in connection with or incidental to any of the matters contemplated under the Subcontracting Transactions for the three years ending 31 December 2021 and/or the said annual caps.”

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

Hong Kong, 22 December 2018

*Notes:*

- 1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- 2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- 3. To be valid, a proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the appointed time for holding the meeting or any adjourned meeting.
- 4. Whether or not you intend to attend and vote at the meeting, you are requested to complete and return the form of proxy. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.