THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Subscription or the Whitewash Waiver, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold all your shares in Varitronix International Limited, you should at once hand this circular and the accompanying form to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser.

VARITRONIX

VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

(1) SUBSCRIPTION OF NEW SHARES
(2) APPLICATION FOR WHITEWASH WAIVER
(3) SPECIAL DIVIDEND
(4) INCREASE IN AUTHORISED SHARE CAPITAL
(5) CAPITAL REDUCTION
AND
(6) NOTICE OF SPECIAL GENERAL MEETING

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

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 7 to 32 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on page 33 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 34 to 63 of this circular.

A notice convening the SGM to be held at Units A-F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Thursday, 21 April 2016 at 10:00 a.m. is set out on pages 139 to 141 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.

22 March 2016

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

"acting in concert"	has the same meaning as ascribed to it under the Takeovers Code
"Adjusted Closing Price"	the closing price per Share as quoted on the Stock Exchange on the relevant trading days, adjusted to reflect the effect of the Special Dividend and the Final Dividend (being the closing price of Shares on each relevant trading day less the Special Dividend of HK$1.35 per Share and the Final Dividend of HK$0.305 per Share)
"Announcement"	the announcement of the Company dated 16 February 2016 in connection with, among other things, the Subscription, the Whitewash Waiver and the Increase in Authorised Share Capital
"associate(s)"	has the same meaning as ascribed to it under the Takeovers Code
"Board"	the board of Directors
"BOE (HK)"	BOE Technology (HK) Limited, a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of the Subscriber
"Business Day"	a day (other than Saturday or Sunday or public holiday and days on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong) on which commercial banks in Hong Kong and the PRC are open for general business
"Bye-laws"	bye-laws of the Company
"Capital Reduction"	the proposed reduction of the entire amount standing to the credit of the Share Premium Account as at the Effective Date
"Company"	Varitronix International Limited (stock code: 710), a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange

"Companies Act"	Companies Act 1981 of Bermuda
"Completion"	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
"Completion Date"	the date falling on 7th Business Days after all of conditions precedent (save for conditions 3, 4, 5, 6, 7 and 10 – which shall remain fulfilled until Completion) set out in the section headed "Conditions of the Subscription" having been fulfilled (or, if applicable, waived), or any other date as agreed by the parties to the Subscription Agreement in writing
"connected person(s)"	has the same meaning as ascribed to it under the Listing Rules
"Contributed Surplus Account"	the contributed surplus account of the Company
"Deed of Undertakings"	the deed signed by Mr. Ko on 3 February 2016 under which Mr. Ko provided certain undertakings to the Subscriber
"Director(s)"	director(s) of the Company
"Effective Date"	the next business day immediately following (i) the date of passing the special resolution approving the Capital Reduction at the SGM or (ii) the date of compliance by the Company with section 46(2) of the Companies Act 1981 of Bermuda (whichever the later)
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Final Dividend"	the proposed final dividend of HK$0.305 per Share as set out in the final results announcement of the Company for the year ended 31 December 2015 dated 29 February 2016
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Increase in Authorised Share Capital"	the proposed increase in authorised share capital of the Company from HK$100,000,000 to HK$200,000,000 by the creation of an additional 400,000,000 new Shares
"Independent Board Committee"	an independent board committee of the Board, comprising all the independent non-executive Directors, namely Dr. Lo Wing Yan, William *J.P.*, Mr. Chau Shing Yim, David and Mr. Hou Ziqiang, to advise the Independent Shareholders in respect of the Subscription and the Whitewash Waiver, and as to voting
"Independent Financial Adviser"	Somerley Capital Limited, a licensed corporation by the SFC to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Independent Shareholders"	as regards the Subscription and the Whitewash Waiver, Shareholders other than the Subscriber, BOE (HK), and parties acting in concert with any of them, Mr. Ko, Ms. Ko Wing Yan, Samantha and their respective associates and parties acting in concert with any of them, and other Shareholders who are interested or involved in the Subscription and/or the Whitewash Waiver
"Last Trading Day"	3 February 2016, being the last trading day of the Shares immediately prior to the date of the Announcement
"Latest Practicable Date"	18 March 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information therein
"LCD"	liquid crystal display
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Long Stop Date"	30 September 2016 (or such other date as may be agreed by the parties to the Subscription Agreement in writing)

"Management Accounts Date"	the month end date preceding the date on which conditions set out in paragraphs 1, 2, 8, 9 and 11 under the section headed "Conditions of the Subscription" having been satisfied or waived, provided that conditions set out in paragraphs 3, 4, 5, 6, 7 and 10 under the section headed "Conditions of the Subscription" have not been violated
"Mr. Ko"	Mr. Ko Chun Shun, Johnson
"Optionholder(s)"	holder(s) of Share Option(s)
"PRC"	the People's Republic of China (which for the purpose of the Subscription Agreement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan)
"Relevant Period"	the period commencing 3 August 2015, being the date falling 6 months before the date of the Rule 3.7 Announcement, up to and including the Latest Practicable Date
"Rule 3.7 Announcement"	the announcement of the Company dated 3 February 2016 made pursuant to Rule 3.7 of the Takeovers Code and Rule 13.09 of the Listing Rules regarding the Subscription
"SFC"	the Securities and Futures Commission of Hong Kong
"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, 21 April 2016 at 10:00 a.m. for the Shareholders to consider and, if thought fit, approve, among others, the Subscription, the Whitewash Waiver, the Special Dividend, the Increase in Authorised Share Capital and the Capital Reduction
"Share(s)"	the ordinary share(s) of HK$0.25 each in the share capital of the Company

"Share Option(s)"	share options to subscribe for an aggregate of 12,030,000 Shares which remained outstanding as at the Latest Practicable Date that were granted by the Company pursuant to its share option schemes adopted on 12 May 2003 and 3 June 2013
"Share Premium Account"	the share premium account of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Special Dividend"	the proposed special cash dividend of HK$1.35 per Share to be declared and distributed by the Company subject to Completion to the Shareholders whose names appear on the register of members of the Company on Friday 17 June 2016 (where the Subscriber has agreed under the Subscription Agreement to waive its entitlement to the Special Dividend)
"Specific Mandate"	the specific mandate to be granted by the Independent Shareholders to the Board at the SGM for the allotment and issue of the Subscription Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	BOE Technology Group Co., Ltd. (京東方科技集團股份有限公司), a joint stock company established in the PRC and the issued shares of which are listed on the Shenzhen Stock Exchange with stock code 000725 for its A shares and stock code 200725 for its B shares
"Subscriber Group"	the Subscriber and its subsidiaries
"Subscription"	the subscription of the Subscription Shares under the Subscription Agreement
"Subscription Agreement"	the subscription agreement entered into between the Company and the Subscriber dated 3 February 2016 in respect of the Subscription
"Subscription Price"	HK$3.50 per Subscription Share
"Subscription Shares"	400,000,000 new Shares to be subscribed by BOE (HK) and issued by the Company under the Subscription Agreement

"Takeovers Code"	the Code on Takeovers and Mergers issued by the SFC as amended from time to time
"TFT"	thin film transistor
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of BOE (HK) to make a mandatory general offer for all of the Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber, BOE (HK) and parties acting in concert with any of them which would otherwise arise as a result of Completion
"%"	percentage

VARITRONIX

VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

Directors:

Executive Directors:
Mr. Ko Chun Shun, Johnson *(Chairman)*
Ms. Ko Wing Yan, Samantha
Mr. Ho Te Hwai, Cecil

Independent Non-executive Directors:
Dr. Lo Wing Yan, William *J.P.*
Mr. Chau Shing Yim, David
Mr. Hou Ziqiang

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business:
Units A – F, 35/F
Legend Tower
No. 7 Shing Yip Street
Kwun Tong
Kowloon
Hong Kong

22 March 2016

To the Shareholders

Dear Sir or Madam,

(1) SUBSCRIPTION OF NEW SHARES
(2) APPLICATION FOR WHITEWASH WAIVER
(3) SPECIAL DIVIDEND
(4) INCREASE IN AUTHORISED SHARE CAPITAL
(5) CAPITAL REDUCTION
AND
(6) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement, in which the Board announced that on 3 February 2016 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement pursuant to which, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for (or procure subscription by its wholly-owned subsidiary), a total of 400,000,000 Subscription Shares at an issue price of HK$3.50 per Subscription Share.

Reference is made to the announcement of the Company dated 18 March 2016 in respect of the Capital Reduction.

The purpose of this circular is to give you, among other things, (i) information of the Subscription, the Whitewash Waiver, the Special Dividend, the Increase in Authorised Share Capital and the Capital Reduction; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; (iv) the notice of the SGM; and (v) other information as required under the Listing Rules and/or the Takeovers Code.

THE SUBSCRIPTION AGREEMENT

Date	:	3 February 2016 (after trading hours)
Issuer	:	The Company
Subscriber	:	BOE Technology Group Co., Ltd (itself or through its wholly-owned subsidiary)

As at the Latest Practicable Date, the Subscriber had nominated its wholly-owned subsidiary, BOE Technology (HK) Limited, to subscribe for the Subscription Shares.

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

The Subscription Shares

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

The Subscription Price

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

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber after taking into account the Special Dividend of HK$1.35 per Share to be declared and distributed, the market price of the Shares, the consolidated net asset value per Share and the prospect of the Group's existing business, the undertakings as detailed in the section headed "Undertakings by the Subscriber", as well as the anticipated strategic value to be brought to the Company by the Subscriber. The Subscriber undertakes that after Completion, as long as the Subscriber or its affiliates holds 30% or more of the issued Shares, the Group shall be the Subscriber's sole development, manufacturing and distribution platform of automotive display module and system business, including but not limited to vehicle networking, automotive displays and electronic systems as soon as possible (provided that the Subscriber shall ensure the Subscriber Group's existing agreements or orders in relation to the aforesaid are completed within 12 months after the Completion Date, or shall implement all necessary arrangements to comply with the above non-competition undertaking). The adjusted consolidated net asset value (as at 30 June 2015) per Share (based on the total issued share capital of the Company as at the Latest Practicable Date) amounted to HK$4.59 (based on the consolidated net asset value (as at 30 June 2015) per Share (based on the total issued share capital of the Company as at the Latest Practicable Date) of approximately HK$5.94 less the Special Dividend). In connection with the Subscription Agreement, the Board will consider declaring the Special Dividend of HK$1.35 per Share. The Subscriber has agreed to waive its entitlement to the Special Dividend and accordingly it will not be paid any Special Dividend. As one of the conditions precedent to Completion, the unaudited net asset value (after deducting the Final Dividend, the Special Dividend (if any), remuneration of the relevant directors and supervisors and share option expenses (if any)) per Share as at the Management Accounts Date shall not be less than HK$4 (based on the number of issued Shares as at the Management Accounts Date).

The Subscription Price represents (i) a discount of approximately 33.71% to the closing price of HK$5.28 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 33.38% to the average closing price of approximately HK$5.254 per Share for the last ten consecutive trading days up to and including the Last Trading Day; (iii) a discount of approximately 36.01% to the closing price of HK$5.47 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (iv) a discount of approximately 39.15% to the consolidated net asset value (as at 31 December 2015) per Share (based on the total issued share capital of the Company as at the Latest Practicable Date) of approximately HK$5.752.

The Subscription Price, when compared to the Adjusted Closing Price (being the adjusted closing prices of the Shares after taking into account the effect of the Special Dividend and the Final Dividend), represents (i) a discount of approximately 3.45% to the Adjusted Closing Price of HK$3.625 per Share on the Last Trading Day; (ii) a discount of approximately 2.75% to the average Adjusted Closing Price of HK$3.599 per Share for the last ten consecutive trading days up to and including the Last Trading Day; (iii) a discount of approximately 8.26% to the Adjusted Closing Price of HK$3.815 per Share on the Latest Practicable Date; and (iv) a discount of approximately 14.579% to the adjusted consolidated net asset value (as at 31 December 2015) per Share (based on the total issued share capital of the Company as at the Latest Practicable Date) of approximately HK$4.097 (based on the consolidated net asset value (as at 31 December 2015) per Share (based on the total issued share capital of the Company as at the Latest Practicable Date) of approximately HK$5.752 less the Special Dividend and the Final Dividend).

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

Notwithstanding the discount of the Subscription Price to the prevailing market prices of the Share and the potential dilution impact of the Subscription as set out in the section headed "Effect on shareholding structure below", in view of the potential benefits and synergies as a result of the Subscription and having considered the terms of the Subscription Agreement, 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 Subscription are fair and reasonable, and the Subscription is in the interests of the Company and the Shareholders as a whole.

Mandate for the issue of the Subscription Shares

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

Ranking

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

Listing application

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

Conditions of the Subscription

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

1. all necessary approvals for the Subscription, the Whitewash Waiver and the transactions contemplated under the Subscription Agreement required under the Bye-laws, the applicable laws, the Listing Rules, the Takeovers Code and all other requisite approvals having been obtained, including:

   (a) the passing of resolutions by the Shareholders or Independent Shareholders (as the case may be) in the SGM in accordance with the requirements of the relevant laws and regulations (including the Listing Rules and the Takeovers Code) approving, among other things:

      (i) the increase in authorised share capital of the Company to 800,000,000 Shares;

      (ii) the Specific Mandate for the allotment and issue of the Subscription Shares, the Subscription and the transactions contemplated under the Subscription Agreement;

(iii) the Subscription and the Whitewash Waiver;

(iv) the payment of the Special Dividend; and

(v) (in the event the Company does not have sufficient distributable reserves under Bermuda law to declare and pay the Special Dividend and/or the Final Dividend (if any)) the Capital Reduction such that the Company has sufficient distributable reserves to declare and pay the Special Dividend and/or the Final Dividend (if any);

(b) the grant of the approval for the listing of, and permission to deal in the Subscription Shares by the Listing Committee of the Stock Exchange and such approval not having been withdrawn;

2. all necessary third party approvals and consents required for the Subscription Agreement and the transactions contemplated thereunder having been obtained;

3. the warranties given by the Company under the Subscription Agreement remaining true, accurate, complete, or to the extent that any of such warranties is untrue, inaccurate or incomplete, the Group's business, operation, business performance, financial position or prospects or the Group's ability to complete the transactions contemplated under the Subscription Agreement have not been materially affected on the Completion Date;

4. the Company having performed all of its obligations under the Subscription Agreement and the representations and undertakings of the Company not having been breached in any material respect on or before the Completion Date;

5. there being no event having a material adverse effect on the Group from the date of the Subscription Agreement to the Completion Date;

6. no injunction, interim or otherwise, having been granted by any authority in respect of the Company which would prohibit the Company from entering into and perform its obligations under the Subscription Agreement;

7. the warranties given by the Subscriber under the Subscription Agreement remaining true, accurate, complete, or to the extent that such warranties are untrue, inaccurate or incomplete, the ability of the Subscriber to complete the transactions contemplated under the Subscription Agreement has not been materially affected on the Completion Date;

8. the Subscriber having obtained all relevant approvals and authorisations required for the Subscription Agreement and the transactions contemplated thereunder;

9. the SFC having granted the Whitewash Waiver;

10. the listing of the Shares not having been cancelled, the Shares continuing to be listed and traded on the Stock Exchange on or before the Completion Date (except for temporary suspension of trading pending the issue of an announcement in connection with the Subscription Agreement) and neither the Stock Exchange nor the SFC having indicated that it will or may object the continued listing of the Shares on the Stock Exchange as a result of the Subscription Agreement and the transactions contemplated thereunder;

11. the Board having declared and approved the Special Dividend in accordance with the Bermuda Law, the Bye-laws and the Listing Rules; and

12. the unaudited net asset value (after deducting Final Dividend (if any), Special Dividend (if any), remuneration of the relevant directors and supervisors and share option expenses, if any) per Share as at the Management Accounts Date is not less than HK$4 (based on the number of Shares in issue as at the Management Accounts Date).

The Subscriber may at any time by notice in writing to the Company waive any of the conditions set out in paragraphs 1(a)(iii), 2, 3, 4, 5, 9, 10 and 12 above. The Company may at any time by notice in writing to the Subscriber waive the condition set out in paragraph 7 above. As at the Latest Practicable Date, none of the Company and the Subscriber had any intention to waive any of the conditions precedent save that the Subscriber reserves its rights to waive the conditions set out in the paragraphs 1(a)(iii) and 9. The other conditions cannot be waived by the Company or the Subscriber. If conditions set out in paragraphs 1(a)(iii) and 9 are waived by the Subscriber and the parties to the Subscription Agreement proceed to Completion, BOE (HK) will be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by Subscriber, BOE (HK) or parties acting in concert with any of them under Rule 26.1 of the Takeovers Code as a result of the Subscription.

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

As at the Latest Practicable Date, none of the conditions precedent had been fulfilled.

Completion

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

As set out in the section headed "Undertakings by the Subscriber" below, the Subscriber shall waive its rights in respect of the Special Dividend and the Final Dividend, if any, and the Subscriber agrees to the proposed declaration and distribution of any Final Dividend. If Completion takes place before the record date of the Final Dividend, no Final Dividend will be paid to the Subscriber.

Undertakings by Mr. Ko

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

(a) Mr. Ko shall not in any region either independently or jointly with or on behalf of any other person (whether in the capacity of a direct or indirect controlling shareholder, director, partner, agent or otherwise) operates, conducts, participates in the business that the Group operates at Completion, including but not limited to the automotive LCD module business anytime within 3 years after the Completion Date; and

(b) Mr. Ko shall not, and Mr. Ko shall procure his affiliates not to, starting from the date of the Subscription Agreement until 6 months after the Completion Date, directly or indirectly, including by or through his affiliates, offer, sell, grant any option or right to purchase, lend or otherwise transfer or dispose of, whether directly or indirectly, 54,651,000 Shares held by Mr. Ko, Rockstead Technology Limited or Omnicorp Limited, or enter into any agreement in relation to any of the above.

Undertakings by the Subscriber

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

(a) the Subscriber shall waive its rights in respect of the Special Dividend and the Final Dividend, if any, and the Subscriber agrees to the proposed declaration and distribution of any Final Dividend;

(b) (i) the Subscriber shall not, and the Subscriber shall procure its affiliates not to, during the period of 12 months commencing on the Completion Date, directly or indirectly, including by or through its affiliates, offer, sell, grant any option or right to purchase, lend or otherwise transfer or dispose of (save for pledge), whether directly or indirectly, any Subscription Shares, or enter into any agreement in relation to any of the above; and

(ii) the Subscriber shall not, and the Subscriber shall procure its affiliates not to, during the period from the 13th month after the Completion Date to the expiry of the third anniversary, directly or indirectly, including by or through its affiliates, offer, sell, grant any option or right to purchase, lend or otherwise transfer or dispose of (save for pledge), whether directly or indirectly, any Subscription Shares, or enter into any agreement in relation to any of the above, such that the Subscriber or its affiliates holds less than 30% of the issued Shares.

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

(c) provided that the Subscriber or its affiliates holds 30% or more of the issued Shares, except for having consent of the Company,

(i) the Subscriber shall not in any region either independently or jointly with or on behalf of any other person (whether in the capacity a direct or indirect controlling shareholder, director, partner, agent or otherwise) operates, conducts, participates in the same automotive LCD module business as conducted by the Group, except for the execution of the agreements or orders already signed by the Subscriber or its subsidiaries (provided that the Subscriber shall ensure such agreements or orders are completed within 12 months after the Completion Date, or shall implement all necessary arrangements to comply with the above non-competition undertaking); and

(ii) as soon as possible, the Company shall become the Subscriber's sole development, manufacturing and distribution platform of automotive display module and system business (including but not limited to vehicle networking, automotive display and electronic system); and

(d) provided that the Subscriber or its affiliates holds not less than 30% of the issued Shares, the Subscriber shall regard the Group as its strategic customer, and, under the same conditions, shall supply the Group panel products with priority at the most favorable market price (the quantity and the price shall be subject to separate agreements to be entered into by both parties). For the avoidance of doubt, the Group is not required to purchase panel products from the Subscriber on an exclusive basis.

Board composition

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

Mr. Ko and Mr. Ho Te Hwai, Cecil will resign and Ms. Ko Wing Yan, Samantha shall remain an executive Director and is proposing to be as a co-chief executive officer together with another co-chief executive officer to be nominated by the Subscriber upon Completion.

The Subscriber had yet to nominate any candidate to be appointed as a Director as at the Latest Practicable Date. The Company will make further announcement in compliance with Rule 13.51(2) of the Listing Rules upon any appointment of a Director.

INFORMATION ON THE GROUP

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

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

The Group has two major business segments – the automotive display business and industrial display business. It offers a range of LCD products, including monochrome character/graphics LCD modules and thin film transistor (“TFT”) modules. A “panel” generally refers a glass display board and is a major component for the manufacturing of “module” and a “module” generally refers a unit comprises, among others, a panel, backlight and integrated circuits. The Group is a prominent monochrome display module manufacturer in the automotive segment. Apart from automotive, there are some other applications of the Group’s TFT modules, such as industrial and medical sectors. Most of the existing customers of the Group’s TFT module business are automotive companies and some of them are also customers of the Group’s monochrome business.

As set out in the final results announcement of the Company for the year ended 31 December 2015, the Group’s automotive display business and industrial display business generated revenue of approximately HK$1,668 million and approximately HK$820 million for the year ended 31 December 2015, representing approximately 67% and approximately 33% of the Group’s total revenue, respectively.

Currently, the Group’s major display technology is mainly monochrome, accounting for approximately 90% of the Group’s total revenue for the year ended 31 December 2015. The Group’s revenue of TFT products amounted to approximately HK$116 million, approximately HK$158 million and approximately HK$218 million for the year ended 31 December 2013, 2014 and 2015 respectively, representing a compound annual growth rate of approximately 37.1%. Whilst the Group’s revenue of TFT modules accounted for approximately 4.5%, approximately 6.0% and approximately 8.8% of the Group’s total revenue for the year ended 31 December 2013, 2014 and 2015 respectively, the Board considers that the Company has successfully been growing its TFT module business and has achieved significant annual sales amounts.

INFORMATION ON THE SUBSCRIBER

According to the Subscriber, (i) it was founded in April 1993 and the issued shares of which are listed on the Shenzhen Stock Exchange; (ii) it is a supplier of semiconductor display technologies, products and services; and (iii) its products are widely used in a broad spectrum of applications such as mobile phones, tablets, notebooks, monitors, TVs, vehicle displays and digital information displays.

According to the Subscriber, the Subscriber is one of the major suppliers of TFT displays in the global market. It also has production lines for manufacturing TFT modules mainly for consumer products like phones, tablets, notebook computers, monitors, TVs and is planning to tap into automotive TFT module business.

BOE (HK) is a wholly-owned subsidiary of the Subscriber and is principally engaged in trading business.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

Background of and reasons for the Subscription

1. Strong growing market demand for TFT products

More high-end vehicle models and other new automobile models like electric cars are using and expected to use coloured displays (including TFT displays) instead of monochrome LCD displays. The Company is of the view that monochrome display business provides a stable prospect but it has limited growth opportunity. The Company considers that the increasing usage of coloured display products is the global development trend of the display market. Given this shifting trend, the Company considers that with a view to achieving continued growth, it is a strategy for the Group to quickly further develop and expand the Group's TFT product line segment by capitalizing on the Group's product and market position in monochrome displays.

The Group has been actively developing its TFT module business since around 2010. In 2010, the Group recruited a team of TFT research and development staff of approximately 10 people and successfully obtained orders from its first TFT module customer. In 2011, the Group converted certain production lines from manufacturing monochrome products into manufacturing TFT products and has commenced production of TFT modules since then. The Group commenced to construct a new factory in 2011 with new production lines to boost production capacity and product quality to use for, among others, the Group's TFT module development and/or future expansion. The construction of the new factory was completed and the new production lines started operation in phases in 2013. Since completion of the new factory and the new production lines, the Group has been acquiring new TFT facilities in maintaining its competitiveness in the industry. The Group has approximately 80, 190 and 220 workers for its TFT module division as at 31 December 2013, 2014 and 2015 respectively. Currently, the Group has already established production facilities of TFT modules with a total area of approximately 2,500 m^2 and approximately 210 workers, and has been planning for expanding its automotive TFT module business.

As set out in the Chairman's statement of the annual report of the Company in 2010, the Group has been integrating internal resources and strengthening the sourcing of raw materials so as to increase its competitiveness and develop new business opportunities for high-end TFT products. The Company considers that it is very important for the Group to be able to capitalise on this foundation and expedite the further development and expansion of this growing market segment.

2. Development strategy of having a strong upstream support

In order to successfully roll out the TFT product line development strategy, the Company considers that it is important to have a strong upstream support in TFT panel research and supply. The manufacturing facilities, continuing upgrade, and research and development of TFT panel supply would require a substantial stream of capital expenditure which, as magnified by the rapid development of the TFT display products, makes the Company consider that it is most appropriate and cost effective to cooperate with a major TFT panel supplier like the Subscriber Group, instead of developing its own TFT panel production capacity which would essentially require the Group to reinvest a very substantial amount of any profit that it may earn from this development. The Group does not have a production line for TFT panels and has been sourcing TFT panels from various TFT panel suppliers including, among others, the Subscriber Group. As set out in the final results announcement of the Company for the year ended 31 December 2015, the Group is planning to collaborate with a strategic business partner (i.e. the Subscriber) to expand the TFT module business.

According to the Subscriber, whilst the Subscriber Group has strong TFT panel manufacturing capacity and capabilities, it is mainly consumer goods focused and its knowledge and experience in developing clientele in the automotive segment is in relatively early stage. The automotive TFT module products are designed according to customers' specific requirements and require specific modular assembly technologies, stringent product quality control, etc. Having 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. Further, the Group has established a stable customer network. The Group's product quality and after-sales services have been recognised by customers.

