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If you are in doubt as to any aspect about this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitors, professional accountant or other professional advisor.

If you have sold or transferred all your Shares in China Display Optoelectronics Technology Holdings Limited, you should at once hand this circular and proxy form enclosed herein to the purchaser or transferee, or to the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase, or subscribe for securities.

China Display Optoelectronics Technology Holdings Limited
華顯光電技術控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 334)

**(1) RENEWAL OF
EXISTING CONTINUING CONNECTED TRANSACTIONS –
MASTER PROCESSING (2022 – 2024) AGREEMENT AND
MASTER SALE AND PURCHASE (2022 – 2024) AGREEMENT**

AND

**(2) CONTINUING CONNECTED TRANSACTIONS –
MASTER HR SUBCONTRACTING (2022 – 2024) AGREEMENT**

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



Halcyon Capital Limited

A letter from the Board is set out on pages 7 to 36 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Shareholders is set out on page 37 of this circular. A letter from Halcyon Capital Limited, the Independent Financial Advisor, containing its advice to the Independent Board Committee and the Shareholders is set out on pages 38 to 79 of this circular.

A notice convening the SGM of the Company to be held at 8th Floor, Building 22E, Phase Three, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong on 16 December 2021, Thursday at 3:00 p.m. is set out on pages 84 to 87 of this circular.

If a Typhoon Signal No. 8 or above is hoisted or a Black Rainstorm Warning Signal or "extreme conditions" as defined under Chapter 1 of the Rules of the Exchange of the Stock Exchange is/are in force at or at any time after 12:00 noon on the date of the SGM and/or the Hong Kong Observatory and/or the government of Hong Kong (as the case may be) has announced at or before 12:00 noon on the date of the SGM that either of the above mentioned warnings is to be issued within the next two hours, the SGM will be adjourned. The Company will publish an announcement to notify Shareholders of the date, time and place of the adjourned SGM.

The SGM will be held as scheduled when an Amber or Red Rainstorm Warning Signal is in force. Shareholders should decide on their own whether they would attend the SGM under bad weather conditions bearing in mind their own situation.

Whether or not you are able to attend the SGM or any adjournment thereof (as the case may be) in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, 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 the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

30 November 2021

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“August 2019 Circular”	the circular of the Company dated 28 August 2019;
“Board”	the board of Directors;
“Bye-Laws”	the bye-laws of the Company as supplemented or amended or substituted from time to time;
“close associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Company”	China Display Optoelectronics Technology Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 334);
“connected person(s)”	has the meanings ascribed to it under the Listing Rules;
“December 2018 Circular”	the circular of the Company dated 11 December 2018;
“Director(s)”	the director(s) of the Company;
“Finished Goods”	has the same meaning as Products;
“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;
“Huizhou TCL”	Huizhou TCL Human Resources Services Company Limited* (惠州TCL人力資源服務有限公司), a company established under the laws of PRC with limited liability, which was owned as to 50% respectively by each of TCL Holdings and TCL Technology as at the Latest Practicable Date;

DEFINITIONS

“Huizhou TCL Group”	Huizhou TCL and its subsidiary(ies) and any entity(ies) that may become subsidiary(ies) of Huizhou TCL from time to time, and for the purpose of the Master HR Subcontracting (2022-2024) Agreement and the transactions contemplated thereunder include the associate(s) of Huizhou TCL and any entity(ies) that may become associate(s) of Huizhou TCL from time to time but exclude the Group;
“Human Resources Services”	the provision of human resources to members of the Group in accordance with the business needs of members of the Group to complete the projects designated by members of the Group under the Master HR Subcontracting (2022-2024) Agreement;
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors established for the purpose of reviewing the Non-exempt Transactions;
“Independent Financial Advisor”	Halcyon Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial advisor appointed by the Board to advise the Independent Board Committee and the Shareholders in respect of the Non-exempt Transactions;
“Independent Third Party(ies)”	a person(s) or company(ies) which is/are independent of and not connected with any directors, chief executives, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries and their respective associates;
“Latest Practicable Date”	25 November 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“LCD”	liquid crystal display;
“LCD Module”	the integrated module of liquid crystal display, integrated circuit, connector and other structural components;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

DEFINITIONS

“Master HR Subcontracting (2022-2024) Agreement”	the master human resources subcontracting (2022-2024) agreement dated 24 November 2021 entered into between the Company and Huizhou TCL;
“Master Processing Agreement”	the master processing agreement dated 18 June 2019 entered into between TCL Technology and the Company;
“Master Processing (2019 Renewal) Agreement”	the master processing (2019 renewal) agreement dated 23 August 2019 entered into between TCL Technology and the Company;
“Master Processing (2022-2024) Agreement”	the master processing (2022-2024) agreement dated 24 November 2021 entered into between TCL Technology and the Company;
“Master Sale and Purchase (2018 Renewal) Agreement”	the master sale and purchase (2018 renewal) agreement dated 6 November 2018 entered into between TCL Technology and the Company;
“Master Sale and Purchase (2022-2024) Agreement”	the master sale and purchase (2022-2024) agreement dated 24 November 2021 entered into between TCL Technology and the Company;
“Materials”	the articles, things, parts or materials required for manufacturing or production of Products, including but not limited to light-emitting diode, iron frames and other components and parts;
“Non-exempt Transactions”	the transactions under the Master Processing (2022-2024) Agreement, Master Sale and Purchase (2022-2024) Agreement and Master HR Subcontracting (2022-2024) Agreement, together with their respective proposed annual caps;
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purpose of this circular;
“Products”	means products including but not limited to LCD modules manufactured, produced or otherwise sold or distributed by the Group;