In addition to a strong upstream supply support, through cooperating with the Subscriber, the Company considers that the strong TFT panel research support from the Subscriber Group will help complement the Group's expertise in developing technology advance and up-to-date products for the automotive market. Having the Subscriber as the holding company and a strategic partner, the Company hopes to gain steady and continuing support not only in panel supply, but also in the capability to provide tailor-made panel designs to meet customers' special requests, and to eventually broaden the TFT product lines. In addition, the Company aims to gain a greater control of the cost of materials and benefit from a synergistic effect in material procurement if the strategic partner possesses an extensive electronics component production base. Moreover, both the Group and the Subscriber Group may source components from a number of same suppliers, the Company expects that the Group may be able to obtain economy of scale when aggregating the purchase with the Subscriber Group.

3. Relationship with the Subscriber

The Company has also been looking for an appropriate business partner to support its TFT panel supply for the Group's expansion plan. In November 2015, the top management of the Company and the Subscriber met and discussed any business cooperation opportunities with a view to further expanding the TFT module business of the Group in the future. In December 2015, the Subscriber suggested to form a strategic relationship by way of a subscription of new Shares. The Company and the Subscriber then negotiated and discussed the terms of the possible Subscription. The Company and the Subscriber entered into the Subscription Agreement on 3 February 2016.

Benefits of the Subscription

1. *The Group becoming the flagship of the Subscriber Group in the automotive market*

Upon Completion, the Subscriber will become the controlling Shareholder of the Company. Subject to the terms of the Subscription Agreement as set out in paragraph (c) of the section headed "Undertakings by the Subscriber" above, the Subscriber has undertaken that after Completion, as long as the Subscriber or its affiliates holds 30% or more of the issued Shares, the Group shall become the Subscriber's sole development, manufacturing and distribution platform of automotive display module and system business, including but not limited to vehicle networking, automotive displays and electronic systems as soon as possible (provided that the Subscriber shall ensure the Subscriber Group's existing agreements or orders in relation to the aforesaid are completed within 12 months after the Completion Date, or shall implement all necessary arrangements to comply with the above non-competition undertaking). Apart from TFT display, organic light-emitting diode ("OLED") offers another colour display solution. The Subscriber Group is making OLED panels for consumer products. In future, it is expected that the Subscriber Group will produce OLED panels and the Group will produce OLED display modules. This will also give the Group another good business opportunity.

The Subscriber Group has also established certain production lines for the manufacture of TFT modules. The Company may consider acquiring those production lines for manufacturing TFT modules which may be used to produce TFT modules for automotive from the Subscriber subject to further assessment after Completion. The Company is of the view that the timing for the purchase of the production lines will depend on, among other things, the utilization of the Group's existing TFT module manufacturing facilities following Completion and expects that the Group will purchase the production lines (if materialized) during the first half of 2017. If the Company decides to purchase the production lines from the Subscriber, such purchase may constitute a notifiable and/or connected transaction for the Company. The Company intends to fund the purchase of the production lines by the proceeds from the Subscription as set out in the section headed "Use of proceeds" below. The Company will comply with all relevant Listing Rules as and when appropriate.

Given the severe competition in the TFT display market and the Group's existing resources, the Company considers that establishing a strategic relationship with the Subscriber Group offers the most appropriate development blueprint for the Group's TFT display business which in turn would give the Group a great opportunity to achieve a satisfactory growth in the next few years.

2. *Strong supply chain support from the Subscriber Group*

According to the Subscriber, the Subscriber Group is a leading supplier of TFT panels. The Company considers that the Subscription will establish a strategic relationship with the Subscriber to quickly further expand its TFT module business whilst maintaining a stable development of the Group's monochrome business. The strategic relationship between the Group and the Subscriber will enhance the Group's competitiveness in the TFT panel supply chain. After Completion, the Company shall continue to purchase TFT panels from other suppliers based on the Group's business needs from time to time. Purchases from the Subscriber will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

3. Substantial funding for business expansion

The Company considers that to develop the TFT module business, substantial financing to support various operating expenses such as purchase of materials, increased manufacturing overheads, product marketing and research development is required. As set out in the section headed "Use of Proceeds" in this letter from the Board, the Subscription will provide sufficient funding to support the proposed development in the next few years.

As set out in the preceding paragraphs, the reason for the Subscription is for raising sufficient fund necessary for the expansion of the Group's existing principal business. The Company believes that the Subscriber is a prominent TFT panel supplier, the strategic relationship with the Subscriber through the Subscription will give the Group a competitive advantage in panel sourcing and thus help expedite the growth of its TFT module business. Other financing methods such as debts and rights issue will not provide the Group with such competitive advantage for the future development of the Group's TFT module business. As such, the Company considers that the Subscription is the most appropriate means to the Group to raise additional funds and at the same time help the expansion of the Group's business.

4. Enhanced management team

The existing senior management team of the Group has accumulated valuable experience and knowledge in serving international automotive companies and meeting their product requirements and demands. The Company believes that this has placed the Group in a good position to successfully expand its automotive TFT module business. Pursuant to the Subscription Agreement, the Company undertakes to the Subscriber, among other things, that the Company (i) shall use its best endeavour to ensure the stability of its key employee team; and (ii) shall not encourage and procure resignation of those key employees. On the other hand, the Subscriber Group has established a management and working team which are very experienced in TFT panel business and product development who have also established business relationships with a number of automotive companies in the PRC. After Completion, it is expected that the management team of the Group will be further expanded and enhanced to lead this growing segment and at the same time maintain the Group's currently well established stable LCD monochrome business.

The use of TFT display has been a growing trend in the automotive and other industrial display market which provides growth opportunity in the display market. The Company believes that leveraging on (i) the Group's experience and expertise in display module design and manufacturing, its established business relationships with many international companies, including many leading automotive manufacturing companies, and its satisfactory after-sales service; and (ii) the market position of the Subscriber in TFT display design and manufacturing, and the established business relationships with many automotive manufacturing companies in the PRC, there is great synergy between the cooperation of the Group and the Subscriber in the automotive and industrial TFT module business.

Business strategy and model following Completion

1. Maintaining the currently well established LCD monochrome business

Despite the growing TFT module market, the Company considers that given monochrome displays with its reliable performance with power-saving benefits at a competitive selling price, there is still considerable demand for these displays in the mid-to-low end automotive sector and industrial applications. Whilst it is one of the Group's strategies to expand the TFT module business, the Group will continue to maintain and capitalise on its advantage in the monochrome automotive sector. In addition, the Group will explore more applications in the industrial area, so as to maintain the sales of monochrome displays. The Group will continue to carry out its existing monochrome LCD display and module business after Completion with an accelerated growing TFT module business.

2. Rapid development of the TFT module business

Following Completion, the Company intends to continue its existing principal business and to leverage on the manufacturing resources of the Subscriber Group to quickly expand its existing automotive TFT module manufacturing business segment in view of the market trends and opportunities. The Group will continue to focus on its expertise in the automotive sector and significantly expand into this area with the strong panel supply, China marketing and management supports of the Subscriber Group.

The Company expects that there would be no significant changes to the Group's existing TFT module business model and the Company would expand the Group's TFT module business on top of the Group's existing business model, such as increasing sale and purchases from existing customers and suppliers, increasing the number of customers, suppliers, production facilities and staffing, and improving capability and technology, etc. The Company would expect the capital injection from the Subscriber will also allow the Group to deploy much more resources in expanding the TFT module business, such as employing more workers, investing more in product design and research, etc.

Under the Subscription Agreement, the Subscriber shall regard the Group as its strategic customer, and shall supply the Group panel products with priority at the most favourable market price under the same conditions. The Group has been purchasing TFT panels from the Subscriber Group which amounted to approximately HK$3.7 million, approximately HK$6.7 million and approximately HK$7.4 million for the year ended 31 December 2013, 2014 and 2015, respectively, representing approximately 5.93%, approximately 13.06% and approximately 10.22% of the Group's purchase of TFT panels for the respective periods, and representing approximately 0.23%, approximately 0.47% and approximately 0.51% of the Group's total purchase for the respective periods. The Group may increase purchases of TFT panels from the Subscriber Group to enhance its competitiveness in the TFT module business given the favourable purchasing arrangement after Completion. As at the Latest Practicable Date, the Company and the Subscriber were still considering and negotiating the definitive terms of the ongoing purchases and the cap amount, and it is expected that the terms will be set by the end of April 2016. The Company will comply with all relevant Listing Rules as and when appropriate. Apart from the Subscriber, the Group has been purchasing and shall continue to purchase TFT panel products from a number of other independent suppliers based on the Group's business needs from time to time. The Group has not purchased monochrome panel products from the Subscriber and the Company does not anticipate any material change in this supply relationship after Completion. As such, the Company considers that the Group will not be facing unjustifiable risk of relying on the Subscriber for supplying TFT panels for its expanding TFT module business.

SPECIAL DIVIDEND

In connection to the Subscription, the Board will declare the Special Dividend of HK$1.35 per Share in view of the discount of the Subscription Price to the prevailing market prices of the Share and the net asset value per Share, by giving the Shareholders a cash dividend return. The Special Dividend is, among other things, conditional upon completion of the Subscription. Completion is conditional on, among other things, the Company declaring and the Shareholders approving the Special Dividend by way of an ordinary resolution at the SGM. No Special Dividend will be paid to the Subscriber as it has agreed to waive its entitlement. The Company will make further announcements with details including, among others, the timetable and the record date for the Special Dividend. If the Subscriber chooses to waive the condition of the Whitewash Waiver and Completion occurs and, accordingly, an offer is materialised, it is expected that (i) the record date of the Special Dividend and/or the Final Dividend will be a date falling before the period when the Shareholders may accept the offer then made by the Subscriber; and (ii) the Company will apply for a waiver from the general requirement to obtain shareholders' approval under Rule 4 of the Takeovers Code in connection with the Special Dividend and/or the Final Dividend if required under the Takeovers Code. If the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, and the Completion occurs, it is expected that the Special Dividend will be payable together with the Final Dividend on or around Friday, 8 July 2016 to the Shareholders whose names appear on the register of members of the Company on Friday, 17 June 2016 (or such other date as approved by the Board). If the Whitewash Waiver is not approved by the Independent Shareholders or otherwise not granted by the Executive, and if the condition of the Whitewash Waiver is not waived by the Subscriber, the Subscription will not complete and no Special Dividend will be paid. The working capital requirements for the Group's monochrome module business will be replenished by part of the proceeds from the Subscription.

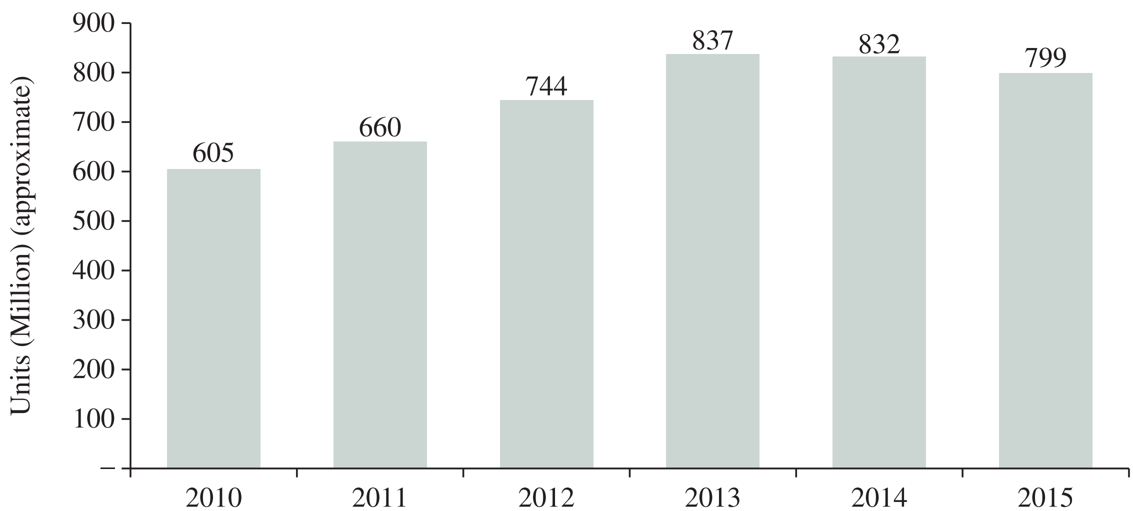
DIVIDEND POLICY

The Company's dividend payout ratio for the year ended 31 December 2013, 2014 and 2015 were approximately 67%, approximately 55% and approximately 50% respectively. The Company (after having discussion with the Subscriber) intends to maintain a stable dividend policy in future with a dividend payout ratio of not less than 30% following Completion. However, the determination to pay dividends in the future will be made at the discretion of the Board and will be based on the profits, cash flows, financial condition, capital requirements and other conditions that the Board deems relevant. The payment of dividends may be limited by legal restrictions and agreements that the Company may enter into in the future.

INDUSTRY OVERVIEW

LCDs are widely used in electronic products such as computer monitors, televisions, instrument panels, aircraft cockpit displays, and signage. They are common in consumer devices such as DVD players, gaming devices, clocks, watches, calculators, and telephones, and have replaced cathode ray tube displays in nearly all applications.

Below is the chart showing the amount of global shipment of LCD panels from 2010 to 2015:

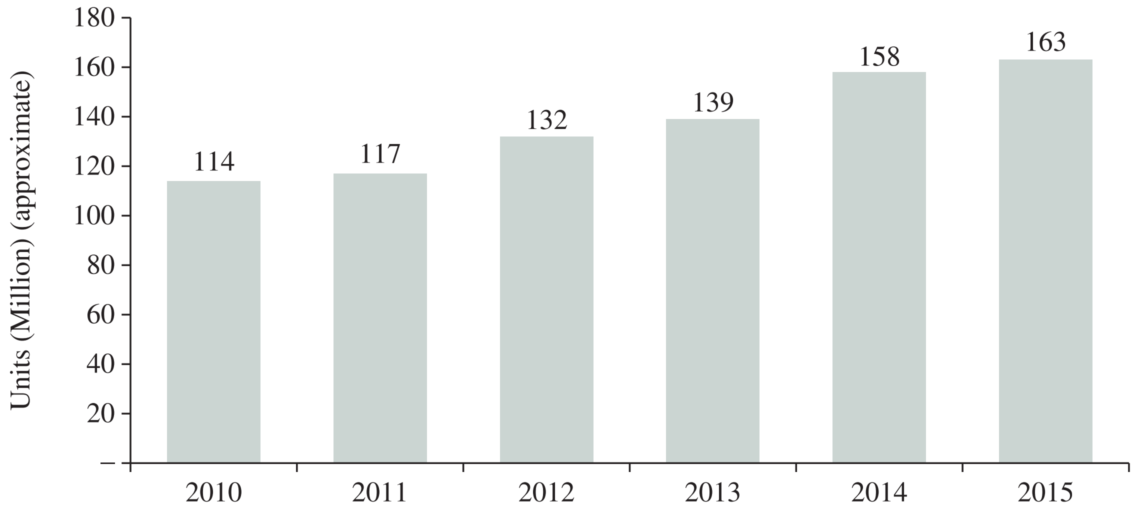


Source: Bloomberg

As shown in the chart above, the global shipment of LCD panels was approximately 799 million units for 2015, representing a slight drop of approximately 33 million units as compared with the number units for 2014. During 2010 to 2013, the shipment slightly increased from approximately 605 million for 2010 to approximately 837 million units for 2013, representing a compound annual growth rate of approximately 11.4%.

The thin-film transistor (TFT) LCD is a variant of LCD that uses thin-film transistor technology to improve qualities such as addressability and contrast. TFT LCDs form the display area for products such as LCD TVs, desktop PCs, and mobile computing devices. TFT technology has been used in many products to enhance color, contrast, and picture quality. As TFT LCDs are available in a wide range of sizes, manufacturers prefer this technology in large displays with requirements for good color quality.

Below is the chart showing the annual global demand of TFT LCD panels from 2010 to 2015:

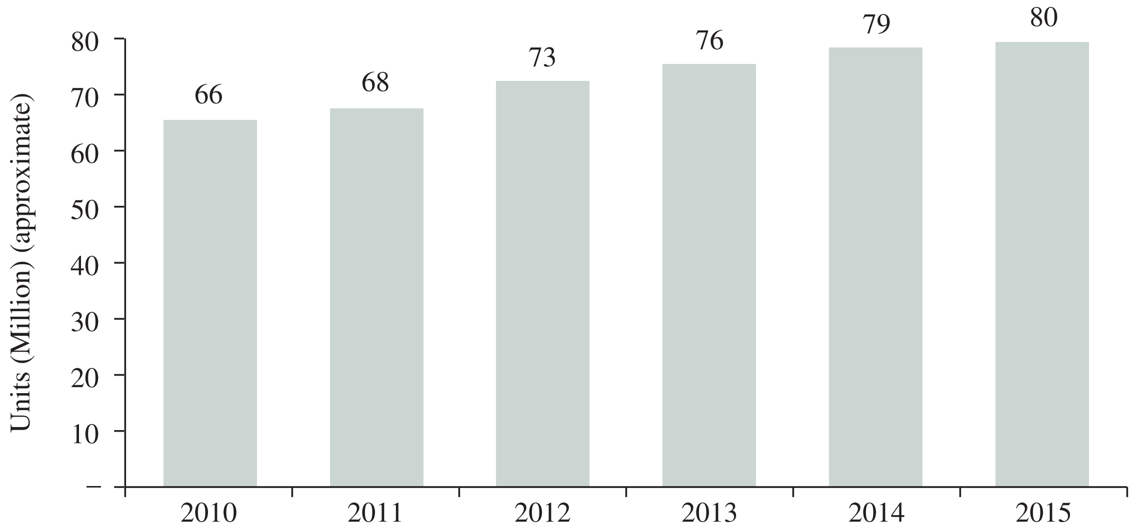


Source: Bloomberg

As shown in the chart above, the demand of TFT LCD panels was approximately 163 million for 2015. As shown in the chart above, the demand for TFT LCD panels increased from approximately 114 million units to approximately 163 million units from 2010 to 2015, representing a compound annual growth rate of approximately 7.4%.

In the high-end automotive sector, monochrome displays have been gradually replaced by TFT displays. On 31 March 2014, the National Highway Traffic Safety Administration of the United States (being an authority established by the Highway Safety Act of 1970) released a rule requiring rearview cameras to be installed in all new vehicles under 10,000 pounds by May 2018. As from January 2014, the European New Car Assessment Programme (being a European car safety performance assessment programme founded in 1997 for the Department of Transport in United Kingdoms and backed by European Union) gives credit in its rating scheme to vehicle manufacturers that equip their vehicles with forward collision warning and/or automatic braking technology. The aforesaid rule and assessment measure lead to more equipment/technology to be incorporated in vehicles and more automotive display products to be installed in the vehicles which may lead to the increase in the demand for LCD modules.

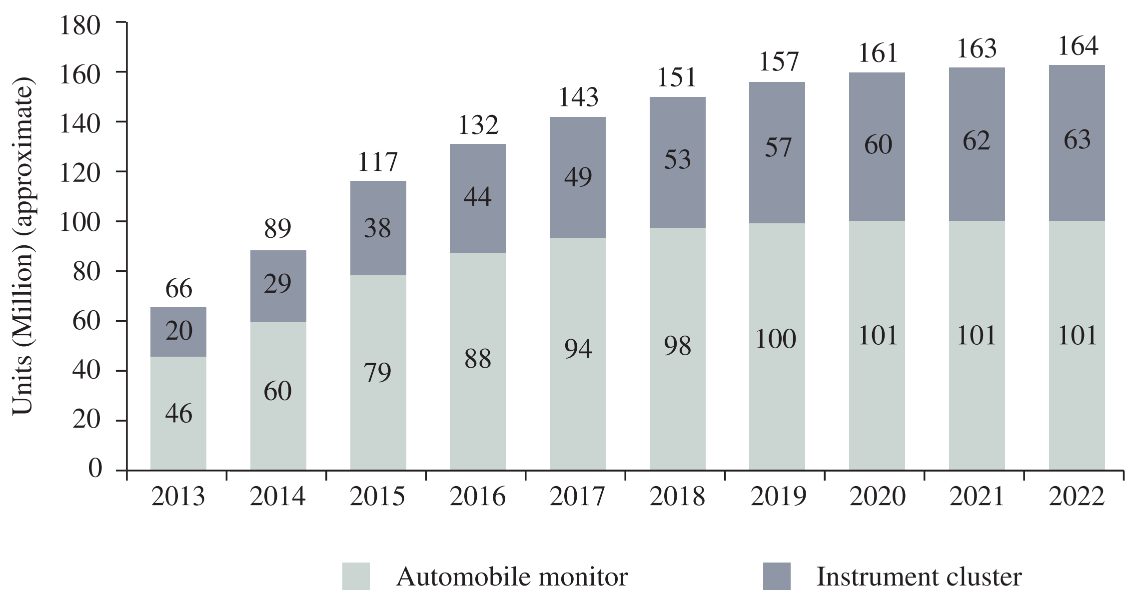
Below is the chart showing the annual global sale of vehicle from 2010 to 2015:



Source: Bloomberg

As shown in the chart above, the sale of vehicle increased from approximately 66 million units to approximately 80 million units from 2010 to 2015, representing a compound annual growth rate of approximately 3.9%.

Below is the chart showing the global shipment of the TFT LCD automotive displays by application from 2013 to 2022.



Source: IHS Inc.

As shown in the chart above, the global shipment of TFT LCD automotive displays increased from approximately 66 million units to approximately 117 million units from 2013 to 2015, representing a compound annual growth rate of approximately 33.1%. The global shipment of TFT LCD automotive displays is estimated to reach approximately 164 million units in 2022, representing a compound annual growth rate of approximately 4.9% from 2015 to 2022.

EFFECT ON SHAREHOLDING STRUCTURE

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

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

	As at the Latest Practicable Date		**Immediately upon Completion**		**Immediately upon Completion and the exercise in full of the outstanding Share Options**	
	Number of shares	*%*	*Number of shares*	*%*	*Number of shares*	*%*
The Subscriber *(Note 1)*	–	–	400,000,000	54.70%	400,000,000	53.82%
Directors						
Mr. Ko *(Note 2)*	54,651,000	16.50%	54,651,000	7.48%	58,551,000	7.88%
Ms. Ko Wing Yan, Samantha	247,000	0.07%	247,000	0.03%	2,247,000	0.30%
Mr. Ho Te Hwai, Cecil	250,000	0.08%	250,000	0.03%	2,200,000	0.30%
Dr. Lo Wing Yan, William *J.P.*	–	–	–	–	380,000	0.05%
Mr. Chau Shing Yim, David	–	–	–	–	460,000	0.06%
Mr. Hou Ziqiang	–	–	–	–	700,000	0.09%
Sub-total	55,148,000	16.65%	55,148,000	7.54%	64,538,000	8.68%
Existing public Shareholders	276,097,204	83.35%	276,097,204	37.76%	278,737,204	37.50%
Total	331,245,204	100.00%	731,245,204	100.00%	743,275,204	100.00%

Note:

1. As at the Latest Practicable Date, the Subscriber had nominated its wholly-owned subsidiary, BOE (HK), to subscribe for the Subscription Shares. Upon Completion, the Subscriber will own the Subscription Shares through BOE (HK).

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

DEALING AND INTEREST OF THE SUBSCRIBER, BOE (HK) AND PARTIES ACTING IN CONCERT WITH ANY OF THEM IN THE SECURITIES OF THE COMPANY

Save for the Subscription, BOE (HK) confirmed that, as at the Latest Practicable Date, neither it, nor, to the best knowledge of it having made all reasonable inquiries, any parties acting in concert with it:

(a) owned, controlled or had direction over any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives or outstanding derivatives in respect of securities in the Company, or held any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(b) had received an irrevocable commitment to vote for the Subscription and/or the Whitewash Waiver;

(c) had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(d) had any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or BOE (HK), which might be material to the Subscription and/or the Whitewash Waiver, with any other persons;

(e) had any agreement or arrangement to which it is a party which relates to the circumstances in which it might or might not invoke or sought to invoke a pre-condition or a condition to the Subscription and/or the Whitewash Waiver; or

(f) had dealt in Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into Shares, during the six months prior to the date of the Rule 3.7 Announcement.

FUTURE INTENTIONS OF THE SUBSCRIBER REGARDING THE GROUP

The Company and the Subscriber shall explore future business opportunities in automotive and industrial display business segments. As at the Latest Practicable Date, save for the framework relating to the future cooperation of TFT business segment set out in the Subscription Agreement as explained in the section headed "Reasons for and benefits of the Subscription" above, there was no agreement, definitive proposals or timetable that had been determined for any such possible future transaction or arrangement between the Group and the Subscriber, BOE (HK) and the parties acting in concert with any of them.

Save as disclosed above, as at the Latest Practicable Date, the Company, the Subscriber and BOE (HK) had expressed no intention to make any major changes to the continual employment of the employees of the Company and its subsidiaries, nor had they considered any redeployment of the fixed assets of the Company.

USE OF PROCEEDS

The gross proceeds and the net proceeds from the Subscription are HK$1,400 million and approximately HK$1,392 million (after deduction of professional fees and estimated expenses of approximately HK$8 million payable by the Group in connection with the Subscription) respectively. The Directors expect to use the net proceeds from the Subscription for the followings:

(i) approximately HK$992 million for expanding the Group's existing TFT module business, including (a) approximately HK$100 million in respect of the purchase of equipment and machinery for the assembly of TFT modules during the first half of 2017; and (b) approximately HK$892 million from June 2016 (assuming Completion takes place in May 2016) up to the first quarter of 2017 in respect of the development and expanding operation of the Group's TFT business segment, including:

- approximately HK$788 million for purchase of raw materials – to cope with the Group's expanding TFT module business, the Group shall require additional quantities of raw materials for its expansion of the automotive TFT module business which is the major item required for an increasing production level;

- approximately HK$41 million for manufacturing overheads – these mainly include direct labour costs, consumable goods and electricity charges, the Company expects that these expenditures shall increase in line with the expansion of the automotive TFT module business;

- approximately HK$17 million for research and development – as a result of the expansion of the Group's automotive TFT module business, the Company expects that it shall enhance its existing automotive TFT products and develop new automotive TFT products to maintain its competitiveness in the market; and

- approximately HK$46 million for selling and administrative costs – these mainly include staff costs for marketing and administrative staff, freight charges and operating lease charges, the Company expects that these expenditures shall increase in line with the expansion of the automotive TFT module business; and

(ii) approximately HK$400 million for working capital for the Group's existing monochrome manufacturing operations after the Special Dividend amounting a total cash payment of approximately HK$447.2 million (based on the number of Shares in issue as at the Latest Practicable Date).

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

Based on the preliminary assessment of the Company, the Group will have sufficient working capital for the next 12 months upon Completion and the Company had no plan for further equity fund raising activities as at the Latest Practicable Date.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

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

APPLICATION FOR WHITEWASH WAIVER

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

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

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

INCREASE IN AUTHORISED SHARE CAPITAL

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

CAPITAL REDUCTION

The Company is required under the Subscription Agreement to undertake to declare and pay the Special Dividend after Completion. In the event that the distributable reserve of the Company is insufficient to fund the proposed distribution of the Special Dividend or the Final Dividend, the Company is required under the Subscription Agreement as a condition precedent to implement the Capital Reduction by cancelling the entire amount standing to the credit of the Share Premium Account as at the Effective Date and transferring the credit arising from such cancellation to the Contributed Surplus Account or other account of the Company which may be utilised by the Directors as a distributable reserve in accordance with the Bye-laws and applicable laws in Bermuda.

The implementation of the Capital Reduction is conditional upon:

(i) the passing of a special resolution approving the Capital Reduction by the Shareholders at the SGM; and

(ii) compliance by the Company with section 46(2) of the Companies Act under the Companies Act 1981 of Bermuda.

Subject to the above conditions being fulfilled, the Capital Reduction is expected to become effective on the Effective Date. Upon the Capital Reduction becoming effective, the balance of the Share Premium Account will become nil.

As at 31 December 2015, the amount standing to the credit of the Share Premium Account was approximately HK$719,921,000, the amount standing to the credit of the Contributed Surplus Account was approximately HK$51,636,000, and the amount of retained earnings of the Company was approximately HK$814,855,000.

Other than the relevant expenses incurred, the implementation of the Capital Reduction will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Group or the interests of the Shareholders as a whole. The Board believes that the Capital Reduction alone will not have any material adverse effect on the financial position of the Company and that on the date the Capital Reduction is to become effective, there are no reasonable grounds for believing that the Company is, or after the Capital Reduction would be, unable to pay its liabilities as they become due. The Capital Reduction will not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any unpaid capital of the Company, nor will it result in any change in the relative rights of the Shareholders.

As at the Latest Practicable Date, the Company had certain Share Options to subscribe for 12,030,000 Shares. Assuming that all of the outstanding Share Options are exercised in full prior to the Effective Date, an additional 12,030,000 Shares will be in issue and an additional credit of approximately HK$54,116,000 will arise from the Capital Reduction. All such credit, if so arise, will be transferred to the Contributed Surplus Account or other account of the Company which may be utilised by the Directors as a distributable reserve in accordance with the Bye-laws and applicable laws in Bermuda.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Lo Wing Yan, William *J.P.*, Mr. Chau Shing Yim, David and Mr. Hou Ziqiang, has been established to give recommendation to the Independent Shareholders in respect of the Subscription and the Whitewash Waiver.

Somerley Capital Limited has been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to the Subscription and the Whitewash Waiver.

SGM

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, 21 April 2016 at 10:00 a.m. for the purposes of considering and, if thought fit, approving, among other things, the Subscription, the Whitewash Waiver, the Special Dividend, the Increase in Authorised Share Capital and the Capital Reduction. The voting in relation to the Subscription, the Whitewash Waiver, the Special Dividend, the Increase in Authorised Share Capital and the Capital Reduction at the SGM will be conducted by way of a poll.

As regards the Subscription and the Whitewash Waiver, the Subscriber, BOE (HK) and parties acting in concert with any of them, Mr. Ko, Ms. Ko Wing Yan, Samantha and their respective associates and parties acting in concert with any of them, and other Shareholders who are interested or involved in the Subscription and/or the Whitewash Waiver shall abstain from voting on the relevant resolutions to be proposed at the SGM to approve them.

As regards the Special Dividend, the Increase in Authorised Share Capital and the Capital Reduction, any Shareholders who have a material interest in the matters shall abstain from voting on the resolutions to be proposed at the SGM to approve them. None of the Shareholders had a material interest in the matters as at the Latest Practicable Date. Accordingly, no Shareholders will be required to abstain from voting at the SGM in respect of the resolutions relating to the matters.

As at the Latest Practicable Date, Mr. Ko (through Rockstead and Omnicorp, both of which are wholly owned by Mr. Ko) held 54,651,000 Shares, representing approximately 16.50% of the total issued share capital of the Company, and Ms. Ko Wing Yan, Samantha held 247,000 Shares, representing approximately 0.07% of the total issued share capital of the Company. The Subscriber, BOE (HK) and parties acting in concert with any of them did not hold any Shares as at the Latest Practicable Date.

A notice convening the SGM is set out on pages 139 to 141 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.

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 Subscription are fair and reasonable, and the Subscription and the Whitewash Waiver are 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 33 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 34 to 63 of this circular.

The Directors consider that the Special Dividend, the Increase in Authorised Share Capital and the Capital Reduction are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions.

ADDITIONAL INFORMATION

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

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

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

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

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

VARITRONIX

VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

22 March 2016

To the Independent Shareholders

Dear Sir or Madam,

**(1) SUBSCRIPTION OF NEW SHARES
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular of the Company dated 22 March 2016 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to advise you as to whether, in our opinion, (i) the terms of the Subscription Agreement and the Whitewash Waiver are fair and reasonable; (ii) the Subscription and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the ordinary resolutions to approve the Subscription and the Whitewash Waiver 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 34 to 63 of the Circular.

Having considered the terms of the Subscription Agreement, the Whitewash Waiver and the advice of the Independent Financial Adviser, we are of the opinion that the terms of the Subscription Agreement and the Whitewash Waiver are fair and reasonable, and the Subscription and the Whitewash Waiver 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

Lo Wing Yan, William **Chau Shing Yim, David** **Hou Ziqiang**

Independent non-executive Directors

The following is the text of a letter of advice from the Independent Financial Adviser, Somerley Capital Limited, 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 March 2016

To : the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

(1) SUBSCRIPTION OF NEW SHARES
AND
(2) APPLICATION FOR WHITEWASH WAIVER

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 Subscription pursuant to the Subscription Agreement; and (ii) the Whitewash Waiver. Details of the Subscription and the Whitewash Waiver are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 22 March 2016 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

As set out in the section headed "Application for Whitewash Waiver" of the "Letter from the Board" contained in the Circular, upon Completion, the Subscriber (through BOE (HK)) will be interested in approximately 54.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares between the Latest Practicable Date and Completion), and approximately 53.82% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming all Share Options are exercised in full and there is no change in the issued share capital of the Company other than the issue of the Subscription Shares between the Latest Practicable Date and Completion). Under Rule 26.1 of the Takeovers Code, upon Completion, BOE (HK) would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber, BOE (HK) and parties acting in concert with any of them unless the Whitewash Waiver is obtained from the Executive. In this regard, BOE (HK) has made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the SGM by way of a poll. If the Whitewash Waiver is not granted by the Executive or is not approved by the Independent Shareholders, the Subscription will not complete unless such condition is waived by the Subscriber which is at the Subscriber's sole discretion. If such condition is waived by the Subscriber and Completion occurs, BOE (HK) will be obliged to make a mandatory general offer for all issued Shares not already owned or agreed to be acquired by the Subscriber, BOE (HK) and parties acting in concert with any of them under Rule 26.1 of the Takeovers Code (the "Mandatory General Offer") as a result of the Subscription.

As regards the Subscription and the Whitewash Waiver, the Subscriber, BOE (HK) and parties acting in concert with any of them, Mr. Ko, Ms. Ko Wing Yan, Samantha and their respective associates and parties acting in concert with any of them, and other Shareholders who are interested or involved in the Subscription and/or the Whitewash Waiver shall abstain from voting on the relevant resolutions to be proposed at the SGM to approve them.

The Independent Board Committee comprising all of the three independent non-executive Directors, namely Dr. Lo Wing Yan, William *J.P.*, Mr. Chau Shing Yim, David and Mr. Hou Ziqiang, has been established to advise the Independent Shareholders on (1) whether the Whitewash Waiver, and the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned; (2) whether the Subscription and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (3) the voting action that should be taken by the Independent Shareholders at the SGM. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated or connected with the Company, the Subscriber, BOE (HK) or any of their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and accordingly, we are considered eligible to give independent advice to the Independent Board Committee and the Independent Shareholders on the Subscription Agreement and the Whitewash Waiver. Apart from normal professional fees payable to us in connection with our appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Subscriber, BOE (HK) or any of their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Circular; (ii) the annual results announcement of the Company for the year ended 31 December 2015 (the "2015 Final Results"); (iii) the announcements published by the Company on the website of the Stock Exchange since 1 January 2015; and (iv) the material change statement set out in Appendix I to the Circular. We have conducted site visits to (i) the Company's manufacturing facilities in Heyuan, Guangdong Province, PRC on 25 February 2016; and (ii) the Subscriber's TFT panel manufacturing facilities in Chengdu, PRC on 1 March 2016. We have relied on the information and facts supplied by the Company, and the opinions expressed by the Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Circular are true, accurate and complete as at the Latest Practicable Date. Independent Shareholders will be informed as soon as practicable if we become aware of any material change to such information. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided. We have, however, not conducted an in-depth independent investigation into the business and affairs of the Group, the Subscriber, BOE (HK) or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering (1) whether the Whitewash Waiver, and the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned; and (2) whether the Subscription and the Whitewash Waiver are 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:

BACKGROUND TO AND REASONS FOR THE SUBSCRIPTION

The Group is principally engaged in the design, manufacture and sale of small-to-medium sized automotive and other industrial display products worldwide and has monochrome display and various display modules manufacturing capacity. The Group is headquartered in Hong Kong with its principal production base located in Heyuan, Guangdong, the PRC. The Group has overseas sales offices throughout Asia, North America and Europe. The Group has two principal business segments, the automotive display business and the industrial display business which generated approximately 67% and 33% of the Group's total revenue respectively for the year ended 31 December 2015. Monochrome and TFT modules are two major product lines of the Group's principal display products, which can be found in, for example, dashboard and GPS navigation screens in automobiles, displays of other industrial machinery and medical instrument such as electricity meters, blood glucose meters and remote controls.

A "panel" generally refers to a glass display board and is a major component for the manufacturing of "module" and a "module" generally refers to a unit which comprises, among other components, a panel, backlight and integrated circuits. The Group's current major display technology, monochrome, accounted for approximately 90% of the Group's total revenue for the year ended 31 December 2015. Considering the reliable performance, power-saving benefits and competitive selling price of monochrome displays, the executive Directors consider there will continue to be steady demand for these displays mostly in the mid-to low end automotive sector and industrial applications, but they consider these products mature products, with limited growth opportunities.

TFT technology improves display qualities such as colour with faster response time. Consequently, the adoption of coloured TFT displays (instead of monochrome displays) by automotive customers has become common practice, particularly for high-end vehicle models. In response, the Group has been actively developing its TFT module business since around 2010. The Group commenced production of TFT modules in 2011 and has been investing more resources in the design, production and quality control of its TFT module manufacturing. As set out in the section headed "Financial information and prospects of the Group" of this letter below, the Group recorded revenue of TFT modules of approximately HK$218 million for the year ended 31 December 2015, representing approximately 8.8% of total revenue and an increase of approximately 38% as compared to 2014. The method of manufacturing a TFT module is similar to that of a monochrome module. However, manufacture of TFT panel (which is a component of a TFT module) requires different technology and very expensive machinery as compared to monochrome panel. It is only economic on very large scale.

The executive Directors consider that it would be in the interests of the Group to capture opportunities in the growing TFT module business, and to further enhance strategic cooperation with a substantial and reputable partner who could assist the Group to expedite expansion into this business. Considering the substantial capital expenditure required and currently the relatively small scale of its TFT module business, the Group has not set up a production line for TFT panels and does not consider it economic to do so in the near future. It currently sources TFT panels from various TFT panels suppliers including, among others, the Subscriber Group.

Upon Completion, the Subscriber will become the controlling Shareholder of the Company. As set out in the section headed "Information on the Subscriber" in the "Letter from the Board" contained in the Circular, the Subscriber, whose shares are listed on the Shenzhen Stock Exchange (stock code 000725 for its A shares and stock code 200725 for its B shares), is one of the major suppliers of TFT panels in the global market. The Subscriber's panel products are widely used in mobile phones, tablets, notebooks, monitors, TVs, vehicle displays and digital information displays. According to the Subscriber's 2015 third quarterly report, the Subscriber Group had unaudited consolidated total assets and net assets attributable to shareholders of approximately RMB147 billion and RMB78 billion respectively as at 30 September 2015. For the nine months ended 30 September 2015, the Subscriber Group recorded unaudited consolidated revenue of approximately RMB36 billion and net profit attributable to shareholders of approximately RMB2 billion. As set out in the same section of the Circular as mentioned above, the Subscriber has production lines for manufacturing TFT modules (including TFT panels) mainly for consumer products like phones, tablets, notebook computers, monitors and TVs and is planning to ramp up its automotive TFT module business. As set out in the section headed "Reasons for and benefits of the Subscription" in the "Letter from the Board" contained in the Circular, whilst the Subscriber Group has strong TFT panel manufacturing capacity and capabilities, it is mainly consumer goods focused and its knowledge and experience in developing clientele in the automotive segment is in relatively early stage.

Pursuant to the Subscription Agreement and as set out in the sub-section headed "Undertakings by the Subscriber" in the "Letter from the Board" contained in the Circular, the Subscriber has undertaken, among other things, that after Completion, as long as the Subscriber or its affiliates holds 30% or more of the issued Shares, the Company shall become the Subscriber's sole development, manufacturing and distribution platform of automotive display module and system business. Furthermore, under the Subscription Agreement, the Subscriber shall regard the Group as its strategic customer and shall under the same conditions such as those relating to product specification and quality, supply the Group panel products with priority at the most favourable market price. The executive Directors consider that the Subscriber is a highly suitable strategic partner for the Group. The Subscription will (a) bring in substantial funding for capital and operating expenditure required for further expansion of the Group's TFT module business; (b) further enhance the strategic relationship with the Subscriber; and (c) enable the Group to grasp business opportunities in the TFT module market whilst maintaining development of the Group's monochrome business. The market for TFT modules is competitive, and the executive Directors believe that the Subscription will enable the Group to a gain competitive advantage in TFT panel sourcing, and leverage on the market position of the Subscriber in TFT panels and business relationships with automotive manufacturing companies in the PRC. Coupled with the Group's experience and expertise in module design and manufacturing, and its existing established business relationships with many leading automotive manufacturing companies worldwide, the executive Directors consider that the Subscription will expedite the Group's further expansion in the TFT module business and benefit its long term development. The executive Directors consider that other financing methods such as debts and rights issue will not provide the Group with such competitive advantage for the future development of the Group's TFT module business. Accordingly, the executive Directors consider that it is in the interests of the Company and the Shareholders as a whole to proceed with the Subscription by entering into the Subscription Agreement.

We agree with the executive Directors' view that a closer relationship with the Subscriber through the Subscription will allow the Group to gain a competitive advantage in the TFT business, including sourcing of TFT panels, and that the existing capabilities of the Group in the display business can be enhanced and complemented by the resources of the Subscriber.

Special Dividend

In connection with the Subscription, the Board will declare the Special Dividend of HK$1.35 per Share conditional upon completion of the Subscription. Pursuant to the Subscription Agreement, the Subscriber has agreed to waive its entitlement to the Special Dividend and the Final Dividend payable in around July 2016. Further details regarding the Special Dividend are set out in the section headed "Special Dividend" in the "Letter from the Board" contained in the Circular. The proposed payment of the Special Dividend after Completion allows a cash return on investment which will benefit existing Shareholders.

THE SUBSCRIPTION AND THE WHITEWASH WAIVER

1. Principal terms of the Subscription Agreement

Set out below is a summary of principal terms of the Subscription Agreement. Further details of terms of the Subscription Agreement are set out in the "Letter from the Board" contained in the Circular.

(a) The Subscription Agreement

Date:	3 February 2016 (after trading hours)
Issuer:	the Company
Subscriber:	BOE Technology Group Co., Ltd (itself or through its wholly-owned subsidiary)

The Company and the Subscriber entered into the Subscription Agreement pursuant to which, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for (or procure subscription by its wholly-owned subsidiary), a total of 400,000,000 Subscription Shares at an issue price of HK$3.50 per Subscription Share. As at the Latest Practicable Date, the Subscriber had nominated its wholly-owned subsidiary, BOE Technology (HK) Limited, to subscribe for the Subscription Shares.

(b) The Subscription Price

The Subscription Price is HK$3.50 per Subscription Share (which takes into account the waiver by the Subscriber of all its rights and interests to participate in the Special Dividend of HK$1.35 per Share and the Final Dividend of HK$0.305 per Share payable in around July 2016 in respect of the Subscription Shares). As stated in the sub-section headed "The Subscription Price" in the section headed "The Subscription Agreement" in the "Letter from the Board" contained in the Circular, the Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber after taking into account the Special Dividend of HK$1.35 per Share to be declared and distributed, the then market price of the Shares, the consolidated net asset value per Share and the prospect of the Group's existing business, the undertakings (including the Subscriber's waiver of the Special Dividend and the Final Dividend) as detailed in the sub-section headed "Undertakings by the Subscriber" in the "Letter from the Board" contained in the Circular, as well as the anticipated strategic value to be brought to the Company by the Subscriber.

(c) The size of the Subscription, rights of the Subscription Shares and the specific mandate

As at the Latest Practicable Date, there were 331,245,204 Shares in issue. The 400,000,000 Subscription Shares represent (a) approximately 120.76% of the existing issued share capital of the Company as at the Latest Practicable Date; (b) approximately 54.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares for the period from the Latest Practicable Date to Completion); and (c) approximately 53.82% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming all Share Options have been exercised in full and there is no change in the issued share capital of the Company other than the issue of the Subscription Shares).

The Subscription Shares will rank pari passu in all respects with the Shares in issue as at the date of allotment and issue of the Subscription Shares. As mentioned above, the Subscriber has agreed to waive its entitlement to the Special Dividend and the Final Dividend. An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

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

(d) Conditions of the Subscription

Completion of the Subscription is conditional upon satisfaction (or if applicable, waiver) of certain conditions (i.e. the Completion Conditions), including (a) the obtaining of approval of the Shareholders or Independent Shareholders (as appropriate) at the SGM in respect of, among other things (i) the Subscription and the Whitewash Waiver; and (ii) the Specific Mandate for the allotment and issue of the Subscription Shares; (iii) payment of the Special Dividend; and (iv) the Capital Reduction; (b) the granting of the Whitewash Waiver by the Executive; and (c) the unaudited net asset value (after deducting, among others, the Final Dividend and the Special Dividend) based on the management accounts as at the Management Accounts Date is not less than HK$4 per Share. Based on the 2015 Final Results and the number of issued Shares as at 31 December 2015, the net asset value per Share after deducting the Special Dividend and the Final Dividend would be approximately HK$4.1 per Share.

The Subscriber may waive certain conditions including, among other things, the obtaining of the Independent Shareholders' approval as regards the Subscription and the Whitewash Waiver, and the granting of the Whitewash Waiver by the Executive. If these aforesaid conditions are waived by the Subscriber and parties to the Subscription Agreement proceed to Completion, BOE (HK) will be obliged to make the Mandatory General Offer. The SGM will be convened to approve, among other things, resolutions relating to the Subscription and the Whitewash Waiver, voting on which will be conducted by way of a poll. Further details of the Completion Conditions are set out in the sub-section headed "Conditions of the Subscription" in the section headed "The Subscription Agreement" in the "Letter from the Board" contained in the Circular.

Completion will take place on the date falling on the seventh Business Days after all the relevant conditions precedent having been fulfilled (or, if applicable, waived), or any other date as agreed by the parties to the Subscription Agreement in writing. If the Completion Conditions have not been satisfied or waived on or before 30 September 2016 (i.e. the Longstop Date) (or such other date as may be agreed by the parties to the Subscription Agreement in writing), none of the Company nor the Subscriber shall be bound to proceed with the transactions contemplated under the Subscription Agreement, and the Subscription Agreement shall cease to be of any effect save as to any antecedent breach of the Subscription Agreement.

As at the Latest Practicable Date, (i) none of the Completion Conditions had been fulfilled; and (ii) neither the Company nor the Subscriber has an intention to waive any of the Completion Conditions save that the Subscriber reserves its rights to waive the conditions relating to the Independent Shareholders' approval as regards the Subscription and the Whitewash Waiver, and the granting of the Whitewash Waiver by the Executive.

(e) Undertakings by Mr. Ko and undertakings by the Subscriber

Undertakings have been made by Mr. Ko to the Subscriber with respect to, among other things, non-competition and a 6-month Share lock-up arrangement, details of which are set in the sub-section headed "Undertakings by Mr. Ko" in the section headed "The Subscription Agreement" in the Letter from the Board" contained in the Circular.

Pursuant to the Subscription Agreement, the Subscriber undertakes to the Company that, among others, it shall waive its rights in respect of the Special Dividend and the Final Dividend. The Subscription Shares are subject to certain lock-up arrangements for a period of 12 months commencing on the Completion Date. Also, the Subscriber undertook to the Company that during the period from the 13th month after the Completion Date to the expiry of the third anniversary, the Subscriber or its affiliates shall not hold less than 30% of the issued Shares. It is further stipulated in the Subscription Agreement that, provided that the Subscriber or its affiliates holds 30% or more of the issued Shares, except with the consent of the Company, (a) the Subscriber shall not in any region operate, conduct or participate in the same automotive LCD module business as conducted by the Group, except for certain circumstances as set out in the Subscription Agreement; and (b) as soon as possible, the Company shall become the Subscriber's sole development, manufacturing and distribution platform of automotive display module and system business (including but not limited to vehicle networking (i.e. electronic communications among devices within a vehicle such as remote control of the headlights/air-conditioner using a smartphone app or a remote control), automobile display and electronic system). Furthermore, provided that the Subscriber or its affiliates holds not less than 30% of the issued Shares, the Subscriber shall regard the Group as its strategic customer, and under the same conditions, shall supply the Group panel products with priority at the most favourable market price. Further details regarding undertakings given by the Subscriber are set out in in the section headed "The Subscription Agreement" in the "Letter from the Board" contained in the Circular.

2. Future intentions of the Subscriber regarding the Group

As set out in the section headed "Future intentions of the Subscriber regarding the Group" in the "Letter from the Board" contained in the Circular, the Company and the Subscriber shall explore future business opportunities in automotive and industrial display business segments. Pursuant to the Subscription Agreement, on Completion, the Company will procure that the Board will comprise nine Directors, including five Directors to be nominated by the Subscriber, Ms. Ko Wing Yan, Samantha, who will continue to act as executive Director, and three independent non-executive Directors. Mr. Ko and Mr. Ho Te Hwai, Cecil will resign and Ms. Ko Wing Yan, Samantha shall remain an executive Director and is proposing to be as a co-chief executive officer together with another co-chief executive officer to be nominated by the Subscriber upon Completion. The Subscriber had yet to nominate any candidate to be appointed as a Director as at the Latest Practicable Date. Save as the aforesaid, the Subscriber and BOE (HK) had expressed no intention to make any major changes to the continued employment of the employees of the Company and its subsidiaries. The Company (after having discussion with the Subscriber) intends to maintain a stable dividend policy in future with a dividend payout ratio of not less than 30% following Completion. Further details are set out in the section headed "Dividend Policy" in the "Letter from the Board" contained in the Circular.

3. Financial information and prospects of the Group

(a) Financial information of the Group

(i) Financial performance

The following is a summary of the consolidated results of the Group for the three years ended 31 December 2013 (as extracted from the Company's 2014 annual report), 2014 and 2015 (both of 2014 and 2015 results having been extracted from the 2015 Final Results). Further details of the results and other financial information of the Group are set out in Appendix I to the Circular.