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“Quality Specification”	the processing procedures and specifications of the Semi-Finished Materials and the Finished Goods (if applicable) provided by TCL Technology Group to the Group from time to time;
“Raw Materials”	the articles, things, components, moulds or raw materials required for manufacturing or production of Semi-Finished Materials and/or Finished Goods, including but not limited to plastic parts;
“Revenue Limit”	has the meaning ascribed thereto under the paragraph headed “Master Sale and Purchase (2022-2024) Agreement” in this circular;
“RMB”	Renminbi, the lawful currency of the PRC;
“Semi-Finished Materials”	the semi-finished materials produced or manufactured by the Group pursuant to the terms of the Master Processing (2022-2024) Agreement including but not limited to small and medium sized LCD modules which will then be used by TCL Technology Group for the manufacturing and production of TCL Technology Group Products;
“SFO”	the Securities and Futures Ordinance (Cap. 571 of Laws of Hong Kong);
“SGM”	the special general meeting of the Company to be convened and held to consider and, if thought fit, approve, among other things, the Non-exempt Transactions;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of Share(s);
“Shareholders’ Approval Date”	the date on which the Shareholders approve each of the Non-exempt Transactions;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary/subsidiaries”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules and the term “subsidiaries” shall be construed accordingly;

DEFINITIONS

“TCL Associates”	the associate(s) of TCL Technology and any entity(ies) that may become associate(s) of TCL Technology from time to time;
“TCL CSOT”	TCL China Star Optoelectronics Technology Co., Ltd.* (TCL華星光電技術有限公司), formerly known as Shenzhen China Star Optoelectronics Technology Co., Ltd.* (深圳市華星光電技術有限公司), a company established under the laws of the PRC with limited liability and a subsidiary of TCL Technology;
“TCL Holdings”	TCL Industries Holdings Co., Ltd.* (TCL實業控股股份有限公司), a company established under the laws of the PRC;
“TCL Technology”	TCL Technology Group Corporation (TCL科技集團股份有限公司), formerly known as TCL Corporation (TCL集團股份有限公司), a joint stock limited company established under the laws of the PRC, the ultimate controlling shareholder of the Company, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000100);
“TCL Technology Group”	TCL Technology, its subsidiary(ies) and any entity(ies) that may become subsidiary(ies) of TCL Technology from time to time, and for the purpose of this circular excludes the Group (unless otherwise specified) and for the purpose of the Master Processing (2022-2024) Agreement and Master Sale and Purchase (2022-2024) Agreement and the transactions contemplated thereunder, includes TCL Associates;
“TCL Technology Group Products”	products including but not limited to display panels and/or modules for television, mobile phone and tablet display manufactured or otherwise sold by the TCL Technology Group;
“Wuhan CDOT”	Wuhan China Display Optoelectronics Technology Company Limited* (武漢華顯光電技術有限公司), a company established under the laws of the PRC with limited liability and a subsidiary of Wuhan CSOT;

LETTER FROM THE BOARD

China Display Optoelectronics Technology Holdings Limited 華顯光電技術控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 334)

Non-executive Director:

Mr. LIAO Qian (*Chairman*)

Registered Office:

Clarendon House

2 Church Street

Executive Directors:

Mr. OUYANG Hongping (*Chief Executive Officer*)

Hamilton HM 11

Mr. WEN Xianzhen

Bermuda

Mr. ZHANG Feng

Principal Place of Business in Hong Kong:

8th Floor

Independent Non-executive Directors:

Building 22E

Ms. HSU Wai Man, Helen

Phase Three, Hong Kong Science Park

Mr. LI Yang

Pak Shek Kok

Mr. XU Yan

New Territories

Hong Kong

30 November 2021

To the Shareholders

Dear Sir or Madam,

**(1) RENEWAL OF
EXISTING CONTINUING CONNECTED TRANSACTIONS –
MASTER PROCESSING (2022 – 2024) AGREEMENT AND
MASTER SALE AND PURCHASE (2022 – 2024) AGREEMENT**

AND

**(2) CONTINUING CONNECTED TRANSACTIONS –
MASTER HR SUBCONTRACTING (2022 – 2024) AGREEMENT**

INTRODUCTION

Reference is made to the announcement of the Company dated 24 November 2021. As stated therein, on 24 November 2021 (after trading hours), the Company entered into various agreements with TCL Technology and Huizhou TCL and the transactions contemplated thereunder constituted continuing connected transactions, including the following three agreements:

- (i) Master Processing (2022-2024) Agreement;

LETTER FROM THE BOARD

- (ii) Master Sale and Purchase (2022-2024) Agreement; and
- (iii) Master HR Subcontracting (2022-2024) Agreement.

The purposes of this circular are:

- (i) to provide the Shareholders with further details regarding the Non-exempt Transactions;
- (ii) to set out the recommendation from the Independent Board Committee regarding the Non-exempt Transactions;
- (iii) to set out the advice from Halcyon Capital Limited, the Independent Financial Adviser, regarding the Non-exempt Transactions; and
- (iv) to give the Shareholders other information in accordance with the requirements of the Listing Rules.

The notice of SGM is enclosed herein as part of this circular.

CONTINUING CONNECTED TRANSACTIONS

(1) Master Processing (2022-2024) Agreement

Reference is made to the August 2019 Circular. As stated therein, on 23 August 2019, the Company entered into the Master Processing (2019 Renewal) Agreement with TCL Technology, which will expire on 31 December 2021. As the Company and TCL Technology wish to continue the continuing connected transactions contemplated thereunder, the Company has on 24 November 2021 (after trading hours) entered into the Master Processing (2022-2024) Agreement with TCL Technology.

The Master Processing (2022-2024) Agreement is on substantially similar terms as the Master Processing (2019 Renewal) Agreement, with the major differences set out as follows:-

- (i) the expansion in the scope of Finished Goods to cover products other than small and medium-sized LCD modules in view of the growing variety of the Group's products;
- (ii) the Group may source Raw Materials on behalf of TCL Technology Group in the event that TCL Technology Group is unable to provide sufficient Raw Materials; and
- (iii) the Master Processing (2022-2024) Agreement will be for a term of 3 years.