	For the year ended 31 December		
	2015	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	2,487,820	2,613,058	2,604,172
Other operating income/(loss)	97,204	37,304	(18,456)
Change in inventories of finished goods and work in progress	79,310	(48,253)	102,023
Raw materials and consumables used	(1,506,120)	(1,536,793)	(1,654,315)
Staff costs	(462,221)	(418,218)	(384,707)
Depreciation	(103,009)	(107,542)	(83,698)
Other operating expenses	(268,174)	(266,907)	(252,790)
Profit from operations	324,810	272,649	312,229
Finance costs	(3,472)	(4,858)	(2,446)
Share of profits less losses of associates	4,020	14,422	4,767
Profit before taxation	325,358	282,213	314,550
Income tax	(24,997)	(31,771)	(71,400)
Profit for the year	300,361	250,442	243,150
Attributable to:			
Equity shareholders of the Company	300,605	250,442	243,150
Non-controlling interests	(244)	–	–
Profit for the year	300,361	250,442	243,150

	For the year ended 31 December		
	2015	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Earnings per share (in HK cents)			
– Basic	91.2	76.5	74.7
– Diluted	90.4	74.8	73.5
Dividend per Share (in HK cents) *(Note)*			
Interim dividend	15.0	12.0	12.0
Final dividend	30.5	30.0	38.0
Total dividend	45.5	42.0	50.0

Note: The amount represents dividend declared per Share in respect of the respective financial year but excludes the proposed Special Dividend of HK$1.35 per Share

Revenue of the Group decreased slightly by approximately 5% from approximately HK$2,613 million in 2014 to approximately HK$2,488 million in 2015. For the year ended 31 December 2015, the Group's revenue was generated from two major sources, namely (a) automotive display business; and (b) industrial display business, accounting for approximately 67% and 33% of the Group's revenue respectively. The automotive display business generated revenue of approximately HK$1,668 million for the year ended 31 December 2015, representing a decrease of approximately 8% as compared to last year. Such decrease was partly attributable to a reduction of monochrome display orders in Europe as most of the big automobile brands in Europe have adopted TFT modules. For the Group's industrial display business, revenue of approximately HK$820 million was generated in 2015, representing a slight increase of approximately 3% from that in 2014. Such increase was partly contributed by the rising demand from the Group's customer in the white goods sector in Italy and an increase in demand for electricity meter display in all global regions in 2015. As regards the Group's two principal product lines, the executive Directors advised us that sales of monochrome modules accounted for approximately 90% of the Group's total revenue for the year ended 31 December 2015. The executive Directors further advised us that for TFT modules, the Group recorded revenue of approximately HK$116 million, HK$158 million and HK$218 million for 2013, 2014 and 2015 respectively.

The Group recorded other operating income of approximately HK$97.2 million for the year ended 31 December 2015, representing an increase of approximately HK$59.9 million from 2014, which was mainly due to a one-off gain from the disposal of the Group's entire interest in a then associate company of approximately HK$48.8 million. For the year ended 31 December 2013, the Group recorded a one-off impairment loss and loss on disposal on non-listed available-for-sale equity securities and associated loans receivable of approximately HK$58.5 million, and therefore recorded net other operating loss of approximately HK$18.5 million.

For the year ended 31 December 2015, the Group recorded profit for the year attributable to equity shareholders of the Company of approximately HK$300.6 million, which included the one-off gain from disposal of interest in an associate company of approximately HK$48.8 million as mentioned above. If such one-off gain is excluded, the Group's profit attributable to equity shareholders would be approximately HK$251.8 million, as compared to profit of approximately HK$250.4 million in 2014 and HK$301.6 million in 2013 (excluding the one-off impairment loss and loss on disposal on non-listed available-for-sale equity securities and associated loans receivable of approximately HK$58.5 million as mentioned above). As advised by the executive Directors, the decrease in profit in 2014 as compared to 2013 was mainly due to the increase in manufacturing overheads (such as staff costs and depreciation expenses).

Basic earnings per Share for the three years ended 31 December 2013, 2014 and 2015 were approximately 92.6 HK cents (excluding the one-off impairment loss and loss on disposal on non-listed available-for-sale equity securities and associated loans receivable), 76.5 HK cents, and 76.4 HK cents (excluding the one-off gain from disposal of interest in an associate company) respectively. Since there was no major issue of new Shares (other than exercising of share options) in the relevant year, the movements in the earnings per Share generally followed the net profits. Dividend payout ratio (based on total dividend declared with respect to the financial year divided by profit attributable to equity shareholders of the Company of that year, but excludes the Special Dividend) of the Group was approximately 50% in 2015. Such ratio is generally in line with that of 2014 (approximately 55%). As set out above, the Company's results for the latest financial year of 2015 (excluding one-off item) showed similar performance compared to 2014, lacking significant growth.

(ii) Financial position

Set out below are the consolidated statement of financial position of the Group as at 31 December 2013 (as extracted from the Company's 2014 annual report), 2014 and 2015 (both the 2014 and 2015 financial position having been extracted from the 2015 Final Results). Further details of the financial position of the Group as at those dates and other financial information are set out in Appendix I to the Circular.

	As at 31 December		
	2015	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Fixed assets			
– Property, plant and equipment	401,604	486,455	553,095
– Interest in leasehold land held for own use under operating leases	11,004	12,200	13,350
	412,608	498,655	566,445
Interests in associates	4,747	124,627	114,247
Loans receivable	31,000	46,500	62,000
Other financial assets	57,353	29,569	29,878
Deferred tax assets	725	725	725
	506,433	700,076	773,295
Current assets			
Trading securities	160,891	158,919	141,032
Inventories	472,995	383,789	464,292
Trade and other receivables	530,296	603,822	657,022
Other financial assets	–	19,840	41,600
Current tax recoverable	515	9,707	3,506
Fixed deposits with banks	–	38,370	–
Cash and cash equivalents	767,393	536,501	555,148
	1,932,090	1,750,948	1,862,600
Current liabilities			
Trade and other payables	376,288	411,695	548,020
Bank loans	136,395	184,362	243,086
Current tax payable	3,862	13,010	51,919
	516,545	609,067	843,025
Net current assets	1,415,545	1,141,881	1,019,575
Total assets less current liabilities	1,921,978	1,841,957	1,792,870

	As at 31 December		
	2015	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Non-current liabilities			
Bank loans	8,879	44,395	59,147
Deferred tax liabilities	7,663	5,461	5,539
NET ASSETS	1,905,436	1,792,101	1,728,184
CAPITAL AND RESERVES			
Share capital	82,782	81,979	81,621
Reserves	1,822,654	1,709,878	1,646,319
Total equity attributable to equity shareholders of the Company	1,905,436	1,791,857	1,727,940
Non-controlling interests	–	244	244
TOTAL EQUITY	1,905,436	1,792,101	1,728,184

As at 31 December 2015, the Group's total assets was approximately HK$2,438.5 million. Assets of the Group mainly include (a) cash and cash equivalents; (b) trade and other receivables; and (c) inventories. The Group's cash and cash equivalents amounted to approximately HK$767.4 million as at 31 December 2015, with estimated amounts of approximately HK$447.2 million for the Special Dividend and approximately HK$101.0 million for the Final Dividend payable in around July 2016. As at 31 December 2015, the Group's total liabilities was approximately HK$533.1 million, which mainly consisted of trade and other payables and banks loans. The Group's gearing ratio, being total banks loans over net assets, is relatively low, being approximately 13% in 2014 and approximately 8% as at 31 December 2015.

Net assets per Share were approximately HK$5.75 as at 31 December 2015 (based on net assets of approximately HK$1,905,436,000 and 331,125,204 of Shares in issue as at 31 December 2015). The adjusted net assets per share (after adjustments for the Special Dividend of HK$1.35 and Final Dividend of HK$0.305 per Share) would be approximately HK$4.1 per Share (the "Adjusted NAV per Share"). The Subscription Price represents a discount of approximately 14.6% to the Adjusted NAV per Share.

(b) Prospects of the Group

As set out in the section headed "Background to and reasons for the Subscription" above, the Group's revenue generated from TFT modules showed an increase of approximately 38% as compared to 2014. Based on available market data as set out in the section headed "Industry overview" in the "Letter from the Board" contained in the Circular, the executive Directors believe that there will be an increasing demand for TFT modules, particularly in the high-end automotive sector, with monochrome displays being gradually replaced by TFT displays. Whilst the executive Directors expect that there will still be demand for monochrome displays from both the automotive and industrial sector primarily due to their reliable performance and competitive selling prices, it is expected that the Group's monochrome display business will have limited scope for further development. Following Completion, the Company intends to continue its existing principal business in automotive and industrial displays and related modules. Considering the variety and sophistication of features needing displays nowadays and the continuous technological improvements, the executive Directors are of the view, and we concur, that prospects of the Company's principal business are expected to remain generally positive.

4. Analysis of the historical price performance of the Shares

(a) Comparison of the Subscription Price to market price

As stated in the sub-section headed "The Subscription Price" in the section headed "The Subscription Agreement" in the "Letter from the Board" contained in the Circular, the Subscription Price of HK$3.50 per Subscription Share takes into account the waiver by the Subscriber of all its rights and interests to participate in the Special Dividend of HK$1.35 per Share as well as the Final Dividend of HK$0.305 per Share. Accordingly, to provide a fair basis for comparison, we consider the Subscription Price should be compared with market prices of the Shares reduced by the Special Dividend per Share and the Final Dividend per Share (i.e. the Adjusted Closing Price). On this basis, the Subscription Price represents:

(i) a discount of approximately 3.45% to the Adjusted Closing Price of HK$3.625 per Share on the Last Trading Day;

(ii) a discount of approximately 2.75% to the average Adjusted Closing Price of HK$3.599 per Share for the last ten consecutive trading days up to and including the Last Trading Day; and

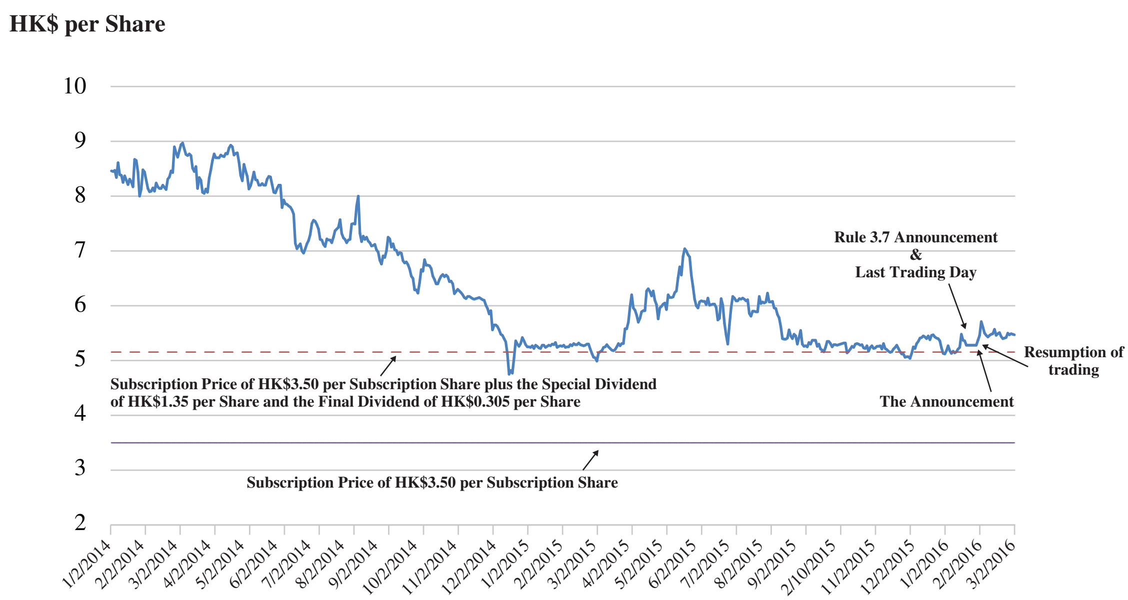
(iii) a discount of approximately 8.26% to the Adjusted Closing Price of HK$3.815 per Share as at the Latest Practicable Date.

These discounts are compared with the range of discounts for comparable issues set out in the sub-section headed "Comparable issues" of this letter below.

(b) Share price performance

The chart below illustrates the daily closing price per Share for the period from 1 January 2014 up to and including the Latest Practicable Date (the "Review Period"). The chart shows actual market prices, which are prices without the Special Dividend per Share and the Final Dividend per Share being deducted, and such actual market prices shall be adjusted as we suggest in paragraph (a) above. For the purpose of the chart, rather than changing all the actual market prices, we have provided a dotted line for comparison which shows the Subscription Price plus the Special Dividend of HK$1.35 per Share and the Final Dividend of HK$0.305 per Share. We consider this the most appropriate comparison with the actual market prices.

Share price chart



Source: Bloomberg

During the period from 1 January 2014 to 19 December 2014, the closing Share prices fluctuated between HK$4.75 per Share and HK$8.97 per Share, and showed a downward trend in general. The Company published a number of announcements during this period, including, among other things, the 2013 final results announcement, the 2014 interim results announcement and two announcements in relation to, among other things, the change of executive director, chief executive officer and chief financial officer of the Company.

The closing Share prices showed an upward trend after 19 December 2014, and reached HK$7.04 per Share on 1 June 2015. After trading hours on 30 June 2015, the Company published an announcement in relation to a positive profit alert. The closing Share price surged to HK$6.13 per Share on 2 July 2015, representing an increase of approximately 6.2% as compared to that on 30 June 2015 of HK$5.77 per Share.

From 3 July 2015 to 2 February 2016, the closing Share price was relatively stable and fluctuated in a range of between HK$5.04 per Share to HK$6.23 per Share. On 3 February 2016 (i.e. the Latest Trading Day) (after trading hours), the Company published the Rule 3.7 Announcement regarding, among other things, the Subscription and the Whitewash Waiver. Trading in the Shares was subsequently suspended from 4 February 2016 pending the release of the Announcement. The Announcement was published on 16 February 2016 (after trading hours) and trading in the Shares resumed on 17 February 2016. The Share price closed at HK$5.37 per Share on 17 February 2016, an increase of approximately 1.7% as compared to the closing Share price of HK$5.28 per Share on the Last Trading Day.

The Shares closed at a price of HK$5.47 per Share as at the Latest Practicable Date. The Subscription Price represents a discount of approximately 8.26% to the Adjusted Closing Price of HK$3.815 per share as at the Latest Practicable Date.

5. Comparable issues

As set out in the section headed "The Subscription Agreement" of both the Announcement and the "Letter from the Board" contained in the Circular, the Subscription Shares represent approximately 120.76% of the number of issued Shares as at the date of the Announcement and as at the Latest Practicable Date. We have searched the website of the Stock Exchange on a best efforts basis to identify all share issues (the "Comparable Issues") announced since 1 January 2015 (being approximately one year before the Last Trading Day) and up to the date immediately prior to the Latest Practicable Date by companies listed on the Stock Exchange involving (a) subscription of new shares of the listed companies by subscribers for cash (where the shares were to be listed on the Stock Exchange); (b) the application of whitewash waivers by the subscribers where such whitewash waivers have been approved by independent shareholders; and (c) increase of the issued share capital by over 100% upon completion of the share subscription. We have excluded subscriptions (i) announced by listed companies which, as at the date of announcement and/or currently, were/are under prolonged suspension; (ii) involving only convertible securities; and (iii) transactions involving open offers or rights issues of new shares, which are usually made at discounts under open offers or rights issue.

It should be noted that the subject companies involved in the Comparable Issues may have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company. The circumstances surrounding such subscriptions may also be different from those relating to the Company, and therefore do not form a material basis in our assessment of the fairness of the Subscription Price.

The Comparable Issues represent an exhaustive list of subscriptions meeting the criteria set out above. The table below illustrates the details of the Comparable Issues:

Date of announcement	Company name	Discount of subscription price to closing share price as at the last day of trading immediately prior to the announcement *(note 1)* % *(approximate)*	Discount of subscription price to average closing share price for the 5 trading days immediately prior to the announcement *(note 1)* % *(approximate)*	Discount of subscription price to average closing share price for the 10 trading days immediately prior to the announcement *(note 1)* % *(approximate)*	Whether the condition precedent relating to whitewash waiver is waivable by the relevant subscriber(s)
29 January 2015	Good Resources Holdings Limited (formerly known as "Good Fellow Resources Holdings Limited") (stock code: 109)	(31.4)	(20.8)	(20.6)	Yes
2 February 2015	Beijing Enterprises Clean Energy Group Limited (formerly known as "Jin Cai Holdings Company Limited") (stock code: 1250)	(43.6)	(42.0)	(38.7)	No
9 March 2015	China Minsheng Drawin Technology Group Limited (formerly known as "South East Group Limited") (stock code: 726)	(42.9)	(35.1)	(31.3)	No
13 May 2015	Huanxi Media Group Limited (formerly known as "21 Holdings Limited" ("21 Holdings")) (stock code: 1003) *(Note 2)*	(66.9)	(66.8)	(65.7)	No

		Discount of subscription price to			
Date of announcement	**Company name**	**closing share price as at the last day of trading immediately prior to the announcement** *(note 1)* % *(approximate)*	**average closing share price for the 5 trading days immediately prior to the announcement** *(note 1)* % *(approximate)*	**average closing share price for the 10 trading days immediately prior to the announcement** *(note 1)* % *(approximate)*	**Whether the condition precedent relating to whitewash waiver is waivable by the relevant subscriber(s)**
29 May 2015	REORIENT GROUP LIMITED ("REORIENT") (stock code: 376) *(Note 3)*	(51.3)	(47.7)	(47.6)	No
4 June 2015	China Goldjoy Group Limited (formerly known as "World Wide Touch Technology (Holdings) Limited" ("World Wide")) (stock code: 1282) *(note 4)*	(41.0)	(36.8)	(32.3)	Yes
31 July 2015	HengTen Networks Group Limited (formerly known as "Mascotte Holdings Limited") (stock code: 136)	(97.9)	(97.6)	(97.5)	Yes
27 August 2015	China Minsheng Financial Holding Corporation Limited (formerly known as "China Seven Star Holdings Limited") (stock code: 245)	(89.9)	(87.7)	(86.6)	Yes
12 October 2015	SRE Group Limited (stock code: 1207)	(74.4)	(73.3)	(74.0)	No

Date of announcement	Company name	Discount of subscription price to closing share price as at the last day of trading immediately prior to the announcement *(note 1)* % *(approximate)*	Discount of subscription price to average closing share price for the 5 trading days immediately prior to the announcement *(note 1)* % *(approximate)*	Discount of subscription price to average closing share price for the 10 trading days immediately prior to the announcement *(note 1)* % *(approximate)*	Whether the condition precedent relating to whitewash waiver is waivable by the relevant subscriber(s)
10 December 2015	China Jiuhao Health Industry Corporation Limited ("China Jiuhao") (stock code: 419) *(note 5)*	(86.2)	(87.7)	(87.9)	No
	Mean (simple average)	(62.6)	(59.6)	(58.2)	
	Minimum discount	(31.4)	(20.8)	(20.6)	
	Maximum discount	(97.9)	(97.6)	(97.5)	
	The Subscription – by reference to the Adjusted Closing Price	(3.45)	(5.17)	(2.75)	Yes

Source: relevant announcements relating to the application for whitewash waiver of the companies involved in the Comparable Issues

Notes:

1. The closing share prices are sourced from Bloomberg.

2. 21 Holdings published an announcement in relation to a possible subscription of new shares involving a possible application of whitewash waiver after trading hours on 13 April 2015. Accordingly, we have taken 1 April 2015 (i.e. the last day of trading immediately prior to the aforesaid announcement) as the last trading day for our assessment, including calculation of the average closing share prices of different periods prior to and including 1 April 2015.

3. REORIENT published an announcement in relation to a possible subscription by potential investor of new securities in REORIENT after trading hours on 24 March 2015. Accordingly, we have taken 12 March 2015 (i.e. the last day of trading immediately prior to the aforesaid announcement) as the last trading day for our assessment, including calculation of the average closing share prices of different periods prior to and including 12 March 2015.

4. As stated in the announcement of World Wide dated 4 June 2015, the subscription price of HK$0.18 per share was determined on or about the date of signing the memorandum of understanding dated 14 April 2015. Trading in the shares of World Wide was halted with effect from 9:00 a.m. on 14 April 2015 pending the release of an announcement in relation to the aforesaid memorandum of understanding. Accordingly, we have taken 13 April 2015 (i.e. the last day of trading immediately prior to 14 April 2015) as the last trading day for our assessment, including calculation of the average closing share prices of different periods prior to and including 13 April 2015.

5. China Jiuhao published an announcement dated 10 December 2015 in relation to, among other things, subscription of shares and application for whitewash waiver. As set out in the aforesaid announcement, there was a distribution to shareholders of China Jiuhao of cash and shares in Eternity Investment Limited as detailed in the circular of China Jiuhao dated 23 June 2015. Such distribution was completed in October 2015 and the subscribers to the aforesaid subscription were not entitled to the distribution. The comparison of subscription price to historical trading prices as set out in the table above was based on the theoretical ex-entitlement closing prices of China Jiuhao as set out in its announcement dated 10 December 2015.

6. Simsen International Corporation Limited ("Simsen") (stock code: 993) published an announcement dated 7 October 2014 in relation to, among other things, entering into of a memorandum of understanding between Simsen and a potential investor for possible subscription of shares of Simsen. Following that, an announcement was made by Simsen dated 23 March 2015 in relation to, among other things, (i) the subscription of new shares of Simsen; (ii) application for whitewash waiver; and (iii) distribution in specie of a subsidiary of Simsen. The above subscription would in theory have met our selection criteria for Comparable Issues as set out above. However, as set out in Appendix I to the Simsen's circular dated 30 June 2015, the theoretical downward effect of the distribution in specie (item iii above) on the share price could not be quantified beforehand and would be impacted by different factors. Accordingly, we have excluded Simsen from our analysis.

The 10 Comparable Issues set out in the table above all involved subscriptions of new shares at discounts to their respective historical trading prices. As set out in the table above, in the Company's case, the Subscription Price represents (a) a discount of approximately 3.45% to the Adjusted Closing Price on the Last Trading Day; (b) a discount of approximately 5.17% to the average Adjusted Closing Price for the last five consecutive trading days immediately prior to and including the Last Trading Day; and (c) a discount of approximately 2.75% to the average Adjusted Closing Price for the last ten consecutive trading days immediately prior to and including the Last Trading Day. These discounts are lower (i.e. more favourable to the Company) than all the discounts of the Comparable Issues shown in the above table.

6. Peer comparison

As mentioned in the section headed "Background to and reasons for the Subscription" above of this letter, the Group is principally engaged in the design, manufacture, and sale of small-to-medium sized automotive and other industrial display products worldwide and has monochrome display and various display modules manufacturing capacity. Based on the closing Share price of HK$5.28 and the number of issued Shares of approximately 331.2 million on the Last Trading Day, the market capitalisation of the Company is approximately HK$1.7 billion. Accordingly, we have conducted a search on Bloomberg on a best effort basis for companies (the "Comparable Companies") primarily listed on the Main Board of the Stock Exchange with closing market capitalisation on the Latest Practicable Date ranging between HK$0.4 billion and HK$7.0 billion which, based on their latest published annual reports/annual results announcements available as at the date immediately before the Latest Practicable Date, are principally engaged in, among other things, display business. To the best of our knowledge, the Comparable Companies set out in the table below represent all the companies comparable to the Company based on the above criteria.

The table below sets out the comparison of historical price to earnings (P/Es) and price to book (P/Bs) of the Company and the Comparable Companies. We have set out in the table below two sets of implied P/Es and implied P/Bs of the Subscription based on (a) the Subscription Price and (b) the adjusted Subscription Price of HK$5.155 per Subscription Share (being the Subscription Price of HK$3.50 per Subscription Share plus the Special Dividend of HK$1.35 per Share and the Final Dividend of HK$0.305 per Share) (the "Adjusted Subscription Price"). The results are as follows:

Comparable Companies	**Closing share price as at the Latest Practicable Date**	**Basic earnings per share**	**Historical P/E**	**Net assets value attributable to shareholders per share**	**Historical P/B**
			(Approximate		*(Approximate*
	(HK$)	*(HK$)*	*times)*		*times)*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*
Truly International Holdings Limited (stock code: 732)	2.04	0.2908	7.02	2.4373	0.84
Yeebo (International Holdings) Limited (stock code: 259)	1.50	0.206	7.28	1.1876	1.26
Simple average			7.15		1.05
The Subscription *(Note 6)*					
– Based on the Adjusted Subscription Price as set out above			**5.65**		**0.90**
– Based on the Subscription Price			3.84		0.61

Notes:

1. Closing share price of the Comparable Companies is sourced from Bloomberg.

2. Figures are extracted from the latest published annual report/annual result announcement of the Comparable Companies available as at the date immediately before the Latest Practicable Date.

3. The historical P/Es of the Comparable Companies are calculated based on their respective basic earnings per share set out in their latest published annual report/annual result announcement available as at the date immediately before the Latest Practicable Date and their respective closing share price as at the Latest Practicable Date.

4. Figures are calculated based on (i) the net assets attributable to shareholders of the Comparable Companies as set out in their respective latest annual results announcement/interim report available as at the date immediately before the Latest Practicable Date; and (ii) the number of issued shares as at the respective year/period end.

5. The historical P/Bs of the Comparable Companies are calculated based on their respective net assets value attributable to shareholders per share as set out in note 4 above and their respective closing share price as at the Latest Practicable Date.

6. The implied P/E of the Subscription is calculated based on (i) the Subscription Price of HK$3.50 per Subscription Share or the Adjusted Subscription Price of HK$5.155 per Subscription Share; and (ii) the basic earnings per Share of the Company of HK$0.912 for the year ended 31 December 2015.

The implied P/B of the Subscription is calculated based on (i) the Subscription Price of HK$3.50 per Subscription Share or the Adjusted Subscription Price of HK$5.155 per Subscription Share; and (ii) the net assets per Share of the Company of approximately HK$5.75 as at 31 December 2015.

7. TCL Display Technology Holdings Limited ("TCL Display") (formerly known as "Proview International Holdings Limited") (stock code: 334) had been placed into first stage of delisting by the Stock Exchange on 29 November 2010 pursuant to Practice Note 17 of the Listing Rules and trading in the shares had been suspended since 2:30 p.m. on 2 August 2010. Trading in the share of TCL Display resumed on 25 June 2015 following fulfilment of the resumption conditions after the implementation of a resumption proposal, which involved, among other things, a reverse takeover and debt restructuring. TCL Display would in theory have met our selection criteria for the Comparable Companies as set out above. However, considering its previous distressed financial position and the relatively short period of trading in the shares of TCL Display after the implementation of the resumption proposal, we have excluded TCL Display for comparison purpose.

As set out in the sub-section headed "Principal terms of the Subscription Agreement" above of this letter, the Subscription Price of HK$3.50 per Subscription Share is determined after taking into account the waiver by the Subscriber of all its rights and interests to participate in the Special Dividend and the Final Dividend. On the other hand, the shares of the Comparable Companies were traded cum the entitlements to distribution (including dividends) of the respective Comparable Companies. On this basis, we consider that analysis based on the Adjusted Subscription Price is more relevant to the Independent Shareholders for the purpose of comparing the historical P/Es and historical P/Bs of the Subscription and the Comparable Companies.

As set out in the table above, (i) the historical P/Es of the two Comparable Companies are approximately 7.02 times and 7.28 times, with an average of approximately 7.15 times; and (ii) the historical P/B of the two Comparable Companies are approximately 0.84 time and 1.26 times, with an average of approximately 1.05 times. The implied P/E of the Subscription based on the Adjusted Subscription Price as discussed above of approximately 5.65 times is lower than the historical P/Es of the Comparable Companies while the implied P/B of the Subscription based on the Adjusted Subscription Price as discussed above of approximately 0.90 time is within the range of the historical P/Bs of the Comparable Companies.

Based on the reasons and benefits of the Subscription as set out in the section headed "Background to and reasons for the Subscription" above and our analysis on the Subscription Price (as set out in the sub-sections headed "Analysis of the historical price performance of the Shares", "Peer comparison" and "Comparable issues") above, we consider the Subscription Price to be fair and reasonable to the Independent Shareholders.

7. Use of proceeds

As set out in the section headed "Use of proceeds" in the "Letter from the Board" contained in the Circular, the gross proceeds and the net proceeds from the Subscription are HK$1,400 million and approximately HK$1,392 million respectively. The Directors expect to use the net proceeds from the Subscription for the following purposes:

(a) approximately HK$992 million for expanding the Group's existing TFT module business, including (i) approximately HK$100 million in respect of purchase of equipment and machinery for the assembly of TFT modules; and (ii) approximately HK$892 million in respect of the development and expanding operation of the Group's TFT business segment, including approximately HK$788 million for purchase of raw materials for its expansion of the automobile TFT module business; approximately HK$41 million for manufacturing overheads which shall increase in line with such business expansion; approximately HK$17 million for research and development; and approximately HK$46 million for selling and administrative costs in connection with the automotive TFT module business; and

(b) approximately HK$400 million for working capital for the Group's existing monochrome manufacturing operations. The proposed Special Dividend totalling approximately HK$447.2 million (calculated based on number of Shares in issue as at the Latest Practicable Date) will be payable in cash. Furthermore, the Company has proposed a final dividend of HK$0.305 per Share (totalling approximately HK$101.0 million based on number of Shares in issue as at the Latest Practicable Date) for the year ended 31 December 2015, which is expected to be payable in around July 2016. These payments will reduce the Group's existing liquidity and working capital base.

Further details regarding the use of proceeds are set out in the section headed "Use of proceeds" in the "Letter from the Board" contained in the Circular.

For expansion of the Group's existing TFT module business as set out in (a) above, item (ii) in respect of the development and expanding operation of the Group's TFT business segment might commonly be regarded as operating expenses rather than capital expenses. Operating expenses are often financed by ongoing cash flows and/or short-term revolving bank facilities. However, in this case the executive Directors have explained to us that they consider expansion into a business and technology with a relatively short history of operation by the Group should be prudently financed by equity, rather than an increase in bank facilities, even if such could be negotiated. We concur with this view.

8. Effects on net assets

As set out in the Company's 2015 Final Results, the equity attributable to shareholders of the Company was approximately HK$1,905.4 million as at 31 December 2015 (representing approximately HK$5.75 per Share, based on a total of 331,125,204 Shares in issue as at 31 December 2015). After adjusting for the Special Dividend of HK$1.35 per Share and the Final Dividend of HK$0.305 per Share, the Adjusted NAV per Share would be approximately HK$4.1 per Share. Upon Completion, 400,000,000 new Shares will be issued by the Company as the Subscription Shares and the Company shall receive the subscription money in cash. Accordingly, the executive Directors expect the net asset value of the Group (before payment of the Special Dividend and the Final Dividend) to increase by approximately the same amount as the net proceeds from the Subscription. The table below sets out, for illustration purpose, the effect on the Group's net asset value per Share:

	HK$' million (approximate)
Equity attributable to shareholders of the Company as at 31 December 2015	1,905.4
Less: Special Dividend and Final Dividend	548.2
Adjusted net assets	1,357.2
Adjusted NAV per Share	HK$4.1
	Number of Shares
Number of Shares in issue as at 31 December 2015	331,125,204
Add: Number of Subscription Shares to be issued	400,000,000
Total	731,125,204
Net assets per Share immediately after Completion (adjusted for the Special Dividend and the Final Dividend) (Adjusted net assets of approximately HK$1,357.2 million plus estimated net proceeds from the Subscription of approximately HK$1,392 million, divided by 731,125,204 Shares)	Approximately HK$3.76 per Share
Decrease in net assets per Share	8.3%

As illustrated above, the net assets per Share of approximately HK$3.76 immediately after Completion and after adjustment for the Special Dividend and the Final Dividend represents a decrease of approximately 8.3% as compared to the Adjusted NAV per Share of HK$4.1. However, we consider that the Company will be valued in the future primarily by reference to its future earnings based on the plans to commit the new funds raised as set out above, so that net asset value per Share will not be of critical significance in determining the market capitalisation of the Company. In addition, the Special Dividend gives Shareholders an immediate cash payment representing approximately 25% of the closing Share price as at the Latest Practicable Date, providing a partial hedge. Consequently, we consider the decrease in net asset value per Share is acceptable in light of the benefits of the Subscription as a whole, including the payment of the Special Dividend, as set out in this letter.

9. Whitewash Waiver – dilution effects on shareholding

The following table summarises the effect of the Subscription on the shareholding structure of the Company as at (a) the Latest Practicable Date; (b) immediately upon Completion assuming there is no change to the share capital of the Company other than the issue of the Subscription Shares; and (c) immediately upon Completion and the exercise in full of the outstanding Share Options. Further details on (i) the effect of the Subscription on the shareholding structure; and (ii) the accompanying notes to the shareholding table are set out in the section headed "Effect on shareholding structure" in the "Letter from the Board" contained in the Circular.

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

As illustrated above, the shareholding of the existing public Shareholders would be reduced from approximately 83.35% as at the Latest Practicable Date to approximately 37.76% upon Completion and approximately 37.50% immediately upon Completion and the exercise in full of the outstanding Share Options.

There will be substantial dilution to the shareholding interest of the existing public Shareholders as a result of the Subscription. However, having taken into account (i) the benefits to be derived by the Group from the Subscription as set out in the section above headed "Background to and reasons for the Subscription"; (ii) that the Subscription Price is considered to be fair and reasonable as set out in this letter above; and (iii) the proposed payment of the Special Dividend which benefits all Shareholders (save for the Subscriber), we consider that the dilution effect to the shareholding interest of the existing public Shareholders as a result of the Subscription is acceptable.

10. Whitewash Waiver – Takeovers Code provisions

As set out in the section headed "Application for Whitewash Waiver" in the "Letter from the Board" contained in the Circular, upon Completion, the Subscriber (through BOE (HK)) will be interested in approximately 54.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares) and approximately 53.82% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming all Share Options are exercised in full and there is no change in the issued share capital of the Company other than the issue of the Subscription Shares).

Pursuant to Rule 26.1 of the Takeovers Code, the acquisition of voting rights under such circumstances will trigger an obligation to make a mandatory general offer by BOE (HK) for all the issued Shares and other securities of the Company other than those already owned (or agreed to be acquired) by the Subscriber, BOE (HK) and parties acting in concert with any of them, unless the Whitewash Waiver is obtained from the Executive. An application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares has been made by BOE (HK).

Shareholders should note that the Subscription is subject to the fulfilment or waiver (as the case may be) of a number of conditions precedent as set out in the sub-section headed "Conditions of the Subscription" under the section headed "The Subscription Agreement" in the "Letter from the Board" contained in the Circular, including the granting by the Executive of the Whitewash Waiver and the approval by the Independent Shareholders at the SGM for the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive or is not approved by the Independent Shareholders, the Subscription will not complete unless such condition is waived by the Subscriber which is at the Subscriber's sole discretion. However, the Subscriber may or may not waive such condition. As at the Latest Practicable Date, neither the Company nor the Subscriber has any intention to waive any of the Completion Conditions save that the Subscriber reserves its rights to waive the conditions relating to the Independent Shareholders' approval as regards the Subscription and the Whitewash Waiver, and the granting of the Whitewash Waiver by the Executive. If such condition is not waived by the Subscriber, the Subscription will not proceed. Otherwise, if such condition is waived by the Subscriber and completion of the Subscription occurs, BOE (HK) will be obliged to make the Mandatory General Offer.

Shareholders should note that, if the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders and the Subscription becomes unconditional, the aggregate shareholding of the Company held by BOE (HK) will exceed 50% upon Completion. On this basis, BOE (HK) may further increase its shareholdings in the Company without triggering further obligations for a general offer under the Takeovers Code.

Having taken into consideration (i) the benefits to be derived by the Group from the Subscription as set out in the section headed "Background to and reasons for the Subscription" above of this letter; (ii) that the Subscription Price is considered to be fair and reasonable as set out in this letter above; (iii) the granting of the Whitewash Waiver by the Executive, as one of the conditions to the Subscription, may only be waived at the Subscriber's sole discretion; and (iv) the proposed payment of the Special Dividend (subject to Completion) to Shareholders which benefits all Shareholders save for the Subscriber, we are of the view that the Whitewash Waiver (the granting of which is one of the conditions of the Subscription) is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

DISCUSSION

The product lines of the Company at the moment are heavily dependent on modules incorporating monochrome display technology. This technology is well-established, offering advantages of reliability, power-saving and cost, but the market is mature with limited scope for growth. This is reflected in the Company's results for the latest financial year of 2015 which showed similar performance compared to 2014 (after an one-off item is excluded), lacking significant growth.

The technology of the future in respect of the Company's product range is likely to be TFT-based. This is particularly true for a key part of the Company's market segment, automotive display business particularly in high-end automotive sector in Europe and elsewhere. In this sector, TFT, with colour capability and enhanced display quality, offers a significant advantage for growing applications such as car infotainment systems.

The Company has produced TFT modules since 2011 and now aims to ramp up production significantly. However, it has to buy in TFT panel which is a critical part of a TFT module which supports the colour and enhanced display quality mentioned above. The Subscriber, a leading supplier of TFT panels for a range of consumer products, can assist the Company with technology, manufacturing expertise and contacts, in addition to supplying additional permanent capital through the Subscription. The Subscription Agreement also includes important provisions to prevent competition and enhance co-operation between the two groups, as discussed above.

The use of proceeds of the Subscription are set out above, with the majority being used to underpin the expansion of the TFT business – for equipment, research and development and additional working capital. As the Group is expanding into a relatively new area, the executive Directors consider it prudent to finance these requirements by permanent equity capital, with which we agree.

The proposals incorporate a Special Dividend of HK$1.35 per Share which can be prudently paid out of the liquidity of the Group after the Subscription monies of approximately HK$1.4 billion have been received on Completion. The Subscriber has waived its entitlement to the Special Dividend, so this is a benefit to existing Shareholders, equivalent to approximately 25% of the closing market price of the Shares at the Latest Practicable Date. The Special Dividend can be regarded as a partial return of capital for existing Shareholders and is in addition to the Final Dividend of HK$0.305 per Share, which again will not be received by the Subscriber.

After making appropriate adjustments for these dividend payments, the Subscription Price of HK$3.50 per Share represents discounts to recent market prices ranging from approximately 2.75% to approximately 5.17%, which are lower than the discounts for all the similar transactions reviewed in sub-section headed "Comparable issues" above. The Subscription Price also represents a discount of approximately 14.6% to the Adjusted NAV per Share as set out in sub-section headed "Financial information and prospects of the Group" above. As set out in the sub-section headed "Peer Comparison" above of this letter, although the implied P/E of the Subscription based on the Adjusted Subscription Price is lower than the historical P/Es of the Comparable Companies, the implied P/B of the Subscription based on the Adjusted Subscription Price is within the range of the historical P/Bs of the Comparable Companies. On these grounds, we consider the Subscription Price is fair and reasonable to the Independent Shareholders.

The Completion of the Subscription will involve dilution for the existing public Shareholders from approximately 83.35% to approximately 37.50% (assuming the exercise in full of the outstanding Share Options). This is a substantial dilution but is unavoidable if the Subscriber is to have a majority shareholding and is in our view justified by the benefits of the Subscription as described above. Completion of the Subscription is conditional on the granting of a whitewash waiver, which is a normal condition in similar cases in Hong Kong.

In this case however, the Subscriber has reserved the right to waive this condition. If Independent Shareholders vote against the Whitewash Waiver, the Subscription might or might not proceed, as the Subscriber would have the right to pull out. Any resulting offer would most probably be at HK$3.50 per Share which is below the Adjusted Closing Price of HK$3.815 per Share as at the Latest Practicable Date. In view of the benefits of the Subscription described above, it is not worthwhile, in our opinion, from the Independent Shareholders' point of view, to run the risk of the Subscription being cancelled and to receive a general offer which on the above basis would be below the above Adjusted Closing Price of the Shares.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons which are summarised in the section above headed "Discussion" of this letter, we consider that (1) the Whitewash Waiver and the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Subscription and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole.

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 to approve the Subscription and the Whitewash Waiver.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
M. N. Sabine
Chairman

Mr. M. N. Sabine is a licensed person registered with the SFC 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. He has over thirty years' experience in the corporate finance industry.

1. FINANCIAL SUMMARY

The following is a summary of (i) the financial results of the Group for each of the three financial years ended 31 December 2013, 2014 and 2015; and (ii) the assets and liabilities of the Group as at 31 December 2013, 2014 and 2015 as extracted from the annual reports of the Company for the year ended 31 December 2014 and the results announcement of the Company for the year ended 31 December 2015.

(a) Consolidated statement of profit or loss

	For the year ended 31 December		
	2013	**2014**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Revenue	2,604,172	2,613,058	2,487,820
Profit from operations	312,229	272,649	324,810
Profit before taxation	314,550	282,213	325,358
Income tax	(71,400)	(31,771)	(24,997)
Profit for the year	243,150	250,442	300,361
Profit attributable to:			
Equity shareholders of the Company	243,150	250,442	300,605
Non-controlling interests	–	–	(244)
	243,150	250,442	300,361
Earnings per Share:			
Basic	74.7 cents	76.5 cents	91.2 cents
Diluted	73.5 cents	74.8 cents	90.4 cents
Dividends per Share *(Note)*	50.0 cents	42.0 cents	45.5 cents

Note: For each of the year ended 31 December 2013, 2014 and 2015, the total amount absorbed by dividends were approximately HK$104 million (being the sum of the final dividend in respect of the year ended 31 December 2012 and the interim dividend in respect of the year ended 31 December 2013), approximately HK$164 million (being the sum of the final dividend in respect of the year ended 31 December 2013 and the interim dividend in respect of the year ended 31 December 2014), approximately HK$148 million (being the sum of the final dividend in respect of the year ended 31 December 2014 and the interim dividend in respect of the year ended 31 December 2015), respectively.

(b) Consolidated statement of financial position

	For the year ended 31 December		
	2013	**2014**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Total assets	2,635,895	2,451,024	2,438,523
Total liabilities	907,711	658,923	533,087
Net assets	1,728,184	1,792,101	1,905,436
Equity attributable to owners of the Company	1,727,940	1,791,857	1,905,436

The auditors of the Company for each of the three years ended 31 December 2013, 2014 and 2015, KPMG, did not issue any qualified opinion on the financial statements of the Group for each of the three years ended 31 December 2013, 2014 and 2015.

For the year ended 31 December 2013, the Company recognized an impairment loss of HK$40,700,000 in respect of its investment in Hydis Technologies Co., Ltd ("Hydis"). On 31 December 2013, the Company completed disposal of its investment in Hydis for a consideration of US$12,800,000 and recorded a loss on disposal of HK$17,770,000.

For the year ended 31 December 2015, the Company completed disposal of the Group's entire interest in Data Modul AG (a then associate of the Group) at a consideration of EUR19,393,990 on 14 April 2015 and a gain on disposal of HK$48,828,000 was recognized.

Save for the aforesaid, the Group did not have any items which are exceptional because of size, nature or incidence for each of the year ended 31 December 2013, 2014 and 2015.

2. LATEST PUBLISHED FINANCIAL INFORMATION

Set out below are the latest published consolidated financial information of the Group for the two years ended 31 December 2015 and 2014 respectively together with the accompanying notes relating thereto and the comparative figures, for the two years ended 31 December 2015 and 2014 as extracted from the annual results announcement of the Company for the year ended 31 December 2015 and the annual report of the Company for the year ended 31 December 2014 respectively.

A. FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2015

Consolidated statement of profit or loss

For the year ended 31 December 2015

	Note	**2015** *HK$'000*	**2014** *HK$'000*
Revenue	*3*	2,487,820	2,613,058
Other operating income	*4*	97,204	37,304
Change in inventories of finished goods and work in progress		79,310	(48,253)
Raw materials and consumables used		(1,506,120)	(1,536,793)
Staff costs		(462,221)	(418,218)
Depreciation		(103,009)	(107,542)
Other operating expenses		(268,174)	(266,907)
Profit from operations		324,810	272,649
Finance costs	*5(a)*	(3,472)	(4,858)
Share of profits less losses of associates		4,020	14,422
Profit before taxation	*5*	325,358	282,213
Income tax	*6*	(24,997)	(31,771)
Profit for the year		300,361	250,442
Attributable to:			
Equity shareholders of the Company		300,605	250,442
Non-controlling interests		(244)	–
Profit for the year		300,361	250,442

	Note	2015 *HK$'000*	2014 *HK$'000*
Dividends	*7*		
Interim dividend declared and paid during the year		49,611	39,343
Final dividend proposed after the end of the reporting period		101,030	98,879
		150,641	138,222
Earnings per share (in HK cents)	*8*		
Basic		91.2 cents	76.5 cents
Diluted		90.4 cents	74.8 cents

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2015

	2015	2014
	HK$'000	*HK$'000*
Profit for the year	300,361	250,442
Other comprehensive income for the year (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
Transfer to profit of loss upon disposal of an associate	(12,099)	–
Foreign currency translation adjustments: net movement in the exchange reserve	(35,652)	(27,462)
Available-for-sale securities: net movement in the fair value reserve	(3,601)	138
Other comprehensive income for the year	(51,352)	(27,324)
Total comprehensive income for the year	249,009	223,118
Attributable to:		
Equity shareholders of the Company	249,253	223,118
Non-controlling interests	(244)	–
Total comprehensive income for the year	249,009	223,118

Consolidated statement of financial position

At 31 December 2015

	Note	2015 HK$'000	2014 HK$'000
Non-current assets			
Fixed assets			
– Property, plant and equipment		401,604	486,455
– Interest in leasehold land held for own use under operating leases		11,004	12,200
		412,608	498,655
Interest in associates	9	4,747	124,627
Loans receivable		31,000	46,500
Other financial assets		57,353	29,569
Deferred tax assets		725	725
		506,433	700,076
Current assets			
Trading securities		160,891	158,919
Inventories		472,995	383,789
Trade and other receivables	10	530,296	603,822
Other financial assets		–	19,840
Current tax recoverable		515	9,707
Fixed deposits with banks		–	38,370
Cash and cash equivalents		767,393	536,501
		1,932,090	1,750,948
Current liabilities			
Trade and other payables	11	376,288	411,695
Bank loans		136,395	184,362
Current tax payable		3,862	13,010
		516,545	609,067
Net current assets		1,415,545	1,141,881
Total assets less current liabilities		1,921,978	1,841,957

	Note	2015 HK$'000	2014 HK$'000
Non-current liabilities			
Bank loans		8,879	44,395
Deferred tax liabilities		7,663	5,461
NET ASSETS		1,905,436	1,792,101
CAPITAL AND RESERVES			
Share capital		82,782	81,979
Reserves		1,822,654	1,709,878
Total equity attributable to equity shareholders of the Company		1,905,436	1,791,857
Non-controlling interests		–	244
TOTAL EQUITY		1,905,436	1,792,101

Notes:

1. BASIS OF PREPARATION

The final results set out in this announcement do not constitute the consolidated financial statements of the Group for the year ended 31 December 2015 but are extracted therefrom.

The Group's financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies used in the preparation of the financial statements are consistent with those used in the financial statements for the year ended 31 December 2014.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the group:

– Annual Improvements to HKFRSs 2010-2012 Cycle

– Annual Improvements to HKFRSs 2011-2013 Cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, *Related party disclosures* has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity.

3. REVENUE AND SEGMENT REPORTING

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture and sale of liquid crystal modules and related products.

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues in 2015 (2014: one). In 2015 revenues from sales to this customer in terms of sales amount, including sales to entities which are known to the Group to be under common control with such customer, amounted to approximately HK$252,213,000 (2014: HK$276,681,000).

(a) Operating segment results

The Group manages its business as a single unit and, accordingly, the design, manufacture and sale of liquid crystal modules and related products is the only reporting segment and virtually all of the revenue and operating profits is derived from this business segment. The financial information is already presented in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. Accordingly, no separate business segment information is disclosed.

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined that a single operating segment exists based on this internal reporting.

The Board assesses the performance of the operating segments based on revenue which is consistent with that in the financial information. Other information, being the total assets excluding deferred tax assets, loans receivable, other financial assets, trading securities, current tax recoverable and the interest in associates, all of which are managed on a central basis, are provided to the Board to assess the performance of the operating segment.

(b) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenues from external customers and (ii) the Group's fixed assets and interest in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and the location of operations, in the case of interest in associates.

(i) Group's revenue from external customers

	2015	**2014**
	HK$'000	*HK$'000*
The People's Republic of China ("PRC") (place of domicile)	834,310	923,550
Europe	973,131	942,295
America	287,774	315,827
Korea	161,542	206,008
Others	231,063	225,378
	1,653,510	1,689,508
Consolidated revenue	2,487,820	2,613,058

Revenue from external customers located in Europe is analysed as follows:

	2015	**2014**
	HK$'000	*HK$'000*
United Kingdom	145,246	115,162
France	138,968	150,636
Germany	126,459	115,815
Italy	63,592	68,146
Other European countries	498,866	492,536
	973,131	942,295

(ii) Group's specified non-current assets

	2015	**2014**
	HK$'000	*HK$'000*
The PRC (place of domicile)	409,013	495,931
Germany	–	119,349
Korea	4,747	5,278
Others	3,595	2,724
	417,355	623,282

4. OTHER OPERATING INCOME

	2015	2014
	HK$'000	*HK$'000*
Dividend income from listed equity securities	7,507	585
Interest income from listed debt securities	716	971
Interest income from non-listed debt securities	–	167
Other interest income	6,200	2,917
Gain on disposal of an associate *(Note 9)*	48,828	–
Net gain on disposal of fixed assets	68	–
Net realised and unrealised gain on trading securities	20,413	14,438
Net exchange gain	3,556	18,858
Government grants	3,680	–
Other income/(loss)	6,236	(632)
	97,204	37,304

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2015	2014
	HK$'000	*HK$'000*
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	3,472	4,858
(b) Impairment losses recognised/(reversed)		
Trade and other receivables in respect of:		
– allowance for doubtful debts	931	(63)
– allowance for sales returns provision	1,976	(2,836)
(c) Other items		
Cost of inventories	1,885,313	2,003,916
Auditors' remuneration:		
– audit services fees	3,129	3,027
– non-audit services fees	300	300
Research and development costs	140,824	190,029
Operating lease charges: minimum lease payments		
– hire of assets (including property rentals)	6,571	6,663
Contributions to defined contribution retirement plans	31,274	25,651
Equity settled share-based payment expenses	4,791	705

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Taxation in the consolidated statement of profit or loss represents:

	2015	2014
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	16,196	17,458
Over-provision in respect of prior years	(8,617)	(7,268)
	7,579	10,190
Current tax – the PRC income taxes		
Provision for the year	12,764	17,265
Over-provision in respect of prior years	(4,640)	(5,027)
	8,124	12,238
Current tax – Jurisdictions outside Hong Kong and the PRC		
Provision for the year	7,681	9,824
Over-provision in respect of prior years	(589)	(403)
	7,092	9,421
Deferred tax		
Origination and reversal of temporary differences	2,202	(78)
	24,997	31,771

The provision for Hong Kong Profits Tax for 2015 is calculated at 16.5% (2014: 16.5%) of the estimated assessable profits for the year. Taxation for subsidiaries with operations outside Hong Kong and the PRC is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

7. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2015	2014
	HK$'000	*HK$'000*
Interim dividend declared and paid of 15.0 HK cents (2014: 12.0 HK cents) per share	49,611	39,343
Final dividend proposed after the end of reporting period of 30.5 HK cents (2014: 30.0 HK cents) per share	101,030	98,879
	150,641	138,222

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2015	2014
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 30.0 HK cents (2014: 38.0 HK cents) per share	98,879	124,239

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of HK$300,605,000 (2014: HK$250,442,000) and the weighted average number of shares of 329,633,424 shares (2014: 327,261,561 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2015	2014
	Number of shares	*Number of shares*
Issued ordinary shares at 1 January	327,915,204	326,485,204
Effect of share options exercised	1,718,220	776,357
Weighted average number of ordinary shares at 31 December	329,633,424	327,261,561

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of HK$300,605,000 (2014: HK$250,442,000) and the weighted average number of shares of 332,525,052 shares (2014: 334,655,668 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2015	2014
	Number of shares	*Number of shares*
Weighted average number of ordinary shares at 31 December	329,633,424	327,261,561
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	2,891,628	7,394,107
Weighted average number of ordinary shares (diluted) at 31 December	332,525,052	334,655,668

9. INTEREST IN ASSOCIATES

On 28 January 2015, the Group entered into an agreement with a third party, to dispose of the Group's entire interest in Data Modul AG, a then associate of the Group, at a consideration of EUR19,393,990. The transaction was completed on 14 April 2015. A gain on disposal of HK$48,828,000 (Note 4) was recognised in the profit or loss for the year ended 31 December 2015. Further details are set out in the Company's announcement dated 28 January 2015.