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The material terms of the Master Processing (2022-2024) Agreement are summarised below:

- Date: 24 November 2021 (after trading hours)
- Parties: (i) the Company (for itself and on behalf of the Group);
and
(ii) TCL Technology (for itself and on behalf of TCL Technology Group).
- Duration: From 1 January 2022 or the Shareholders' Approval Date (whichever is later) to 31 December 2024 (both days inclusive).
- Condition Precedent: The Master Processing (2022-2024) Agreement is conditional on and subject to compliance by the Company with relevant requirements of the Listing Rules in respect of the Master Processing (2022-2024) Agreement, including but not limited to obtaining the Shareholders' approval at the SGM.
- Save as disclosed above, the Master Processing (2022-2024) Agreement is not subject to other condition precedent.
- Major Terms: If any member of TCL Technology Group so requests, the Company may, at its absolute discretion, procure the relevant member of the Group to process Raw Materials into Semi-Finished Materials and/or Finished Goods for the relevant member of TCL Technology Group in accordance with the Quality Specification.
- The material processing services provided by the Group shall be on a non-exclusive basis.
- TCL Technology will procure the relevant member of TCL Technology Group to provide the relevant member of the Group with the Raw Materials. The title to the Raw Materials (to the extent sourced from and owned by TCL Technology Group), the Semi-Finished Materials and the Finished Goods shall at all times be vested with the relevant member of TCL Technology Group.

LETTER FROM THE BOARD

In the event that the relevant member of TCL Technology Group is unable to provide sufficient Raw Materials to the Group to process into the requisite Semi-Finished Materials and/or Finished Goods, the relevant member of the Group may (but is not obliged to) source for any such shortfall in Raw Materials from other suppliers on behalf of the relevant member of TCL Technology Group and the relevant member of TCL Technology Group shall reimburse the relevant member of the Group of cost of such Raw Materials.

The terms and conditions of the material processing services provided by the Group to TCL Technology Group shall be agreed by relevant member of the Group and TCL Technology Group in writing by individual agreements from time to time. The terms of such individual agreements shall be consistent with the terms of the Master Processing (2022-2024) Agreement save and except the clauses regarding applicable law and dispute resolution.

Processing fee and price determination:

The overall terms and conditions (including but not limited to processing fees and payment terms) as a whole of each processing order offered by the relevant member of TCL Technology Group to the Group shall be no less favourable to the Group than those offered by Independent Third Parties and shall be on normal commercial terms or better. Each processing order shall be negotiated on an arm's length basis.

In determining whether the overall terms and conditions of any material processing services conducted pursuant to the Master Processing (2022-2024) Agreement are no less favourable to the Group than those offered by Independent Third Parties, the Group shall take into account all relevant factors including the fair market price ranges and pricing terms of material processing services of identical, or (if that is not available) of comparable or similar nature, quality, specifications, required time, etc. offered by other Independent Third Parties in the market at the time when the relevant individual agreement is entered into.

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(2) Master Sale and Purchase (2022-2024) Agreement

Reference is made to the December 2018 Circular. As stated therein, on 6 November 2018, the Company has entered into the Master Sale and Purchase (2018 Renewal) Agreement with TCL Technology, which will expire on 31 December 2021. As the Company and TCL Technology wish to continue the continuing connected transactions contemplated thereunder, the Company has on 24 November 2021 (after trading hours) entered into the Master Sale and Purchase (2022-2024) Agreement with TCL Technology. The Master Sale and Purchase (2022-2024) Agreement is on substantially similar terms as the Master Sale and Purchase (2018 Renewal) Agreement.

The material terms of the Master Sale and Purchase (2022-2024) Agreement are summarised below:

Date:	24 November 2021 (after trading hours)
Parties:	(i) the Company (for itself and on behalf of the Group); and (ii) TCL Technology (for itself and on behalf of TCL Technology Group).
Duration:	From 1 January 2022 or the Shareholders' Approval Date (whichever is later) to 31 December 2024 (both days inclusive).
Condition Precedent:	The Master Sale and Purchase (2022-2024) Agreement is conditional on and subject to compliance by the Company with relevant requirements of the Listing Rules in respect of the Master Sale and Purchase (2022-2024) Agreement, including but not limited to obtaining the Shareholders' approval at the SGM. Save as disclosed above, the Master Sale and Purchase (2022-2024) Agreement is not subject to other condition precedent.
Sale of Products to TCL Technology Group:	Each member of TCL Technology Group may, at its absolute discretion, request to purchase Products from members of the Group.

LETTER FROM THE BOARD

If any member of TCL Technology Group so requests or makes a written offer to any member of the Group to purchase from the Group any Products, the Company may, at its absolute discretion, procure relevant members of the Group to supply such Products to the relevant member of TCL Technology Group.

The terms and conditions of the sale of Products shall be agreed by relevant member of the Group and TCL Technology Group in writing by individual agreements from time to time. The terms of such individual agreements shall be consistent with the terms of the Master Sale and Purchase (2022-2024) Agreement save and except the clauses regarding applicable law and dispute resolution.

Purchase of Materials from
TCL Technology Group:

Each member of the Group may, at its absolute discretion, request to purchase its required Materials from members of TCL Technology Group.

Upon receiving purchase request from members of the Group, TCL Technology may, at its absolute discretion, procure the relevant member of TCL Technology Group to sell to the relevant member of the Group the required Materials.