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	2015	2014
	HK$'000	*HK$'000*
Within 60 days of the invoice issue date	363,767	388,079
61 to 90 days after the invoice issue date	72,944	92,688
91 to 120 days after the invoice issue date	25,510	53,843
More than 120 days but less than 12 months after the invoice issue date	16,650	33,142
	478,871	567,752

Trade debtors and bills receivable are generally due within 60 to 90 days from the date of billing.

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	2015	2014
	HK$'000	*HK$'000*
Within 60 days of supplier invoice date	232,976	249,309
61 to 120 days after supplier invoice date	73,023	77,284
More than 120 days but within 12 months after supplier invoice date	6,917	5,578
More than 12 months after supplier invoice date	427	808
	313,343	332,979

12. CAPITAL COMMITMENTS

Capital commitments outstanding at the end of the reporting period not provided for in the financial information were as follows:

	2015	2014
	HK$'000	*HK$'000*
Contracted for	10,974	9,707
Authorised but not contracted for	24,351	21,531
	35,325	31,238

13. CONTINGENT LIABILITIES

Financial guarantees issued

As at the end of the reporting period, the Company has issued guarantees to banks in respect of banking facilities granted to certain subsidiaries.

As at the end of the reporting period, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued and the facilities drawn down by the subsidiaries is HK$145,274,000 (2014: HK$228,757,000).

The Company has not recognised any deferred income in respect of the guarantees as their fair value cannot be reliably measured using observable market data.

14. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

On 3 February 2016, the Company and BOE Technology Group Co., Ltd. ("the Subscriber") entered into a subscription agreement, pursuant to which, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, a total of 400,000,000 ordinary shares of the Company at an issue price of HK$3.50 per share ("the Subscription"). The aggregate subscription price amounts to approximately HK$1,400,000,000. In connection with the Subscription, the board of directors of the Company will consider declaring a special dividend of HK$1.35 per share to the ordinary shareholders of the Company conditional upon completion of the Subscription, the payment of which will be subject to and after completion of Subscription. Pursuant to the subscription agreement, the Subscriber has agreed to waive its entitlement to the special dividend and the proposed final dividend of the Company for the year ended 31 December 2015. The subscription shares will be issued pursuant to the specific mandate to be obtained at a special general meeting of the Company. Further details are set out in the Company's announcement dated 16 February 2016.

B. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2014

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss
for the year ended 31 December 2014
(Expressed in Hong Kong dollars)

	Note	2014 $'000	2013 $'000
Turnover	3	2,613,058	2,604,172
Other operating income/(loss)	4	37,304	(18,456)
Change in inventories of finished goods and work in progress		(48,253)	102,023
Raw materials and consumables used		(1,536,793)	(1,654,315)
Staff costs		(418,218)	(384,707)
Depreciation		(107,542)	(83,698)
Other operating expenses		(266,907)	(252,790)
Profit from operations		272,649	312,229
Finance costs	5(a)	(4,858)	(2,446)
Share of profits less losses of associates		14,422	4,767
Profit before taxation	5	282,213	314,550
Income tax	6(a)	(31,771)	(71,400)
Profit for the year		250,442	243,150
Attributable to:			
Equity shareholders of the Company	9	250,442	243,150
Non-controlling interests		–	–
Profit for the year		250,442	243,150
Earnings per share (in HK cents)	11		
Basic		76.5 cents	74.7 cents
Diluted		74.8 cents	73.5 cents

Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 26(b).

Consolidated Statement of Profit or Loss and other Comprehensive Income
for the year ended 31 December 2014
(Expressed in Hong Kong dollars)

	Note	2014 *$'000*	2013 *$'000*
Profit for the year		250,442	243,150
Other comprehensive income for the year (after tax and reclassification adjustments):	*10*		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments: net movement in the exchange reserve		(27,462)	32,344
Available-for-sale securities: net movement in the fair value reserve		138	938
Other comprehensive income for the year		(27,324)	33,282
Total comprehensive income for the year		223,118	276,432
Attributable to:			
Equity shareholders of the Company		223,118	276,432
Non-controlling interests		–	–
Total comprehensive income for the year		223,118	276,432

Consolidated Statement of Financial Position

at 31 December 2014

(Expressed in Hong Kong dollars)

	Note	2014 $'000	2013 $'000
Non-current assets			
Fixed assets	13		
– Property, plant and equipment		486,455	553,095
– Interest in leasehold land held for own use under operating leases		12,200	13,350
		498,655	566,445
Interest in associates	15	124,627	114,247
Loans receivable	16	46,500	62,000
Other financial assets	17	29,569	29,878
Deferred tax assets	24(b)	725	725
		700,076	773,295
Current assets			
Trading securities	18	158,919	141,032
Inventories	19	383,789	464,292
Trade and other receivables	20	603,822	657,022
Other financial assets	17	19,840	41,600
Current tax recoverable	24(a)	9,707	3,506
Fixed deposits with banks	21	38,370	–
Cash and cash equivalents	21	536,501	555,148
		1,750,948	1,862,600
Current liabilities			
Trade and other payables	22	411,695	548,020
Bank loans	23	184,362	243,086
Current tax payable	24(a)	13,010	51,919
		609,067	843,025
Net current assets		1,141,881	1,019,575
Total assets less current liabilities		1,841,957	1,792,870
Non-current liabilities			
Bank loans	23	44,395	59,147
Deferred tax liabilities	24(b)	5,461	5,539
		49,856	64,686
NET ASSETS		1,792,101	1,728,184

	Note	2014 $'000	2013 $'000
CAPITAL AND RESERVES			
Share capital	*26(c)*	81,979	81,621
Reserves		1,709,878	1,646,319
Total equity attributable to equity shareholders of the Company		1,791,857	1,727,940
Non-controlling interests		244	244
TOTAL EQUITY		1,792,101	1,728,184

Statement of Financial Position
at 31 December 2014
(Expressed in Hong Kong dollars)

	Note	**2014** $'000	**2013** $'000
Non-current assets			
Investments in subsidiaries	*14*	969,275	851,865
Loans receivable	*16*	46,500	62,000
		1,015,775	913,865
Current assets			
Other receivables	*20*	15,832	37,879
Cash and cash equivalents	*21*	6,652	2,121
		22,484	40,000
Current liabilities			
Other payables	*22*	8,349	7,347
Current tax payable	*24(a)*	2	3
		8,351	7,350
Net current assets		14,133	32,650
NET ASSETS		1,029,908	946,515
CAPITAL AND RESERVES			
Share capital	*26(c)*	81,979	81,621
Reserves	*26(a)*	947,929	864,894
TOTAL EQUITY		1,029,908	946,515

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

(Expressed in Hong Kong dollars)

	Note	Share capital *(note 26(c))* *$'000*	Share premium *(note 26(d)(i))* *$'000*	Exchange reserve *(note 26(d)(iii))* *$'000*	Fair value reserve *(note 26(d)(iv))* *$'000*	Capital reserve *(note 26(d)(v))* *$'000*	Other reserves *(note 26(d)(vi))* *$'000*	Retained profits *$'000*	Total *$'000*	Non-controlling interests *$'000*	Total equity *$'000*
		Attributable to shareholders of the Company									
Balance at 1 January 2013		81,049	697,739	76,391	13,868	19,212	2,165	658,400	1,548,824	244	1,549,068
Changes in equity for 2013:											
Profit for the year		–	–	–	–	–	–	243,150	243,150	–	243,150
Other comprehensive income	*10*	–	–	32,344	938	–	–	–	33,282	–	33,282
Total comprehensive income		–	–	32,344	938	–	–	243,150	276,432	–	276,432
Transfer to surplus reserve		–	–	–	–	–	10,301	(10,301)	–	–	–
Dividends approved in respect of the previous year	*26(b)(ii)*	–	–	–	–	–	–	(65,143)	(65,143)	–	(65,143)
Issuance of shares upon exercise of share options	*26(c)(ii)*	572	7,252	–	–	(2,099)	–	–	5,725	–	5,725
Equity settled share-based transactions		–	–	–	–	1,273	–	–	1,273	–	1,273
Dividends declared in respect of the current year	*26(b)(i)*	–	–	–	–	–	–	(39,171)	(39,171)	–	(39,171)
Balance at 31 December 2013 and 1 January 2014		81,621	704,991	108,735	14,806	18,386	12,466	786,935	1,727,940	244	1,728,184
Changes in equity for 2014:											
Profit for the year		–	–	–	–	–	–	250,442	250,442	–	250,442
Other comprehensive income	*10*	–	–	(27,462)	138	–	–	–	(27,324)	–	(27,324)
Total comprehensive income		–	–	(27,462)	138	–	–	250,442	223,118	–	223,118
Dividends approved in respect of the previous year	*26(b)(ii)*	–	–	–	–	–	–	(124,239)	(124,239)	–	(124,239)
Issuance of shares upon exercise of share options	*26(c)(ii)*	358	4,661	–	–	(1,343)	–	–	3,676	–	3,676
Equity settled share-based transactions		–	–	–	–	705	–	–	705	–	705
Dividends declared in respect of the current year	*26(b)(i)*	–	–	–	–	–	–	(39,343)	(39,343)	–	(39,343)
Balance at 31 December 2014		81,979	709,652	81,273	14,944	17,748	12,466	873,795	1,791,857	244	1,792,101

Consolidated Cash Flow Statement

for the year ended 31 December 2014

(Expressed in Hong Kong dollars)

	Note	2014 $'000	2013 $'000
Operating activities			
Cash generated from operations	21(b)	344,556	388,821
Tax paid			
– Hong Kong Profits Tax paid		(53,008)	(6,173)
– People's Republic of China ("PRC") income taxes paid		(17,020)	(12,372)
– Tax paid in respect of jurisdictions outside Hong Kong and the PRC		(6,931)	(7,778)
Net cash generated from operating activities		267,597	362,498
Investing activities			
Proceeds from disposal of fixed assets		1	64
Payment for the purchase of fixed assets		(70,537)	(118,064)
Payment for the purchase of held-to-maturity debt securities		(4,410)	–
Payment for the purchase of certificates of deposits		(31,871)	(46,731)
Placement of fixed deposit with banks		(38,370)	–
Proceeds from redemption of certificates of deposits		31,754	31,115
Proceeds from redemption of held-to-maturity debt securities		25,000	–
Proceeds from consideration received from disposal of non-listed available-for-sale equity securities and associated loans receivable		37,200	–
Proceeds from the sale of trading securities		9,354	10,831
Payment for the purchase of trading securities		(12,803)	(52,567)
Dividends received from investments in trading and available-for-sale securities		585	2,924
Dividends received from associates		4,473	4,252
Interest received		4,324	5,953
Net cash used in investing activities		(45,300)	(162,223)
Financing activities			
Issuance of shares upon exercise of share options	26(c)(ii)	3,676	5,725
Proceeds from new bank loans		227,815	259,245
Repayment of bank loans		(296,692)	(267,910)
Interest paid		(4,662)	(4,528)
Dividends paid		(163,582)	(104,314)
Net cash used in financing activities		(233,445)	(111,782)
Net (decrease)/increase in cash and cash equivalents		(11,148)	88,493
Cash and cash equivalents at 1 January		555,148	464,178
Effect of foreign exchange rates changes		(7,499)	2,477
Cash and cash equivalents at 31 December	21(a)	536,501	555,148

Notes to The Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as available-for-sale or as trading securities and derivative financial instruments are stated at their fair value (see notes 1(g) and (h)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of which the following amendments are relevant to the Group and the Company:

– Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

– Amendments to HKAS 32, Offsetting financial assets and financial liabilities

– Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amend HKFRSs are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit ("CGU") whose recoverable amount is based on fair value less costs of disposal. The initial adoption in 2014 do not have an impact on these financial statements as the Company does not have any impaired non-financial assets as at 31 December 2014.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)).

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identified net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (see notes 1(f) and (k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of associates and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of associates' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss.

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the accounting policies set out in notes 1(u)(ii) and 1(u)(iii) respectively.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 1(k)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(k)).

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At the end of each reporting period date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(u)(ii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(u)(iii). When these investments are derecognised or impaired (see note 1(k)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(x)).

Construction in progress is stated at cost, which comprises construction expenditure, including interest costs on related borrowed funds, to the extent that they are regarded as an adjustment to interest costs during the construction period, and the cost of related equipment. Capitalisation of these costs ceases and the construction in progress is transferred to relevant categories of fixed assets when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate authorities. No depreciation is provided in respect of construction in progress.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

–	Land and buildings	40 years
–	Plant and machinery	2 to 8 years
–	Tools and equipment	2 to 5 years
–	Others	2 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the lease term. Impairment losses are recognised in accordance with the accounting policy set out in note 1(k).

(k) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. Impairment losses for equity securities at cost are not reversed.

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. This assessment is made collectively where financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that had been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

  Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for bad and doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– prepaid interest in leasehold land classified as being held for own use under operating leases;

– goodwill; and

– investments in subsidiaries and associates in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

– *Reversal of impairment losses*

In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment losses of doubtful debts (see note 1(k)), except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Loans receivable

Loans receivable are recognised initially at fair value and thereafter stated at amortised cost using the effective interest method, less any identified impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired (see note 1(k)(i)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(t)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised at the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of returns and any trade discounts.

(ii) Dividends

Dividend income from listed investments is recognised when the share price of the security goes ex-dividend. Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(v) Research and development

Research and development expenditure is recognised as an expense in the period in which it is incurred.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations with functional currency other than Hong Kong dollars are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than Hong Kong dollars, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Related parties

(1) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(2) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 17, 25 and 27(g) contain information about assumptions and their risk factors relating to valuation of other non-current financial assets, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of assets

Internal and external sources of information are reviewed by the Group at the end of each reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

(b) Write-down of inventories

The Group reviews the carrying amounts of the inventories at the end of each reporting period to determine whether the inventories are carried at lower of cost and net realisable value in accordance with the accounting policy set out in note 1(l). Management estimates net realisable value based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversal of write-down made in prior years and affect the Group's net asset value and profit or loss.

(c) Depreciation

Property, plant and equipment are depreciated on a straight line basis over the estimated useful lives of the assets. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's technological experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimations.

(d) Recognition of deferred tax assets

The Group has recognised deferred tax assets which arose from deductible temporary differences as set out in note 24(b). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the assets can be utilised. In case where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

3. TURNOVER

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture and sale of liquid crystal displays ("LCDs") and related products.

Turnover represents the invoiced value of goods supplied to customers by the Group less returns and discounts.

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues in 2014 (2013: one). In 2014 revenues from sales to this customer in terms of sales amount, including sales to entities which are known to the Group to be under common control with such customer, amounted to approximately $276,681,000 (2013: $265,913,000). Details of concentrations of credit risk are set out in note 27(a).

Further details regarding the Group's segment reporting are disclosed in note 12 to these financial statements.

4. OTHER OPERATING INCOME/(LOSS)

	2014	**2013**
	$'000	*$'000*
Dividend income from listed equity securities	585	2,924
Interest income from listed debt securities	971	2,295
Interest income from non-listed debt securities	167	2,727
Other interest income	2,917	931
Net gain on disposal of fixed assets	–	64
Impairment loss and loss on disposal on non-listed available-for-sale equity securities and associated loans receivable *(note)*	–	(58,470)
Net realised and unrealised gain on trading securities	14,438	2,246
Net exchange gain	18,858	11,447
Government grants	–	9,165
Other (loss)/income	(632)	8,215
	37,304	(18,456)

Note: During the year ended 31 December 2013, the Company completed a transaction to sell its entire equity interest in a non-listed equity securities and associated loans receivable at a consideration of US$12,800,000 (equivalent to $99,200,000). An impairment loss of $40,700,000 and a loss on disposal of $17,770,000 had been recognised. US$2,800,000 (equivalent to $21,700,000) of the consideration was payable in January 2014 and the remaining US$10,000,000 (equivalent to $77,500,000) is receivable by five equal annual instalments starting from 1 July 2014 and has been recognised as loans receivable. Further details of transaction are set out in the Company's announcements dated 13 September 2013 and 31 October 2013. As at 31 December 2014, the Company has received US$2,800,000 (equivalent to $21,700,000) and US$2,000,000 (equivalent to $15,500,000) according to the repayment schedule.

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2014	**2013**
	$'000	*$'000*
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	4,858	4,725
Less: interest expense capitalised into construction in progress*	–	(2,279)
	4,858	2,446

* The borrowing costs had been capitalised at a rate of 1.30 – 1.73% per annum during the year ended 31 December 2013.

	2014	2013
	$'000	*$'000*
(b) Impairment losses (reversed)/recognised		
Trade and other receivables in respect of:		
– allowance for doubtful debts	(63)	–
– allowance for sales return provision	(2,836)	1,042

	2014	2013
	$'000	*$'000*
(c) Other items		
Cost of inventories *(note 19(b))*	2,003,916	1,916,528
Auditors' remuneration:		
– audit services fees	3,027	3,390
– non-audit services fees	300	300
Research and development costs	190,029	186,890
Operating lease charges: minimum lease payments – hire of assets (including property rentals)	6,663	6,283
Contributions to defined contribution retirement plans	25,651	21,558
Equity settled share-based payment expenses	705	1,273

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2014	2013
	$'000	*$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	17,458	44,546
Over-provision in respect of prior years	(7,268)	(264)
	10,190	44,282
Current tax – the PRC income taxes		
Provision for the year	17,265	21,541
Over-provision in respect of prior years	(5,027)	(3,394)
	12,238	18,147
Current tax – Jurisdictions outside Hong Kong and the PRC		
Provision for the year	9,824	6,327
Over-provision in respect of prior years	(403)	(1,115)
	9,421	5,212
Deferred tax		
Origination and reversal of temporary differences *(note 24(b))*	(78)	3,759
	31,771	71,400

(i) Hong Kong Profits Tax

The provision for Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year.

(ii) PRC income taxes

According to the Corporate Income Tax Law of the PRC with effect from 1 January 2008, the standard corporate income tax rate for enterprises in the PRC is 25%.

Varitronix (Heyuan) Display Technology Limited ("Varitronix Heyuan"), a subsidiary of the Group, was designated as high and new technology enterprise, which qualified for a reduced Corporate Income Tax rate of 15%. Accordingly, Varitronix Heyuan's applicable tax rate is 15% for the years ended 31 December 2013 and 2014.

Withholding tax is levied on dividend distributions arising from profit of Varitronix Heyuan earned after 1 January 2008 based on an applicable tax rate at 5%.

(iii) Jurisdictions outside Hong Kong and the PRC

Taxation for subsidiaries with operations outside Hong Kong and the PRC is charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2014	**2013**
	$'000	*$'000*
Profit before taxation	282,213	314,550
Notional tax expense on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	44,148	77,533
Tax effect of non-deductible expenses	6,170	12,285
Tax effect of non-taxable income	(6,752)	(4,323)
Tax effect of tax rates differentials in respect of tax expenses for jurisdictions outside local operations	(362)	(12,343)
Tax effect of unused tax losses not recognised	1,265	3,021
Over-provisions in respect of prior years	(12,698)	(4,773)
Actual tax expense	31,771	71,400

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), and the requirements of the Listing Rules is as follows:

Year ended 31 December 2013

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Share-based payments	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Executive Directors						
Ko Chun Shun, Johnson	–	2,779	400	120	226	3,525
Tsoi Tong Hoo, Tony	–	5,200	5,000	240	226	10,666
Ho Te Hwai, Cecil	–	540	300	12	142	994
Yuen Kin	–	2,061	300	15	95	2,471
Non-executive Directors						
Dr. Lo Wing Yan, William	200	–	–	–	47	247
Hou Ziqiang	200	–	–	–	47	247
Chau Shing Yim, David	200	–	–	–	47	247
Total	600	10,580	6,000	387	830	18,397

Year ended 31 December 2014

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Share-based payments	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Executive Directors						
Ko Chun Shun, Johnson	–	2,526	400	64	118	3,108
Tsoi Tong Hoo, Tony	–	6,100	5,500	285	118	12,003
Ho Te Hwai, Cecil	–	240	300	12	75	627
Yuen Kin	–	1,760	–	13	50	1,823
Ko Wing Yan, Samantha	–	382	150	4	–	536
Non-executive Directors						
Dr. Lo Wing Yan, William	200	–	–	–	25	225
Hou Ziqiang	200	–	–	–	25	225
Chau Shing Yim, David	200	–	–	–	25	225
Total	600	11,008	6,350	378	436	18,772

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2013: three) are Directors, whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2013: two) individuals are as follows:

	2014	**2013**
	$'000	*$'000*
Salaries and allowances	4,527	3,889
Retirement scheme contributions	119	113
	4,646	4,002

The emoluments of the two (2013: two) individuals with the highest emoluments are within the following band:

	2014	**2013**
	Number of individual	*Number of individual*
$1,500,001 – $2,500,000	1	2
$2,500,001 – $3,000,000	1	–

9. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of $2,406,000 (2013: $62,451,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2014	**2013**
	$'000	*$'000*
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	(2,406)	(62,451)
Dividends from subsidiaries attributable to the profits of subsidiaries, approved and paid during the year	245,000	264,000
Company's profit for the year *(note 26(a))*	242,594	201,549

10. OTHER COMPREHENSIVE INCOME

There are no tax effects in respect of the components of other comprehensive income.

Components of other comprehensive income are as follows:

	2014	**2013**
	$'000	*$'000*
Foreign currency translation adjustments:		
Exchange differences on translation of financial statements of operations outside Hong Kong	(27,462)	32,344
Available-for-sale securities:		
Changes in fair value recognised during the year	302	938
Reclassification to profit or loss on impairment	(164)	–
	138	938

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of $250,442,000 (2013: $243,150,000) and the weighted average number of shares of 327,261,561 shares (2013: 325,607,204 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2014	2013
Issued ordinary shares at 1 January	326,485,204	324,195,204
Effect of share options exercised	776,357	1,412,000
Weighted average number of ordinary shares at 31 December	327,261,561	325,607,204

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of $250,442,000 (2013: $243,150,000) and the weighted average number of shares of 334,655,668 shares (2013: 330,912,087 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2014	2013
Weighted average number of ordinary shares at 31 December	327,261,561	325,607,204
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	7,394,107	5,304,883
Weighted average number of ordinary shares (diluted) at 31 December	334,655,668	330,912,087

12. SEGMENT REPORTING

(a) Operating segment results

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 turnover and operating profits is derived from this business segment. The consolidated financial statements are already presented in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. Accordingly, no separate business segment information is disclosed.

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined that a single operating segment exists based on this internal reporting.

The Board assesses the performance of the operating segments based on turnover which is consistent with that in the consolidated financial statements. Other information, being the total assets excluding deferred tax assets, loans receivable, other financial assets, trading securities, current tax recoverable and the interest in associates, all of which are managed on a central basis, are provided to the Board to assess the performance of the operating segment.

(b) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenues from external customers and (ii) the Group's fixed assets and interest in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and the location of operations, in the case of interest in associates.