The terms and conditions of the purchase of Materials shall be agreed by relevant member of the Group and TCL Technology Group in writing by individual agreements from time to time. The terms of such individual agreements shall be consistent with the terms of the Master Sale and Purchase (2022-2024) Agreement save and except the clauses regarding applicable law and dispute resolution.

Price determination:

The overall terms and conditions (including but not limited to price, payment terms and credit terms) as a whole offered by the relevant member of TCL Technology Group to relevant member of the Group shall be no less favourable to the relevant member of the Group than those offered by Independent Third Parties and shall be on normal commercial terms or better. Each sale or purchase order shall be negotiated on an arm's length basis.

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In determining whether the overall terms and conditions of any sale and purchase conducted pursuant to the Master Sale and Purchase (2022-2024) Agreement are no less favourable to the relevant member of the Group than those offered by Independent Third Parties, the Group shall take into account all relevant factors including the fair market price ranges and pricing terms of goods of identical, or (if this is not available) of comparable or similar quality, specifications, quantities, required time of delivery, etc. offered by Independent Third Parties in the market as at the time when the relevant individual agreement is entered into.

Revenue Limit: Each of the Company and TCL Technology undertakes with each other that:

- (i) the aggregate amount of purchase of Materials from TCL Technology Group by the Group shall not exceed 50% of the Group's then total revenue in each of the financial years during the term of the Master Sale and Purchase (2022-2024) Agreement; and
- (ii) the aggregate amount of sale of Products to TCL Technology Group by the Group shall not exceed 50% of the Group's then total revenue in each of the financial years during the term of the Master Sale and Purchase (2022-2024) Agreement.

(hereinafter "**Revenue Limit**").

(3) Master HR Subcontracting (2022-2024) Agreement

The Company has on 24 November 2021 (after trading hours) entered into the Master HR Subcontracting (2022-2024) Agreement with Huizhou TCL.

The material terms of the Master HR Subcontracting (2022-2024) Agreement are summarised below:

Date: 24 November 2021 (after trading hours)

- Parties:
- (i) the Company (for itself and on behalf of the Group); and
 - (ii) Huizhou TCL (for itself and on behalf of Huizhou TCL Group).

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Duration: From 1 January 2022 or the Shareholders' Approval Date (whichever is later) to 31 December 2024 (both days inclusive).

Condition Precedent: The Master HR Subcontracting (2022-2024) Agreement is conditional on and subject to compliance by the Company with relevant requirements of the Listing Rules in respect of the Master HR Subcontracting (2022-2024) Agreement, including but not limited to obtaining the Shareholders' approval at the SGM.

Save as disclosed above, the Master HR Subcontracting (2022-2024) Agreement is not subject to other condition precedent.

Major terms: Members of the Group may, at its absolute discretion, engage the relevant member of Huizhou TCL Group for provision of the Human Resources Services.

The relevant member of Huizhou TCL Group shall be responsible for, among other things:

- (i) organisation, recruitment and provision of suitable production labour and support staff to the Group under the Human Resources Services;
- (ii) supervision and training (including legal compliance, labour protection, safety training in respect of personal injury and incident and disaster prevention) of labour under the Human Resources Services; and
- (iii) day-to-day management of labour and designated projects under the Human Resources Services to ensure that the requirements of the relevant member of the Group are satisfied.

The relevant member of the Group shall be responsible for, among other things:

- (i) provision of work premises, facilities, equipment, and raw materials etc. necessary for completion of the designated projects;

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- (ii) provision of specific guidelines, regulations, standards, requirements or targets in respect of each designated project;
- (iii) ensuring a safe working environment and provision of specialised safety training or other necessary training.

The relevant member of the Group and the relevant member of Huizhou TCL Group shall agree on the terms (including but not limited to fees and payment terms) of the provision of Human Resources Services in writing by individual agreements from time to time. The terms (other than terms in relation to jurisdiction and dispute resolution) of such individual agreements shall be consistent with and not deviate from the Master HR Subcontracting (2022-2024) Agreement.

The relevant member of the Group shall have absolute discretion in deciding whether and to what extent the requirements under the designated projects are satisfied and such decision of the relevant member of the Group shall be final and conclusive. In the event the relevant member of the Group determines that the relevant member(s) of Huizhou TCL Group is unable to satisfy in any respect the relevant requirements in a timely manner, the Group shall have the right to terminate the relevant individual agreement.

Price determination:

The fees under the Human Resources Services are calculated based on:

- (i) the salaries/wages of the relevant labour/staff provided by the relevant member of Huizhou TCL Group under the Human Resources Services; and
- (ii) the actual costs and other disbursements incurred by the relevant member of Huizhou TCL Group under the Human Resources Services.

LETTER FROM THE BOARD

An estimation of the aforesaid salaries, costs and other disbursements to be incurred or paid by the relevant member of Huizhou TCL Group shall be set out in the individual agreements and be supported with written evidence. If the actual salaries, costs and other disbursements incurred by the relevant member of Huizhou TCL Group are higher than those set out in the individual agreements, the relevant member of the Group shall have absolute discretion to pay to the relevant member of Huizhou TCL Group only such estimated amounts set out in the individual agreements.

The overall terms and conditions (including but not limited to the fees and payment terms) as a whole offered by the relevant member of Huizhou TCL Group to relevant member of the Group shall be no less favourable to the relevant member of the Group than those offered by Independent Third Parties and shall be on normal commercial terms or better. Each individual agreement shall be negotiated on an arm's length basis.

In determining whether the terms and conditions of any individual agreements for the Human Resources Services are no less favourable to the relevant member of the Group than those offered by independent third parties, the Group shall take into account all relevant factors including, in respect of salaries/wages of relevant labour/staff, the fair market price ranges and pricing terms of human resources services of identical, or (if this is not available) of comparable or similar nature, quality, type, specifications, required time, etc. offered by Independent Third Parties in the market as at the time when the relevant individual agreement is entered into.

Payment term:

Unless otherwise agreed in the individual agreements, the fees for the Human Resources Services shall be payable by the relevant member of the Group to the relevant member of Huizhou TCL Group on a monthly basis and shall be settled on or before the 15th day of next month.

LETTER FROM THE BOARD

HISTORICAL FIGURES

The following table sets out the historical figures of the continuing connected transactions under the Master Processing (2019 Renewal) Agreement for the period from 18 June 2019 to 30 September 2021 and under the Master Sale and Purchase (2018 Renewal) Agreement for the period from 1 January 2019 to 30 September 2021 and the respective historical annual caps (for the avoidance of doubt, there is no historical figures for Master HR Subcontracting (2022-2024) Agreement):

	For the period from 18 June 2019 to 31 December 2019 <i>(Note 1)</i> (audited) RMB'000	For the year ended 31 December 2020 (audited) RMB'000	For the year ending 31 December 2021 (for historical annual cap)/ For the period from 1 January 2021 to 30 September 2021 (for actual amount) (unaudited) RMB'000
Master Processing (2019 Renewal) Agreement			
<i>Processing fees</i>			
– Historical annual caps	518,000	1,092,000	1,029,756
– Actual amount (<i>Note 1</i>)	507,818	863,454	490,181
– Utilisation rate	98.03%	79.07%	47.60%

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	For the year ended 31 December 2019 (audited) RMB'000	For the year ended 31 December 2020 (audited) RMB'000	For the year ending 31 December 2021 (for historical annual cap)/ For the period from 1 January 2021 to 30 September 2021 (for actual amount) (unaudited) RMB'000
Master Sale and Purchase (2018 Renewal) Agreement			
<i>Purchase of Materials from TCL Technology Group</i>			
– Historical annual caps	1,610,000	1,750,000	1,960,000
– Actual amount	840,357	280,433	81,977
– Utilisation rate	52.20%	16.02%	4.18%
 <i>Sale of Products to TCL Technology Group</i>			
– Historical annual caps	2,300,000 (Note 2)	2,500,000	2,800,000
– Actual amount	2,390,836	877,209	1,538,935
– Utilisation rate	103.95%	35.09%	54.96%

LETTER FROM THE BOARD

Notes:

1. The Company entered into the Master Processing Agreement with TCL Technology on 18 June 2019 for a term from 18 June 2019 to 31 December 2019. Thereafter, the Company entered into the Master Processing (2019 Renewal) Agreement with TCL Technology on 23 August 2019, which was on substantially similar terms as the Master Processing Agreement, for a term from the relevant Shareholders' approval date to 31 December 2021. Accordingly, pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the transactions under both the Master Processing Agreement and Master Processing (2019 Renewal) Agreement were required to be aggregated, hence the annual caps of the Master Processing (2019 Renewal) Agreement were set to cover the period from 18 June 2019 to 31 December 2019. Whilst the actual transactions under the Master Processing (2019 Renewal) Agreement only commenced on 17 September 2019 after obtaining the relevant Shareholders' approval during the general meeting held on the same day. For details, please refer to August 2019 Circular. During the period from 18 June 2019 to 31 December 2019, the actual transaction amounts under the Master Processing Agreement and Master Process (2019 Renewal) Agreement were RMB43,074,000 and RMB464,744,000 respectively.
2. For the year ended 31 December 2019, the actual amount of sale of Products to TCL Technology Group exceeded the relevant annual cap. The rectification of the said annual cap by an amount equal to the relevant actual amount was approved by the Shareholders at the special general meeting of the Company held on 2 July 2020. For details, please refer to the circular of the Company dated 5 June 2020 and the announcements of the Company dated 18 March 2020 and 2 July 2020 respectively.

LETTER FROM THE BOARD

PROPOSED ANNUAL CAPS

The following table sets out the respective proposed annual caps of the continuing connected transactions under the Master Processing (2022-2024) Agreement, the Master Sale and Purchase (2022-2024) Agreement and the Master HR Subcontracting (2022-2024) Agreement for the three years ending 31 December 2024:

	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000	For the year ending 31 December 2024 RMB'000
Master Processing (2022-2024) Agreement			
<i>Processing fees</i>			
Proposed annual caps	198,000	218,000	239,000
Master Sale and Purchase (2022-2024) Agreement			
<i>Purchase of Materials from TCL Technology Group</i>			
Proposed annual caps	387,000	426,000	469,000
<i>Sale of Products to TCL Technology Group</i>			
Proposed annual caps	2,781,000	3,059,000	3,364,000
Master HR Subcontracting (2022- 2024) Agreement			
<i>Service fees</i>			
Proposed annual caps	106,000	122,000	141,000

LETTER FROM THE BOARD

BASIS FOR DETERMINING THE PROPOSED ANNUAL CAPS

Master Processing (2022-2024) Agreement

The Directors determined the proposed annual caps in relation to the Master Processing (2022-2024) Agreement with reference to, among others, the following factors:

- (i) the historical amounts of the relevant transactions under the Master Processing (2019 Renewal) Agreement, in particular, the processing fees received by the Group for the nine months ended 30 September 2021 was RMB490 million, and it is expected that the Group could retain such processing orders in the three years ending 31 December 2024;
- (ii) it is expected that the Group will be engaged in a new medium sized processing project starting in 2022 with an expected annual shipment of approximately 50 million units from 2022 to 2024;
- (iii) the 10% annual increase in the proposed annual caps from 2022 to 2024 has taken into account the 10% expected annual organic growth rate in respect of the sale volume of processing products to TCL Technology Group during the three years ending 31 December 2024; and
- (iv) it is expected that majority of the Group's customers would prefer and opt for the sale and purchase model, that is the sale of Products to and purchase of Materials from TCL Technology Group contemplated under the Master Sale and Purchase (2022-2024) Agreement and transactions of similar scope conducted with Independent Third Parties (if any), over the processing model, that is the processing service provided to TCL Technology Group contemplated under the Master Processing (2022-2024) Agreement and transactions of similar scope conducted with Independent Third Parties (if any), for the three years ending 31 December 2024, hence the proposed annual caps are reduced accordingly. Whereas both models involve the Group supplying Products to its customers, the difference lies in whether the Raw Materials are sourced and purchased by the Group (as in the case of sale and purchase model), or supplied by its customers (as in the case of the processing model).