(i) Group's revenues from external customers

	2014	**2013**
	$'000	*$'000*
The PRC (place of domicile)	923,550	913,846
Europe	942,295	947,475
America	315,827	304,436
Korea	206,008	242,894
Others	225,378	195,521
	1,689,508	1,690,326
Consolidated turnover	2,613,058	2,604,172

Revenue from external customers located in Europe is analysed as follows:

	2014	**2013**
	$'000	*$'000*
France	150,636	194,698
Germany	115,815	93,048
United Kingdom	115,162	112,053
Italy	68,146	67,492
Other European countries	492,536	480,184
	942,295	947,475

(ii) Group's specified non-current assets

	2014	**2013**
	$'000	**$'000**
The PRC (place of domicile)	495,931	563,183
Germany	119,349	109,048
Korea	5,278	5,199
Others	2,724	3,262
	623,282	680,692

13. FIXED ASSETS

The Group

	Land and buildings held for own use	Construction in progress	Plant, machinery, tools and equipment	Others	Sub-total	Interest in leasehold land held for own use under operating leases	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost:							
At 1 January 2013	82,115	73,655	1,108,073	147,160	1,411,003	20,862	1,431,865
Exchange adjustments	2,152	2,376	25,225	3,164	32,917	552	33,469
Additions	38,468	–	66,507	6,821	111,796	–	111,796
Transfer	75,946	(76,031)	–	85	–	–	–
Disposals	–	–	(1,570)	(1,372)	(2,942)	–	(2,942)
At 31 December 2013	198,681	–	1,198,235	155,858	1,552,774	21,414	1,574,188
At 1 January 2014	198,681	–	1,198,235	155,858	1,552,774	21,414	1,574,188
Exchange adjustments	(5,857)	–	(24,567)	(3,428)	(33,852)	(552)	(34,404)
Additions	7,589	–	42,712	4,916	55,217	–	55,217
Transfer	–	–	–	–	–	–	–
Disposals	–	–	(745)	(208)	(953)	–	(953)
At 31 December 2014	200,413	–	1,215,635	157,138	1,573,186	20,862	1,594,048
Accumulated amortisation and depreciation:							
At 1 January 2013	27,027	–	758,827	120,690	906,544	7,195	913,739
Exchange adjustments	712	–	10,622	1,790	13,124	124	13,248
Charge for the year	4,018	–	69,886	9,049	82,953	745	83,698
Written back on disposals	–	–	(1,570)	(1,372)	(2,942)	–	(2,942)
At 31 December 2013	31,757	–	837,765	130,157	999,679	8,064	1,007,743
At 1 January 2014	31,757	–	837,765	130,157	999,679	8,064	1,007,743
Exchange adjustments	(951)	–	(15,075)	(2,768)	(18,794)	(146)	(18,940)
Charge for the year	8,172	–	92,475	6,151	106,798	744	107,542
Written back on disposals	–	–	(744)	(208)	(952)	–	(952)
At 31 December 2014	38,978	–	914,421	133,332	1,086,731	8,662	1,095,393
Net book value:							
At 31 December 2014	161,435	–	301,214	23,806	486,455	12,200	498,655
At 31 December 2013	166,924	–	360,470	25,701	553,095	13,350	566,445

(a) Other fixed assets comprise mainly leasehold improvements, furniture, fixtures, office equipment and motor vehicles.

(b) The analysis of the net book value of properties is as follows:

	2014	2013
	$'000	*$'000*
In Hong Kong		
– medium-term leases	259	267
Outside Hong Kong		
– freehold	7,040	7,340
– medium-term leases	166,336	172,667
	173,376	180,007
	173,635	180,274
Representing:		
Land and buildings held for own use	161,435	166,924
Interest in leasehold land held for own use under operating leases	12,200	13,350
	173,635	180,274

14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2014	**2013**
	$'000	*$'000*
Non-listed shares, at cost	101,453	101,453
Amounts due from subsidiaries	867,822	750,412
	969,275	851,865

All of these are controlled subsidiaries as defined under note 1(d) and have been consolidated into the Group's financial statements.

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms but the Company will not demand repayment within 12 months from the end of the reporting period.

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
In Achieve Investments Limited	British Virgin Islands/Hong Kong	1,000 ordinary shares of US$1 each	100%	–	100%	Holding of investment securities
Kingstep Asia Limited	Hong Kong	1 ordinary share	100%	–	100%	Holding of investment securities
Link Score Investment Limited	Hong Kong	100 ordinary shares	100%	–	100%	Investment holding
Polysources Properties Limited	Hong Kong	2 ordinary shares 154 non-voting deferred ordinary shares	100%	–	100%	Property holding
Selamead Holdings Limited	British Virgin Islands/Hong Kong	100 ordinary shares of US$1 each	100%	–	100%	Holding of investment securities
Starel Trading Limited	Republic of Cyprus/United Kingdom	1,000 shares of €1.71 each	100%	–	100%	Property holding
Steding Limited	British Virgin Islands/Hong Kong	1,000 ordinary shares of US$1 each	100%	–	100%	Holding of investment securities
Varitronix Limited	Hong Kong	2 ordinary shares 1,848 non-voting deferred ordinary shares	100%	–	100%	Design and sale of LCDs and related products
Varitronix (B.V.I.) Limited	British Virgin Islands/Hong Kong	18,480 ordinary shares of US$1 each	100%	100%	–	Investment holding
Varitronix Finance Limited	British Virgin Islands/Hong Kong	100 ordinary shares of US$1 each	100%	–	100%	Provision of financial co-ordination services for group companies and holding of investment securities
Varitronix France SAS	France	2,500 ordinary shares of € 15.25 each	100%	–	100%	Marketing and sales consultants

Name of company	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Varitronix GmbH	Germany	100,000 shares of €0.51 each	100%	–	100%	Marketing and sales consultants
Varitronix (Heyuan) Display Technology Limited#	The People's Republic of China	Paid-up registered capital RMB687,701,310	100%	–	100%	Manufacture and sale of LCDs and related products
Varitronix Investment Limited	British Virgin Islands/Hong Kong	5,000 ordinary shares of US$1 each	100%	–	100%	Holding of investment securities
Varitronix Italy s.r.l.	Italy	12,000 ordinary shares of €1 each	100%	–	100%	Marketing and sales consultants
Varitronix (Switzerland) GmbH	Switzerland	Registered capital CHF30,000	100%	–	100%	Marketing and sales consultants
Varitronix (U.K.) Limited	United Kingdom	100 ordinary shares of GBP10 each	100%	–	100%	Marketing and sales consultants
VL Electronics, Inc.	United States	5,000 common stock of US$10 each	100%	–	100%	Marketing and sales consultants

#	*Name of company*	*Type of legal entity*
	Varitronix (Heyuan) Display Technology Limited	Wholly owned foreign enterprise

15. INTEREST IN ASSOCIATES

	The Group 2014	2013
	$'000	*$'000*
Share of net assets	123,371	112,938
Amount due from an associate	1,256	1,309
	124,627	114,247

The amount due from an associate is unsecured, interest free and has no fixed repayment terms but the Group will not require repayment within 12 months from the end of the reporting period.

(a) Particulars of the associates

Set out below are the particulars of the associates of the Group:

Name of associate	Place of incorporation and operation	Particulars of issued share capital/ registered capital	Attributable indirect equity interest % held	Principal activity
New On Technology Company Limited	Korea	40,000 ordinary shares of KRW5,000 each	50%	Trading of electronic components
Data Modul AG* ("Data Modul")	Germany	3,394,000 common stock of no-par value bearer shares	20%	Production and distribution of electronic components and systems

* Data Modul's shares are listed on the Frankfurt Stock Exchange. The market price of Data Modul's shares as at 31 December 2014 was Euro 20.32 (2013: Euro 16.59) per share. The market value of the Group's effective interest in Data Modul as at 31 December 2014 is Euro 14,327,000 (2013: Euro 11,703,000) (equivalent to $134,816,000 (2013: $124,992,000)).

(b) Summary of financial information on associates

Summarised financial information of Data Modul, adjusted for any differences in accounting policies and fair value adjustments recognised on the date of acquisition, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2014	**2013**
	$'000	*$'000*
Gross amounts of Data Modul's:		
Current assets	733,100	812,992
Non-current assets	165,142	172,670
Current liabilities	(248,603)	(409,728)
Non-current liabilities	(52,894)	(30,694)
Equity	596,745	545,240
Revenue	1,616,651	1,523,923
Profit from continuing operations	70,665	20,320
Other comprehensive income	6,481	(1,787)
Total comprehensive income	77,146	18,533
Dividend received from Data Modul	4,473	4,252
Reconciled to the Group's interests in Data Modul:		
Gross amounts of net assets of Data Modul	596,745	545,240
Group's effective interest	20%	20%
Group's share of net assets of Data Modul in the consolidated financial statements	119,349	109,048

Information of associate that is not individually material:

	2014	2013
	$'000	*$'000*
Carrying amount of the individually immaterial associate in the consolidated financial statements	5,278	5,199
Amounts of the Group's share of that associate's:		
– Profit from continuing operations	289	703
– Other comprehensive income	–	–
Total comprehensive income	289	703

16. LOANS RECEIVABLE

Loans receivable are unsecured, interest free but guaranteed by the ultimate holding company of the debtor.

The loans receivable are repayable as follows:

	The Group		The Company	
	2014	2013	2014	2013
	$'000	*$'000*	*$'000*	*$'000*
Within 1 year*	15,500	15,500	15,500	15,500
After 1 year but within 5 years	46,500	62,000	46,500	62,000
	62,000	77,500	62,000	77,500

* The current portion of loans receivable has been included in trade and other receivables (note 20).

17. OTHER FINANCIAL ASSETS

	The Group	
	2014	2013
	$'000	*$'000*
Non-current portion		
Available-for-sale debt securities		
Listed outside Hong Kong, carried at fair value	10,491	10,388
Available-for-sale mutual funds		
Non-listed, carried at fair value	7,519	7,168
Available-for-sale equity securities		
Listed in Hong Kong	11,559	12,322
Total other non-current financial assets	29,569	29,878

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	$'000	*$'000*	*$'000*	*$'000*
Current portion				
Held-to-maturity debt securities				
Listed outside Hong Kong, carried at amortised cost	–	25,600	–	–
Unlisted	4,340	–	–	–
	4,340	25,600	–	–
Certificate of deposits				
Issued by financial institutions in Hong Kong	15,500	16,000	–	–
Total current financial assets	19,840	41,600	–	–

The held-to-maturity debt securities are not past due or impaired.

18. TRADING SECURITIES

	The Group	
	2014	**2013**
	$'000	*$'000*
Listed debt securities at fair value		
– Outside Hong Kong	–	3,835
Listed equity securities at fair value		
– In Hong Kong	158,919	137,197
Total	158,919	141,032

19. INVENTORIES

(a) Inventories in the statement of financial position comprise:

	The Group	
	2014	**2013**
	$'000	*$'000*
Raw materials	142,700	174,949
Work in progress	100,378	116,305
Finished goods	140,711	173,038
	383,789	464,292

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2014	**2013**
	$'000	*$'000*
Carrying amount of inventories sold	2,001,707	1,920,674
Write-down of inventories	3,563	15
Reversal of write-down of inventories	(1,354)	(4,161)
	2,003,916	1,916,528

The reversal of write-down of inventories made in prior years is due to an increase in the estimated net realisable value of certain thin-film transistor LCDs as a result of changes in customer preferences.

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	$'000	*$'000*	*$'000*	*$'000*
Trade debtors and bills receivable	573,538	595,647	–	–
Less: Allowance for doubtful debts	(2,412)	(2,475)	–	–
Allowance for sales returns	(3,374)	(6,210)	–	–
	567,752	586,962	–	–
Other receivables	26,116	59,847	15,500	37,549
Deposits and prepayments	9,954	10,213	332	330
	603,822	657,022	15,832	37,879

Except for the Group's rental deposit of $95,000 (2013: $1,020,000), all of the trade and other receivables are expected to be recovered or recognised as expense within 12 months from the end of the reporting period.

(a) Ageing analysis

As at the end of the reporting period, the ageing analysis of trade debtors and bills receivable which are included in trade and other receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	The Group	
	2014	**2013**
	$'000	*$'000*
Within 60 days of the invoice issue date	388,079	397,379
61 to 90 days after the invoice issue date	92,688	115,501
91 to 120 days after the invoice issue date	53,843	58,260
More than 120 days but less than 12 months after the invoice issue date	33,142	15,822
	567,752	586,962

Trade debtors and bills receivable are generally due within 60 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 27(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(k)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group 2014 *$'000*	2013 *$'000*
At 1 January	2,475	2,475
Impairment loss reversed	(63)	–
At 31 December	2,412	2,475

The movement in the allowance for sales returns during the year, including both specific and collective estimation of sales returns, is as follows:

	The Group 2014 *$'000*	2013 *$'000*
At 1 January	6,210	5,168
Allowance for sales returns (reversed)/recognised	(2,836)	1,042
At 31 December	3,374	6,210

At 31 December 2014, the Group's trade debtors and bills receivable of $2,412,000 (2013: $2,475,000) were individually determined to be impaired. The individually impaired receivables related to customers those were in financial difficulties and management assessed that none of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $2,412,000 (2013: $2,475,000) were recognised.

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group 2014 *$'000*	2013 *$'000*
Neither past due nor impaired	388,394	398,371
Less than 1 month	92,793	115,527
1 to 2 months	54,067	58,480
More than 2 months but less than 12 months	35,872	20,794
	182,732	194,801
	571,126	593,172

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

21. CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS WITH BANKS

(a) Cash and cash equivalents and fixed deposits with banks comprise:

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	$'000	*$'000*	*$'000*	*$'000*
Fixed deposits with banks with maturity over 3 months but within 1 year	38,370	–	–	–
Deposits with banks and other financial institutions with maturity up to 3 months	105,775	104,240	–	–
Cash at banks and in hand	430,726	450,908	6,652	2,121
Cash and cash equivalents	536,501	555,148	6,652	2,121

(b) Reconciliation of profit before taxation to cash generated from operations:

		2014	**2013**
	Note	*$'000*	*$'000*
Profit before taxation		282,213	314,550
Adjustments for:			
Depreciation		107,542	83,698
Finance costs	*5(a)*	4,858	2,446
Dividend income from listed equity securities	*4*	(585)	(2,924)
Interest income		(4,055)	(5,953)
Net realised and unrealised gain on trading securities	*4*	(14,438)	(2,246)
Impairment loss and loss on disposal on non-listed available-for-sale equity securities and associated loans receivable	*4*	–	58,470
Share of profits less losses of associates		(14,422)	(4,767)
Net gain on disposal of fixed assets	*4*	–	(64)
Equity settled share-based payment expenses	*5(c)*	705	1,273
Foreign exchange gain		(777)	(5,278)
		361,041	439,205
Changes in working capital:			
Decrease/(increase) in inventories		78,634	(96,412)
Decrease/(increase) in trade and other receivables		27,408	(91,399)
(Decrease)/increase in trade and other payables		(122,527)	137,427
Cash generated from operations		344,556	388,821

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2014	2013	2014	2013
	$'000	*$'000*	*$'000*	*$'000*
Trade creditors	332,979	452,296	–	–
Accrued charges and other payables	78,716	95,724	8,349	7,347
	411,695	548,020	8,349	7,347

All creditors and accrued charges of the Group are expected to be settled or recognised as income within one year or are repayable on demand.

As at the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group	
	2014	2013
	$'000	*$'000*
Within 60 days of supplier invoice date	249,309	351,786
61 to 120 days after supplier invoice date	77,284	92,484
More than 120 days but within 12 months after supplier invoice date	5,578	6,920
More than 12 months after supplier invoice date	808	1,106
	332,979	452,296

23. BANK LOANS

At 31 December 2014, the unsecured and interest-bearing bank loans are repayable as follows:

	The Group	
	2014	2013
	$'000	*$'000*
Current portion		
Within 1 year or on demand	184,362	243,086
Non-current portion		
After 1 year but within 2 years	35,516	59,147
After 2 years but within 5 years	8,879	–
	44,395	59,147
	228,757	302,233

All of the Group's banking facilities are subject to the fulfilment of covenants relating to the Group's statement of financial position ratios which are commonly found in lending arrangements with financial institutions. In the event that the Group breaches the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Such banking facilities amounted to $711,909,000 (2013: $628,394,000) as at 31 December 2014. The facilities were utilised to the extent of $228,757,000 (2013: $302,233,000). Further details of the Group's management of liquidity risk are set out in note 27(b). As at 31 December 2014 and 2013, none of the covenants relating to drawn down facilities has been breached.

24. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position represents:

	The Group		The Company	
	2014	**2013**	**2014**	**2013**
	$'000	*$'000*	*$'000*	*$'000*
Provision for Hong Kong Profits Tax for the year	17,458	44,546	–	–
Provisional Hong Kong Profits Tax paid	(25,386)	(6,860)	–	–
	(7,928)	37,686	–	–
Balance of Hong Kong Profits Tax relating to prior years	7,518	4,722	–	–
Taxation in respect of PRC income taxes	4,401	9,183	–	–
Taxation in respect of jurisdictions outside Hong Kong and the PRC	(688)	(3,178)	2	3
	3,303	48,413	2	3
Current tax recoverable	(9,707)	(3,506)	–	–
Current tax payable	13,010	51,919	2	3
	3,303	48,413	2	3

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowances in excess/(deficit) of the related depreciation	Provisions	Unremitted earnings	Total
	$'000	*$'000*	*$'000*	*$'000*
Deferred tax arising from:				
At 1 January 2013	70	(220)	1,205	1,055
(Credited)/charged to profit or loss *(note 6(a))*	(36)	–	3,795	3,759
At 31 December 2013	34	(220)	5,000	4,814
At 1 January 2014	34	(220)	5,000	4,814
Credited to profit or loss *(note 6(a))*	(78)	–	–	(78)
At 31 December 2014	(44)	(220)	5,000	4,736

The reconciliation to the consolidated statement of financial position is as follows:

	2014	2013
	$'000	*$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	(725)	(725)
Net deferred tax liabilities recognised in the consolidated statement of financial position	5,461	5,539
	4,736	4,814

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $58,161,000 (2013: $48,529,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities for the foreseeable future. None of the tax losses expire under the current tax legislation.

25. EQUITY SETTLED SHARE-BASED TRANSACTIONS

A share option scheme (the "Share Option Scheme") of the Company was adopted on 12 May 2003 as an incentive for the Group's employees and business associates. The Directors are authorised, at their discretion, to invite any employee, director, including executive and non-executive directors or business associate of any company in the Group (the "Current Participants") to take up options to subscribe for shares in the Company at a price determined by the Board and notified to each grantee and which will not be less than the closing price of the shares on the Stock Exchange of Hong Kong (the "Stock Exchange") on the date of offer of the option granted to such grantee or the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option granted to such grantee or the nominal value of the shares, whichever is higher.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and any other Share Option Schemes of the Company may not exceed 10 percent of the issued share capital of the Company at the date of approval of the Share Option Scheme. The options under the Share Option Scheme are exercisable for a period of ten years from the date of grant.

On 24 June 2010, the Company granted 11,700,000 share options to the Current Participants under the Share Option Scheme. Each share option entitles the holder to subscribe for one share of $0.25 of the Company at an exercise price of $2.50. The contractual life of these share options is the period from the date on which an option certificate is issued after acceptance by the grantees and expiring on 30 June 2016. Among the 11,700,000 share options granted, 7,000,000 share options were granted to the Directors. Further details are set out in the Company's announcement dated 24 June 2010.

A new Share Option Scheme of the Company was adopted on 3 June 2013. It shall be valid and effective for a period of 10 years ending 2 June 2023.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors:			
– 22 July 2005	3,000,000	Immediate from the date of grant	10 years
– 19 December 2005	6,000,000	Immediate from the date of grant	10 years
– 24 June 2010	7,000,000	Exercisable in five equal tranches immediately from 1 July of each year from 2011 to 2015	Expire at the close of business on 30 June 2016

	Number of options	Vesting conditions	Contractual life of options
Options granted to employees:			
– 6 October 2003	126,000	Immediate from the date of grant	10 years
– 20 December 2004	1,697,000	Immediate from the date of grant	10 years
– 24 June 2010	4,700,000	Exercisable in five equal tranches immediately from 1 July of each year from 2011 to 2015	Expire at the close of business on 30 June 2016
Others:			
– 21 December 2004	300,000	Immediate from the date of grant	10 years
– 19 December 2005	3,000,000	Immediate from the date of grant	10 years

(b) The number and weighted average exercise prices of share options are as follows:

	2014		2013	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	$4.79	22,343,000	$4.59	24,880,000
Exercised during the year	$2.57	(1,430,000)	$2.50	(2,290,000)
Forfeited during the year	N/A	–	$3.37	(121,000)
Lapsed during the year	$7.49	(1,953,000)	$7.35	(126,000)
Outstanding at the end of the year	$4.68	18,960,000	$4.79	22,343,000
Exercisable at the end of the year		16,670,000		17,763,000

There was no option granted during the year ended 31 December 2014 (2013: Nil).

The weighted average share price at the date of exercise for share options exercised during the year was $7.83 (2013: $5.61).

The options outstanding at 31 December 2014 had an exercise price which ranged from $2.50 to $6.60 (2013: $2.50 to $7.50) and a weighted average remaining contractual life of 1.10 years (2013: 2.02 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted was measured based on the Black-Scholes pricing model. The contractual life of the share option and expectations of early exercise were incorporated into the Black-Scholes pricing model.

Fair value of and assumptions for share options granted on 24 June 2010	
Fair value at measurement date	$0.94
Share price	$2.50
Exercise price	$2.50
Weighted average volatility	43.89% – 50.29%
Weighted average share option life	3.52 – 5.52 years
Expected dividends	0.8%
Risk-free interest rate (based on Exchange Fund Notes)	1.30% – 1.80%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends were based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition had not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

26. CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	**Share capital** *$'000*	**Share premium** *(Note 26(d)(i))* *$'000*	**Contributed surplus** *(Note 26(d)(ii))* *$'000*	**Capital reserve** *(Note 26(d)(v))* *$'000*	**Retained profits/ (accumulated losses)** *$'000*	**Total** *$'000*
Balance at 1 January 2013		81,049	697,739	51,636	19,212	(7,354)	842,282
Changes in equity for 2013:							
Final dividends approved in respect of the previous year	*26(b)(ii)*	–	–	–	–	(65,143)	(65,143)
Profit and total comprehensive income for the year	*9*	–	–	–	–	201,549	201,549
Issuance of shares under share option scheme	*26(c)(ii)*	572	7,252	–	(2,099)	–	5,725
Equity settled share-based transactions		–	–	–	1,273	–	1,273
Interim dividend declared in respect of the current year	*26(b)(i)*	–	–	–	–	(39,171)	(39,171)
Balance at 31 December 2013		81,621	704,991	51,636	18,386	89,881	946,515
Balance at 1 January 2014		81,621	704,991	51,636	18,386	89,881	946,515
Changes in equity for 2014:							
Final dividends approved in respect of the previous year	*26(b)(ii)*	–	–	–	–	(124,239)	(124,239)
Profit and total comprehensive income for the year	*9*	–	–	–	–	242,594	242,594
Issuance of shares under share option scheme	*26(c)(ii)*	358	4,661	–	(1,343)	–	3,676
Equity settled share-based transactions		–	–	–	705	–	705
Interim dividend declared in respect of the current year	*26(b)(i)*	–	–	–	–	(39,343)	(39,343)
Balance at 31 December 2014		81,979	709,652	51,636	17,748	168,893	1,029,908

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2014	2013
	$'000	*$'000*
Interim dividend declared and paid of 12.0 HK cents (2013: 12.0 HK cents) per share	39,343	39,171
Final dividend proposed after the end of reporting period of 30.0 HK cents (2013: 38.0 HK cents) per share	98,375	124,239
	137,718	163,410

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2014	2013
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 38.0 HK cents (2013: 20.0 HK cents) per share	124,239	65,143

(c) Share capital

(i) Authorised and issued share capital

	2014		2013	
	No. of shares '000	*Amount $'000*	*No. of shares '000*	*Amount $'000*
Authorised:				
Ordinary shares of $0.25 each	400,000	100,000	400,000	100,000
Ordinary shares, issued and fully paid:				
At 1 January	326,485	81,621	324,195	81,049
Issuance of shares under share option scheme	1,430	358	2,290	572
At 31 December	327,915	81,979	326,485	81,621

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Issuance of shares under share option scheme

During the year ended 31 December 2014, options have been exercised to subscribe for 1,430,000 ordinary shares (2013: 2,290,000 ordinary shares) in the Company at a consideration of $3,676,000 (2013: $5,725,000) of which $358,000 (2013: $572,000) was credited to share capital and the balance of $3,318,000 (2013: $5,153,000) was credited to the share premium account. $1,343,000 (2013: $2,099,000) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(r)(ii).

(iii) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	2014	2013
	HK$	*Number*	*Number*
20 December 2004 to 19 December 2014	7.50	–	1,673,000
21 December 2004 to 20 December 2014	7.45	–	300,000
22 July 2005 to 21 July 2015	6.60	3,000,000	3,000,000
19 December 2005 to 18 December 2015	5.73	9,000,000	9,000,000
1 July 2011 to 30 June 2016	2.50	6,960,000	8,370,000
		18,960,000	22,343,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 25 to the financial statements.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by sections 150 and 157 of the Company's Articles of Association and the Companies Act 1981 of Bermuda.

(ii) Contributed surplus

The excess value of the shares of the subsidiaries acquired pursuant to the Group reorganisation scheme in 1991 over the nominal value of the new shares of the Company issued in exchange is credited to the contributed surplus account. Under the Companies Act 1981 of Bermuda (as amended) and the Bye-laws of the Company, the contributed surplus is distributable to shareholders. However, the Directors have no current intention to distribute this surplus.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

(iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 1(g) and 1(k).

(v) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(r)(ii).

(vi) Other reserves

Other reserves comprise statutory reserves required in respect of a subsidiary in accordance with the relevant rules and regulations in the PRC and the premium paid for the acquisition of non-controlling interests.

(vii) Distributability of reserves

At 31 December 2014, the aggregate amount of reserves available for distribution to shareholders of the Company was $220,529,000 (2013: $141,517,000).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings and trade and other payables) plus unaccrued proposed dividends, less trading securities, fixed deposits with banks and cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2014, the Group's strategy, which was unchanged from 2013, was to maintain a stable net debt-to-adjusted capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The adjusted net debt-to-capital ratio at 31 December 2014 and 2013 was as follows:

		The Group	
		2014	**2013**
	Note	*$'000*	*$'000*
Current liabilities			
Trade and other payables	*22*	411,695	548,020
Bank loans	*23*	184,362	243,086
		596,057	791,106
Non-current liabilities			
Bank loans	*23*	44,395	59,147
Total debt		640,452	850,253
Add: Proposed dividends		98,375	124,239
Less: Trading securities	*18*	(158,919)	(141,032)
Fixed deposits with banks	*21*	(38,370)	–
Cash and cash equivalents	*21*	(536,501)	(555,148)
Net debt		5,037	278,312
Total equity		1,792,101	1,728,184
Less: Proposed dividends		(98,375)	(124,239)
Adjusted capital		1,693,726	1,603,945
Adjusted net debt-to-capital ratio		0.3%	17.4%

The Company is not subject to any externally imposed capital requirements. The Group is subject to certain externally imposed capital requirements to maintain the value of net assets at a level specified in its bank loan covenants (note 23).