LETTER FROM THE BOARD

Master Sale and Purchase (2022-2024) Agreement

The Directors determined the proposed annual caps in relation to the Master Sale and Purchase (2022-2024) Agreement with reference to, among others, the following factors:

Purchase of Materials from TCL Technology Group:

- (i) the historical amounts of the relevant transactions under the Master Sale and Purchase (2018 Renewal) Agreement, in particular, it is expected that the total amount of relevant transactions for the year ending 31 December 2021 would reach approximately RMB118 million;
- (ii) the demand for Materials corresponds to a new sales project in which the Group is expected to be engaged from 2022 to 2024 with the expected annual shipment of 4 million units in 2022;
- (iii) the 10% annual increase in the proposed annual caps taking into account the Materials sourcing demand corresponding to the 10% expected annual organic growth rate in the sales volume of the Group from 2022 to 2024; and
- (iv) the average price of Materials is expected to remain stable for the three years ending 31 December 2024;

Sale of Products to TCL Technology Group:

- (i) the historical amounts of the relevant transactions under the Master Sale and Purchase (2018 Renewal) Agreement, in particular, it is expected that approximately 80% of the proposed annual cap for the year ending 31 December 2021 would be utilised in view of the fourth quarter being the traditional peak season;
- (ii) it is expected that the Group will be engaged in a new sales project from 2022 to 2024 with the expected annual shipment of 4 million units in 2022;
- (iii) the 10% annual increase in the proposed annual caps taking into account the 10% expected annual organic growth rate in the sales volume of the Group from 2022 to 2024;

LETTER FROM THE BOARD

- (iv) it is expected that majority of the Group's customers would prefer and opt for the sale and purchase model, that is the sale of Products to and purchase of Materials from TCL Technology Group contemplated under the Master Sale and Purchase (2022-2024) Agreement and transactions of similar scope conducted with Independent Third Parties (if any), over the processing model, that is the processing service provided to TCL Technology Group contemplated under the Master Processing (2022-2024) Agreement and transactions of similar scope conducted with Independent Third Parties (if any), hence there will likely be more demand for products manufactured under sale and purchase model. Whereas both models involve the Group supplying Products to its customers, the difference lies in whether the Raw Materials are sourced and purchased by the Group (as in the case of sale and purchase model), or supplied by its customers (as in the case of the processing model); and
- (v) the average selling price of Products is expected to remain stable for the three years ending 31 December 2024.

Master HR Subcontracting (2022-2024) Agreement

Huizhou TCL Group has not provided similar Human Resources Services to the Group historically.

The Directors determined the proposed annual caps in relation to the Master HR Subcontracting (2022-2024) Agreement with reference to, among others, the following factors:

- (i) the historical labour costs incurred by members of the Group for similar projects and operations, in particular, the relevant historical labour costs for the nine months ended 30 September 2021 was approximately RMB73 million;
- (ii) the expected increase of labour demand (in terms of man hour) of the Group at an annual rate of 10% during the term of the Master HR Subcontracting (2022-2024) Agreement taking into account the Group's business development plan and expected organic growth of the Group's sales volume for the three years ending 31 December 2024;
- (iii) the prevailing market rate of services similar to the Human Resources Services which is expected to increase at an annual rate of 5% taking into consideration of inflation; and
- (iv) the experience and expertise of the labour supplied by Huizhou TCL Group.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

Master Processing (2022-2024) Agreement

The business of processing raw materials provided by customers is a principal business segment of the Group. Under the Master Processing (2022-2024) Agreement, the Raw Materials to be processed by the Group will either be provided by the customers, or if the relevant customer is unable to provide sufficient Raw Materials, such customer will reimburse the Group for the costs of Raw Materials. In view of the tight supply and cost fluctuation of raw materials in recent years, this business mode provides the Group with more flexible option to satisfy the needs of the customers.

The Master Processing (2022-2024) Agreement enables the Group to continue to provide processing service to TCL Technology Group, which will facilitate the operation of the Group's business by providing additional and stable sources of business opportunities and enhancing the efficient use of resources and utilisation of the production capacity of the Group.

The Directors consider that the continuing connected transactions contemplated under the Master Processing (2022-2024) Agreement will not result in significant reliance on TCL Technology Group as each of the proposed annual caps of for the three years ending 31 December 2024 accounts for less than 5.5% of the total revenue of the Group for the year ended 31 December 2020.

Master Sale and Purchase (2022-2024) Agreement

In view of the recent shortage of raw materials, the Master Sale and Purchase (2022-2024) Agreement will provide members of the Group with a stable and reliable source of supply of the necessary Materials for the Products of the Group.

Moreover, the Master Sale and Purchase (2022-2024) Agreement will also provide the Group with more flexible options as to the sales channels of its Products.

LETTER FROM THE BOARD

The market of smartphone products and products with display modules are dynamic and ever-changing. A holistic customer experience is of critical importance and as such brand customers which offer a wide range of electronic appliances would place order for multiple types of electronic products with TCL Technology Group at the same time. Meanwhile, the products respectively produced or manufactured by the Group and TCL Technology Group are of different types (with the former focusing on LCD modules while the latter focusing on home appliances). Thus, in order to swiftly cope with market changes, to strengthen the operating capability of the Group, and to share the sales channels within TCL Technology Group, the Group would first sell its products to members of the TCL Technology Group for them to re-sell such products to third party customer. Whilst currently the Group may not be able to establish direct business relationship with certain Independent Third Party brand customers, by providing Products to TCL Technology Group for its processing or onward sale to such Independent Third Party brand customers, the Group may gradually establish direct sales channel with these Independent Third Party brand customers.

The Directors consider that the continuing connected transactions contemplated under the Master Sale and Purchase (2022-2024) Agreement will not result in significant reliance on TCL Technology Group for the following reasons:

- (i) each of the proposed annual caps in respect of the purchase of Materials from TCL Technology Group for the three years ending 31 December 2024 accounts for less than 11.3% of the total cost of sales of the Group for the year ended 31 December 2020;
- (ii) the Group expects to maintain its existing portfolio of Independent Third Party customers, as none of the existing Independent Third Party customers has indicated any intention to discontinue the cooperation with the Group;
- (iii) the Group has been exploring new markets and new Independent Third Party customers. The customer base of the Group's Independent Third Party customers has also been expanding, as evidenced by the 10.7 percentile increase in the proportion of sale amount generated from Independent Third Party customers of 55.4% in 2019 to 66.1% in the first half of 2021. In view of the aforesaid, the Group is confident that it could maintain its revenue from Independent Third Parties in the future; and
- (iv) the purchase of Materials from and sale of Products to TCL Technology Group will be subject to the Revenue Limit such that the size of the Group's continuing connected transactions under the Master Sale and Purchase (2022-2024) Agreement will be tied to the growth of the Group's relevant transactions with Independent Third Party suppliers and customers.

LETTER FROM THE BOARD

Master HR Subcontracting (2022-2024) Agreement

Huizhou TCL Group is principally engaged in the business of provision of human resources services in the area of electronic components production. The specialisation and experience of the labour supplied by Huizhou TCL Group meet the demand of the Group. Also, the economics of scale achieved by Huizhou TCL Group will allow the Group to obtain skilled labour at a lower cost when compared to the Group hiring similar skilled labour by itself.

Under the Master HR Subcontracting (2022-2024) Agreement, Huizhou TCL Group will provide a stable and flexible supply of human resources to the Group upon the Group's request, which saves the Group the time and resources required in recruiting sufficient and additional skilled workers on a short-term basis in particular at peak seasons and reduces the risk of production disruption in case the Group could not recruit the necessary skilled workers in time.

In light of the above, the Directors (excluding the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee) consider that the Non-exempt Transactions are fair and reasonable; on normal commercial terms or better; entered into in the ordinary and usual course of business of the Group; and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL PROCEDURES AND PRICING POLICIES

In order to safeguard the interests of the Company and the Shareholders, and to ensure that the Non-exempt Transactions are on normal commercial terms and on terms no less favourable to the Group than those offered by Independent Third Parties, in addition to those disclosed above, the Company has also adopted the following general and specific internal control procedures and pricing policies:

General internal control procedures and pricing policies

- (i) The finance department of the Company has maintained a list of transaction parties (the "**Transaction Parties List**") of all material transactions and highlighted those who are connected persons of the Company so that staff members could identify transactions that constitute connected transactions of the Company. Whenever the relevant department of the Company intends to enter into transaction with an entity, the relevant department would check against the Transaction Parties List to see if such entity is a connected person of the Company, and if so the connected transaction would be subject to applicable review and monitoring procedures (including those set out herein, if applicable) to ensure the connected transactions would be on normal commercial terms and on terms no less favourable from the perspective of the Group.

LETTER FROM THE BOARD

- (ii) The finance department of the Company has, on a quarterly basis, counterchecked with each party in the Transaction Parties List to ascertain whether they are connected persons of the Company, so as to maintain the list of connected persons (the “**Connected Person List**”) for the staff members to identify transactions constituting connected transactions of the Company in particular those to be made pursuant to the Non-exempt Transactions (where the connected person is a member of TCL Technology Group). Any alteration to the Connected Person List could only be made after checking with the counterparty to ascertain the relationship with the Company, in the case of an addition to the Connected Person List, evidence such as organisation chart will have to be obtained, and in the case of a removal from the Connected Person List, evidence will have to be obtained to confirm the date of the relevant party ceasing to be a connected person of the Company. Whenever there is an update to the Connected Person List, it must be reported and approved by the management of the Group to ensure the management is aware of such update.
- (iii) The finance department of the Group will maintain a database to record and monitor the aggregate transaction amounts under the continuing connected transactions from time to time and prepare a monthly report on the status of the aggregate transaction amounts which will be submitted to the finance director of the Group for review.
- (iv) Before conducting any transactions with connected persons, the finance department would confirm that the Group still has sufficient unused annual caps for carrying out the relevant continuing connected transactions. The finance department would on a regular basis review the continuing connected transactions carried out during the period under review to assess, and compile a report, on (i) whether the continuing connected transactions of the Group have been carried out in accordance with the terms of the relevant agreement and the Company’s pricing policy; and (ii) the transactions amount during the month under review, the aggregate amount of transactions conducted during the relevant financial year and whether the relevant annual caps have been exceeded. If it is anticipated that the annual caps may be exceeded if the Company is to carry out the proposed transactions, it would take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules including but not limited to revising the relevant annual caps before entering into the proposed transactions. In particular, when 80% of the amount under the relevant annual cap has been utilised, the finance department would send an alert to the operation unit and management, and they would be required to ascertain if there is still sufficient unused annual cap before accepting any further order from the relevant connected persons. When 90% of the amount under the relevant annual cap has been utilised, the Group will consider refusing orders from relevant connected persons until the relevant annual cap has been revised in compliance with the Listing Rules.