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash at bank, deposits with banks and other financial institutions, trade and other receivables, loans receivable and investments in debt and equity securities. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations. Cash at bank and deposits with banks and other financial institutions are placed with licensed financial institutions with high credit ratings. The Group monitors the exposure to each financial institution.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. The status of the receivable is closely monitored to minimise any credit risk associated with these receivables. Trade receivables are generally due within 60 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

In respect of loans receivable, the Group reviews the borrowers' financial information periodically. Management considers the credit quality of such loans to be good since the borrowers have a good repayment history.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 2% (2013: 3%) and 12% (2013: 19%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, in the statement of financial position after deducting any impairment allowance. Except for the financial guarantees given by the Group as set out in note 29, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of reporting period is disclosed in note 29.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and cash equivalents and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates currently applicable at the end of reporting period) and the earliest date that the Group and the Company can be required to pay:

The Group

	2014 Contractual undiscounted cash outflow					2013 Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at 31 December	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at 31 December
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Non-derivative liabilities:										
Bank loans	186,435	36,242	8,929	231,606	228,757	245,062	59,781	–	304,843	302,233
Trade and other payables	411,695	–	–	411,695	411,695	548,020	–	–	548,020	548,020
	598,130	36,242	8,929	643,301	640,452	793,082	59,781	–	852,863	850,253

The Company

	2014 Contractual undiscounted cash outflow					2013 Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at 31 December	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at 31 December
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Other payables	8,349	–	–	8,349	8,349	7,347	–	–	7,347	7,347
Financial guarantees issued:										
Maximum amount guaranteed *(note 29)*	186,435	36,242	8,929	231,606	228,757	245,062	59,781	–	304,843	302,233

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings issued at variable rates which expose the Group to cash flow interest rate risk. Loans receivable of $46,500,000 (2013: $62,000,000) are interest free and are carried at amortised cost. Held-to-maturity debt securities of $4,340,000 (2013: $25,600,000) bear interest at fixed rates and are carried at amortised cost. Accordingly, they do not expose the Group to cash flow interest rate risk on their interest income or fair value interest rate risk on their carrying amounts. In respect of available-for-sale debt securities of $10,491,000 (2013: $10,388,000) carried at fair value, they bear fixed interest rates and do not expose the Group to cash flow interest rate risk but expose the Group to fair value interest rate risk. The Group regularly reviews its strategy on interest rate risk management in light of prevailing market conditions.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	The Group			
	2014		2013	
	Effective interest rate		*Effective interest rate*	
	%	*$'000*	*%*	*$'000*
Fixed rate borrowings:				
Bank loans	2.07	139,058	1.72	118,294
Variable rate borrowings:				
Bank loans	1.01	89,699	1.31	183,939
Total net borrowings		228,757		302,233
Net fixed rate borrowings as a percentage of total net borrowings		60.8%		39.1%

(ii) Sensitivity analysis

At 31 December 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and its retained profits by approximately $749,000 (2013: $1,536,000). Other components of equity would not be materially affected by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments held by the Group. The impact on the Group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis has been performed on the same basis for 2013.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The Group is also exposed to currency risk through bank loans drawn and other financial assets acquired which are denominated in a foreign currency. The currencies giving rise to these risks are primarily United States dollars, Euros, Japanese Yen and Renminbi.

There is currently no hedging policy adopted by the Group with respect to its foreign exchange exposure. Most of the sales and purchases are made in the respective functional currency of each group entity, except for group entities whose functional currency is Hong Kong dollars, certain transactions are denominated in United States dollars and Japanese Yen. Given the Hong Kong dollar is pegged to the United States dollar, the Group does not expect that there will be any significant currency risk associated with such United States dollars denominated transactions. In respect of balances denominated in other currencies, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

	2014 Exposure to foreign currencies (expressed in Hong Kong dollars)				2013 Exposure to foreign currencies (expressed in Hong Kong dollars)			
	United States Dollars	Euros	Japanese Yen	Renminbi	United States Dollars	Euros	Japanese Yen	Renminbi
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
The Group								
Trade and other receivables	370,807	–	–	146	490,883	–	–	–
Other financial assets	–	–	–	4,340	–	–	–	25,600
Loans receivable	46,500	–	–	–	–	–	–	–
Cash and cash equivalents	295,366	15,663	7,838	39,196	299,747	11,996	24	13,227
Fixed deposits with banks	–	–	–	38,370	–	–	–	–
Trade and other payables	(105,933)	(502)	(89,350)	–	(199,659)	(486)	(80,871)	–
Bank loans	(164,043)	–	(64,714)	–	(211,749)	–	(37,151)	–
	442,697	15,161	(146,226)	82,052	379,222	11,510	(117,998)	38,827
The Company								
Other receivables	15,500	–	–	–	99,200	–	–	–
Cash and cash equivalents	6,394	–	–	–	1,832	–	–	–
Loans receivable	46,500	–	–	–	–	–	–	–
	68,394	–	–	–	101,032	–	–	–

In addition, the Group exposed to currency risk arising from inter-company receivables and payables denominated in currency other than the functional currency of either the lender or the borrower. The net inter-company receivables amounted to United States dollars 10,137,000 and Renminbi 9,690,000 (2013: receivables/(payables) amounted to United States dollars 10,002,000 and Renminbi (233,263,000)).

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies for group entities whose functional currency is Hong Kong dollars.

	2014			2013		
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after taxation and retained profits	Increase/ (decrease) in other components of equity	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after taxation and retained profits	Increase/ (decrease) in other components of equity
		$'000	*$'000*		*$'000*	*$'000*
The Group						
United States dollars	10%	15,767	–	10%	19,972	–
	(10)%	(15,767)	–	(10)%	(19,972)	–
Euros	10%	1,524	–	10%	1,159	–
	(10)%	(1,524)	–	(10)%	(1,159)	–
Japanese Yen	10%	(13,418)	–	10%	(10,465)	–
	(10)%	13,418	–	(10)%	10,465	–
Renminbi	10%	8,203	–	10%	(22,243)	–
	(10)%	(8,203)	–	(10)%	22,243	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after taxation and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis has been performed on the same basis for 2013.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 18) and available-for-sale securities (see note 17). Other than unquoted securities held for strategic purposes, all of these investments are listed or with quoted market price provided by financial institutions.

Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the relevant stock indexes and other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The Group's unquoted investments were held for long term strategic purposes. Their performance was assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

With regards to securities held as trading securities and available-for-sale securities, as at 31 December 2014 it is estimated that an increase/decrease of 3% in the relevant stock market index (for listed investments) with all other variables held constant would have increased/decreased the Group's profit after taxation and retained profits by approximately $1,485,000 (2013: $2,093,000). Other components of equity would not be materially affected.

The sensitivity analysis indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant.

The analysis has been performed on the same basis for 2013.

(f) Fair values

Financial instruments carried at fair value

The following table represents the carrying value of the financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial instruments: Disclosures, with the fair value of each financial instruments categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	The Group		
	Level 1	Level 2	Total
	$'000	*$'000*	*$'000*
2014			
Assets			
Non-listed available-for-sale mutual funds	–	7,519	7,519
Listed available-for-sale debt securities	10,491	–	10,491
Listed available-for-sale equity securities	11,559	–	11,559
Trading securities	158,919	–	158,919
	180,969	7,519	188,488

	The Group		
	Level 1	Level 2	Total
	$'000	*$'000*	*$'000*
2013			
Assets			
Non-listed available-for-sale mutual funds	–	7,168	7,168
Listed available-for-sale debt securities	10,388	–	10,388
Listed available-for-sale equity securities	12,322	–	12,322
Trading securities	141,032	–	141,032
	163,742	7,168	170,910

During the year there were no significant transfers between instruments in Level 1 and Level 2.

Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2014 and 2013.

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Securities

Fair value is based on quoted market prices at the end of the reporting period without any deduction for transaction costs.

(ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iii) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

28. COMMITMENTS

(a) Capital commitments outstanding at the end of the reporting period not provided for in the financial statements were as follows:

	The Group	
	2014	**2013**
	$'000	*$'000*
Contracted for	9,707	31,331
Authorised but not contracted for	21,531	27,948
	31,238	59,279

(b) At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2014	**2013**
	$'000	*$'000*
Within 1 year	4,246	5,721
After 1 year but within 5 years	304	3,294
	4,550	9,015

All operating leases are for properties. The leases typically run for an initial period of 1 to 3 years, with an option to renew the leases when all terms are renegotiated. Lease payments are usually increased every year to reflect market rentals. None of the leases includes contingent rentals.

29. CONTINGENT LIABILITIES

Financial guarantees issued

As at the end of the reporting period, the Company has issued guarantees to banks in respect of banking facilities granted to certain subsidiaries.

As at the end of the reporting period, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued and the facilities drawn down by the subsidiaries is $228,757,000 (2013: $302,233,000).

The Company has not recognised any deferred income in respect of the guarantees as their fair value cannot be reliably measured using observable market data.

30. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

On 28 January 2015, the Group entered into an agreement to sell the Group's entire interest in Data Modul at a consideration of EUR19,393,990. Upon completion of the sale, Data Modul will cease to be an associate of the Group.

Upon completion of the disposal, the Group expects to record a gain on the disposal (before deducting the related translation costs) of approximately $53,000,000 in profit or loss based on a retranslation of the aggregate consideration at the applicable foreign exchange rate as of 19 March 2015.

Further details are set out in the Company's announcement dated 28 January 2015.

31. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Directors is disclosed in note 7 and certain of the highest paid employees is disclosed in note 8.

(b) Recurring transactions

During the year, the Group sold goods amounting to $56,797,000 (2013: $52,011,000) to Data Modul AG, an associate of the Group. The Directors of the Company are of the opinion that this related party transaction was conducted on normal commercial terms with reference to prevailing market prices, and in the ordinary course of business.

(c) Applicability of the Listing Rules relating to connected transactions

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Annual improvements to HKFRSs 2010-2012 cycle	1 July 2014
Annual improvements to HKFRSs 2011-2013 cycle	1 July 2014
Amendments to HKFRS 11, Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKFRS 15, Revenue from contracts with customers	1 January 2017
HKFRS 9, Financial instruments	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the above developments are relevant to the Group's financial statements but the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the company's first financial year commencing after 3 March 2014 (i.e. the company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The company is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the financial statements.

3. INDEBTEDNESS STATEMENT

At the close of business on 31 December 2015, being the most recent practicable date, the Group had outstanding unsecured bank loans of approximately HK$145 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 December 2015 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

4. MATERIAL CHANGE

"Save for (i) the Subscription which will enhance the net assets and liquidity position of the Group; (ii) the incoming of the Subscriber (through BOE(HK)) as the new substantial Shareholder; (iii) the framework relating to the future cooperation of TFT business segment set out in the Subscription Agreement as detailed in the section headed "Future intentions of the Subscriber regarding the Group" in the letter from the Board; and (iv) the net unrealised loss in respect of the Group's trading securities (comprising listed equity securities in Hong Kong) for the two months ended 29 February 2016 as a result of the change in market prices representing approximately 6% of the fair value as at 31 December 2015, the Directors confirm that, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date."

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 (other than information relating to the Subscriber, BOE (HK) and parties acting in concert with any of them) 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.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Subscriber, BOE (HK) and parties acting in concert with any of them) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the Subscriber, BOE (HK) and parties acting in concert with any of them) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information in relation to the Subscriber and/or BOE (HK) contained in this circular has been supplied by the directors of the Subscriber and the directors of BOE (HK).

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

2. MARKET PRICES

The closing prices of the Shares quoted on the Stock Exchange (i) at the end of each of the calendar months during the Relevant Period; (ii) on the Last Trading Day; and (iii) on the Latest Practicable Date.

Date	Closing price per Share *(HK$)*
31 August 2015	5.45
30 September 2015	5.16
30 October 2015	5.31
30 November 2015	5.16
31 December 2015	5.45
29 January 2016	5.48
3 February 2016 (being the Last Trading Day)	5.28
29 February 2016	5.48
18 March 2016 (being the Latest Practicable Date)	5.47

The lowest and highest closing market prices of the Shares recorded on the Stock Exchange during the Relevant Period were HK$5.04 on 15 December 2015 and HK$6.23 on 11 August 2015, respectively.

3. SHARE CAPITAL, OPTIONS, WARRANTS AND CONVERTIBLE SECURITIES

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised	**HK$**
400,000,000 Shares	100,000,000
Issued and fully paid or credited as fully paid	**HK$**
331,245,204 Shares	82,811,301

Save for the Share Options to subscribe for 12,030,000 Shares, the Company did not have any outstanding options, warrants or derivatives or convertible rights affecting the Shares as at the Latest Practicable Date.

All Shares in issue rank pari passu in all respects with each other including rights to dividends, voting and return of capital.

Save for the issue of 40,000 Shares and 80,000 Shares on 8 January 2016 and 29 January 2016 respectively pursuant to the exercise of some share options of the Company, the Company had not issued any Shares since 31 December 2015, the date to which the latest published financial statements of the Group were made up, up to the Latest Practicable Date.

4. INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at the Latest Practicable Date, the following Directors or chief executive of the Company or their associates had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO including interest and short positions which were taken or deemed to have been taken under such provisions of the SFO; (ii) recorded in the register to be kept under Section 352 of the SFO; (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company; or (iv) disclosed in this circular pursuant to the requirements of the Takeovers Code.

Long positions in Shares and underlying Shares

	Number of Shares held		Number of underlying Shares held		
Name of Director	**Beneficial owner**	**Interests of controlled corporation**	**Beneficial owner** *(Note 2)*	**Total**	**Approximately percentage of total issued Shares**
Mr. Ko Chun Shun, Johnson	–	54,651,000 *(Note 1)*	3,900,000	58,551,000	17.68%
Ms. Ko Wing Yan, Samantha	247,000	–	2,000,000	2,247,000	0.68%
Mr. Ho Te Hwai, Cecil	250,000	–	1,950,000	2,200,000	0.66%
Dr. Lo Wing Yan, William J.P.	–	–	380,000	380,000	0.11%
Mr. Chau Shing Yim, David	–	–	460,000	460,000	0.14%
Mr. Hou Ziqiang	–	–	700,000	700,000	0.21%

Notes:

1. These Shares are held by Rockstead Technology Limited ("Rockstead") and Omnicorp Limited ("Omnicorp") as to 43,951,000 Shares and 10,700,000 Shares respectively. Rockstead and Omnicorp are wholly and beneficially owned by Mr. Ko Chun Shun, Johnson. By virtue of the SFO, Mr. Ko Chun Shun, Johnson is deemed to be interested in the Shares held by Rockstead and Omnicorp.

2. These represent the interests in Share Options held by the relevant Director as a beneficial owner to subscribe for the relevant underlying Shares under the share option schemes of the Company.

Save as disclosed above, at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) 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 were taken or deemed to have been taken under such provisions of the SFO) or the Model Code adopted by the Company; (ii) entered in the register required to be kept under section 352 of the SFO; or (iii) disclosed in this circular pursuant to the requirements of the Takeovers Code.

5. ADDITIONAL DISCLOSURE UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date:

(a) no Shares acquired by BOE (HK) in pursuance of the Subscription will be transferred, charged or pledged to any other persons;

(b) save for the Subscription Agreement and the Deed of Undertakings, no agreement, arrangement or understanding (including any compensation arrangement) existed between (i) the Subscriber, BOE (HK) or parties acting in concert with any of them; and (ii) any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription and/or the Whitewash Waiver;

(c) there was no benefit to be given to any Directors as compensation for loss of office or otherwise in connection with the Subscription and/or the Whitewash Waiver;

(d) save for the Deed of Undertakings, there was no agreement or arrangement between any Directors and any other persons which is conditional on or dependent upon the outcome of the Subscription and/or the Whitewash Waiver or otherwise connected with the Subscription and/or the Whitewash Waiver;

(e) there was no material contract entered into by BOE (HK) in which any Director had a material personal interest;

(f) the directors of the Subscriber and the directors of BOE (HK) were not interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or had not dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;

(g) no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the SGM to approve the Subscription and/or the Whitewash Waiver;

(h) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company had been borrowed or lent by any of the Company and the Directors;

(i) the Company did not have any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscriber or BOE (HK) and had no dealings in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscriber or BOE (HK) during the Relevant Period;

(j) none of the Directors had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscriber or BOE (HK) and none of them had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscriber or BOE (HK) during the Relevant Period;

(k) save as disclosed in the section headed "Effect on shareholding structure" in the letter from the Board of this circular, none of the Directors had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(l) Mr. Ko Chun Shun, Johnson and Ms. Ko Wing Yan, Samantha, executive Directors, were involved in negotiating the Subscription. Rockstead and Omnicorp (both of which are wholly owned by Mr. Ko) holding approximately 16.50% of the issued share capital of the Company in aggregate and Ms. Ko Wing Yan, Samantha holding approximately 0.07% of the issued share capital of the Company will abstain from voting on the resolutions in respect of the Subscription and the Whitewash Waiver at the SGM. Mr. Ho Te Hwai, Cecil, an executive Director holding approximately 0.08% of the issued share capital of the Company, did not involve in the discussion/negotiation of the Subscription and the Whitewash Waiver, and intends to vote in favour of the Subscription and the Whitewash Waiver;

(m) none of the Directors had dealt in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;

(n) none of the subsidiaries of the Company and none of the pension funds of the Company or its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code, owned or controlled any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(o) save for the Deed of Undertakings, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code; and

(p) no fund which was managed on a discretionary basis by any fund manager connected with the Company had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies:

(a) which (including both continuous and fixed term contracts) had been entered into or amended within six months before 3 February 2016, being the date of the Rule 3.7 Announcement;

(b) which were continuous contracts with a notice period of 12 months or more; or

(c) which were fixed term contracts with more than 12 months to run irrespective of the notice period.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor its subsidiaries was involved in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

During the two years immediately preceding 3 February 2016, being the date of the Rule 3.7 Announcement, and up to and including the Latest Practicable Date, the following material contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group, had been entered into by the Company or any of its subsidiaries:

(a) the Subscription Agreement; and

(b) the share purchase agreement dated 28 January 2015 (as amended and supplemented by the amendment agreement dated 28 January 2015) entered into between the sellers (which consist of (i) six shareholders of Data Modul AG ("Data Modul", a German stock corporation, the shares of which are listed, inter alia, at the regulated market of the Frankfurt Stock Exchange) (such six shareholders held in aggregate approximately 14.23% of the then nominal share capital of Data Modul) and (ii) the Group (which held approximately 19.99% of the then nominal share capital of Data Modul)) and Blitz 14-482 GmbH ("Blitz", being an independent third party of the Company), pursuant to which the sellers agreed to sell and Blitz agreed to purchase all the seller's shares in Data Modul at Euro 27.50 per share, resulting the aggregate consideration of Euro 33,182,353.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's head office and principal place of business in Hong Kong situated at Units A – F, 35/F., Legend Tower, No. 7 Shing Yip Street Kwun Tong, Kowloon, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of SGM. Copy of the following documents will also be available for inspection on the website of the SFC at http://www.sfc.hk and the website of the Company at http://www.varitronix.com from the date of this circular up to and including the date of the SGM.

(a) the Deed of Undertakings;

(b) the memorandum of association of the Company and the Bye-laws;

(c) the memorandum and articles of association of the Subscriber and BOE (HK);

(d) the annual report of the Company for the year ended 31 December 2014;

(e) the annual results announcement of the Company for the year ended 31 December 2015;

(f) the letter from the Board, the text of which is set out on pages 7 to 32 of this circular;

(g) the letter from the Independent Board Committee, the text of which is set out on page 33 of this circular;

(h) the letter from the Independent Financial Adviser, the text of which is set out on pages 34 to 63 of this circular;

(i) the written consent from the Independent Financial Adviser that it has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter in the form and context in which they respectively appear; and

(j) the material contracts as referred to in the section headed "Material contracts" in this appendix.

10. MISCELLANEOUS

(a) The address of the Subscriber is No. 10, Jiuxianqiao Road, Chaoyang District Beijing, the PRC.

(b) The address of BOE (HK) is Flat 4018, 40/F, Jardine House, 1 Connaught Place, Central, Hong Kong.

(c) The registered office of KGI Capital Asia Limited, a joint financial adviser to the Subscriber and BOE (HK), is 41/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(d) The registered office of Proton Capital Limited, a joint financial adviser to the Subscriber and BOE (HK), is Unit 1001, 10th Floor, Chuang's Tower, 30-32 Connaught Road Central, Hong Kong.

(e) The directors of the Subscriber are Mr. Wang Dongsheng, Mr. Xie Xiaoming, Mr. Chen Yanshun, Ms. Wang Jing, Mr. Zhang Jinsong, Mr. Liu Xiaodong, Mr. Song Jie, Ms. Dong Youmei, Mr. Ji Guoping, Mr. Yu Ning, Mr. Lu Tingjie and Mr. Wang Huacheng. The Subscriber is a joint stock company established in the PRC and the issued shares of which are listed on the Shenzhen Stock Exchange with stock code 000725 for its A shares and stock code 200725 for its B shares.

(f) The directors of BOE (HK) are Mr. Chen Yanshun, Mr. Wu Gongyuan and Ms. Gu Wei. The sole ultimate shareholder of BOE (HK) is the Subscriber.

(g) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

VARITRONIX

VARITRONIX INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 710)

NOTICE IS HEREBY GIVEN that the special general meeting of Varitronix International Limited (the "Company") will be held at Units A-F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on Thursday, 21 April 2016 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications the following resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**,

   (a) the authorised share capital of the Company be and is hereby increased from HK$100,000,000 divided into 400,000,000 shares of HK$0.25 each (each a "Share") to HK$200,000,000 divided into 800,000,000 Shares of HK$0.25 each by the creation of an additional 400,000,000 Shares (the "Increase in Authorised Share Capital"); and

   (b) any director(s) of the Company be and is hereby authorised for and on behalf of the Company to sign, seal, execute and deliver all such documents and deeds, and do all such acts, matters and things as they may in their discretion consider necessary or desirable to implement and/or effect the Increase in Authorised Share Capital."

2. "**THAT**, subject to and conditional on the passing of ordinary resolution no. 1,

   (a) the subscription agreement (the "Subscription Agreement") dated 3 February 2016 entered into between (i) the Company, and (ii) BOE Technology Group Co., Ltd, (the "Subscriber") in relation to the subscription (the "Subscription") of an aggregate of 400,000,000 new shares of the Company (the "Subscription Shares") at the subscription price of HK$3.50 each (a copy of the Subscription Agreement is tabled at the meeting and marked "A" by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified;

   (b) conditional upon the listing committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in the Subscription Shares, the specific mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with the Subscription Shares pursuant to the Subscription Agreement be and is hereby approved;

(c) any director(s) of the Company be and are hereby authorised for and on behalf of the Company to sign, seal, execute and deliver all such documents and deeds, and do all such acts, matters and things as they may in their discretion consider necessary or desirable to implement and/or effect the transactions contemplated by the Subscription Agreement, the allotment and issue of the Subscription Shares and the amendment, variation or modification of the terms and conditions of the Subscription Agreement on such terms and conditions as any director(s) of the Company may think fit."

3. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1 and 2, the waiver granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission pursuant to note 1 on dispensations for Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation of BOE Technology (HK) Limited to make a mandatory general offer to acquire all the issued ordinary shares of the Company and other securities of the Company not already owned or agreed to be acquired by the Subscriber, BOE Technology (HK) Limited and parties acting in concert with any of them, as a result of the allotment and issue of the Subscription Shares be and is hereby approved."

4. "**THAT**, the declaration and payment of a special dividend of HK$1.35 per Share (the "Special Dividend") subject to and conditional on completion of the Subscription to be paid out of the retained earnings of the Company and any shortfall, if applicable, to be paid out of the contributed surplus account of the Company to shareholders of the Company whose names appear on the register of members of the Company on the record date fixed by the board of directors of the Company (the "Board") (subject to any waiver to their entitlement by any shareholder(s) of the Company) be and is hereby approved and the Board be and is hereby authorised to effect the payment of the Special Dividend and to do all acts and things and to take such steps as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the payment of the Special Dividend."

SPECIAL RESOLUTION

5. "**THAT**, subject to compliance by the Company with section 46(2) of the Companies Act 1981 of Bermuda (the "Companies Act") and the bye-laws of the Company (the "Bye-laws"), with effect from the next business day immediately following (i) the date of passing this resolution; or (ii) the date of compliance by the Company with section 46(2) of the Companies Act, whichever the later (the "Effective Date"):-

   (a) the entire amount standing to the credit of the share premium account of the Company as at the Effective Date be cancelled and transferred to the contributed surplus account of the Company (the "Share Premium Reduction") which may be utilized by the directors of the Company at their sole discretion in accordance with the Bye-laws and all applicable laws, including, without limitation, to make a distribution to the shareholders of the Company subject to compliance with the Companies Act; and

(b) any one director of the Company be and is hereby authorized on behalf of the Company to do all such acts and sign, seal, execute and deliver all such documents and take all such actions as he/she may consider necessary or desirable for the purpose of or in connection with or to give effect to the Share Premium Reduction and the transactions contemplated thereunder."

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.