LETTER FROM THE BOARD

- (v) Every time before conducting any continuing connected transactions, the relevant department of the Group would first prepare the relevant individual agreement for the continuing connected transactions and submit it to the finance department and legal department of the Group for review and approval. The finance department and legal department of the Group would review the terms of the proposed transaction and the draft individual agreement to be entered into to make sure that the terms are in compliance with the pricing policy of the Group and the overall terms and conditions (including prices and payment terms) are no less favourable to the relevant member of the Group than those offered by Independent Third Parties. The transactions could only be carried out after the finance department and the legal department have given their approval therefor.
- (vi) The Company's internal control unit will on a half-year basis review the monitoring policies and procedures of the continuing connected transactions to ensure the abovementioned policies and procedures are adequate and effective, the findings of the review will be reported by the head of internal control unit to the finance director of the Company. The internal control unit regularly reviews and monitors whether the continuing connected transactions are conducted on normal commercial terms and in compliance with the policies and procedures. In the event of any non-compliance issue or inadequacy in the policies and procedures, the internal control unit will immediately report such matters to the independent non-executive directors and will take remedial actions.
- (vii) The independent non-executive Directors will be provided with the internal control report which sets out the matters subject to review, the methodology adopted, the findings of the internal control department as well as remedial actions taken (if any). Further, the management will provide independent non-executive Directors with half-yearly reports in respect of the on-going continuing connected transactions; sufficient information relating to (i) financial performance and position of the Company; (ii) the implementation of the continuing connected transactions and (iii) the agreement(s) on the continuing connected transactions to be entered into will also be provided to enable the independent non-executive Directors to make their independent judgment in reviewing the continuing connected transactions. The internal control department of the Company will alert the independent non-executive Directors of any deficiency of internal controls or non-compliance issue.
- (viii) All such personnel involved in the internal control procedures are independent of TCL Technology and its associates.

LETTER FROM THE BOARD

Master Processing (2022-2024) Agreement

- (i) Every time before the relevant member of the Group accepts a request from the relevant member of TCL Technology Group for the processing of Raw Materials, the operation unit of the relevant member of the Group will review the draft individual processing order for the engagement to confirm that the Group has the relevant resources to meet the timeline, quality and the quantity of the relevant order placed. The processing fee that the Group charges is in general determined based on factors such as the cost for processing, level of technology and skills required and quantity ordered etc. taking into account prevailing market conditions, and will vary depending on the specification of each order. Such price determination mechanism is in line with the market or the industry. In any event, the Group will make reference to the prevailing market or industry practices and conditions to ensure the processing fee to be charged is consistent with the market or industry.
- (ii) When evaluating the terms of a draft individual processing order, the internal control unit will compare it with all quotations provided to or by Independent Third Parties for the same or equivalent processing services at comparable quality and determine whether on an overall evaluation of the processing fees to be charged, the payment terms as stated in the draft individual processing order against the quotations offered to or by Independent Third Parties, are no less favourable to the Group.
- (iii) Where no similar service for processing the relevant Raw Material into similar Semi-Finished Materials and/or Finished Goods is offered by the Group to Independent Third Parties, the Group will request the relevant member of TCL Technology Group to obtain at least two quotations from Independent Third Parties (who are able to provide the required services of satisfactory quality and at satisfactory standard to TCL Technology Group) whereby the Group will compare the overall terms of the engagement, and in particular the processing fee to be charged, against those offered by Independent Third Parties to ensure that those offered by the Group are no more favourable. Where no such quotations could be obtained, the Group will compare the gross profit margin of the processing fee to be charged by the Group against the gross profit margin for selling similar Semi-Finished Materials and/or Finished Goods to ensure that a higher gross profit margin will be achieved by offering processing service. For illustration, the current gross profit margin of processing service in general is within the range of approximately 3% to 20%, depending on the type and specification of Semi-Finished Materials and/or Finished Goods required by the customer. Nevertheless, the margin that the Group charges may vary during the term of the Master Processing (2022-2024) Agreement depending on factors such as market circumstances, customer relationship, product specifications, transportation and mode of delivery, production cost, etc. The reason for requesting the relevant member of TCL Technology Group to obtain quotations from Independent Third Parties instead of obtaining quotations by the Group itself is because it is impractical for the Group, as a service provider in the context of processing service, to obtain quotations from Independent Third Party processing service providers who are competitors of the Group, as those Independent Third Parties will be reluctant to provide the Group with such sensitive information.

LETTER FROM THE BOARD

Master Sale and Purchase (2022-2024) Agreement

- (i) Before selling any Products to or purchasing any Materials from TCL Technology Group, the Group would ensure that the transactions are on normal commercial terms and on terms no less favourable from the perspective of the Group than those offered by Independent Third Parties. The internal control unit of the Group will compare the terms offered by TCL Technology Group with the terms offered by at least two Independent Third Party and make an overall assessment of the terms offered, including the quality of the Products or Materials, past history of dealing with the such party (if any), payment terms and Product or Materials price (as the case may be), to ensure that those offered by TCL Technology Group is no less favourable to the Group than those offered by Independent Third Parties.
- (ii) Where no identical Products or Materials are offered by Independent Third Parties, the internal control unit will then obtain at least two quotations from Independent Third Parties in respect of similar or comparable Products or Materials and compare them with those offered by TCL Technology Group and determine whether on an overall evaluation of the prices to be charged, payment terms and other terms and conditions, the terms offered by TCL Technology Group are no less favourable to the Group than those offered by Independent Third Parties.
- (iii) It is the current pricing policy of the Group that the gross profit margin of the Products shall be no less than 3% on average. In the case where no quotations for identical, similar or comparable Materials can be obtained and the Group decides to purchase Materials from TCL Technology Group, if the cost of such Materials is so high that it will result in the gross profit margin of the relevant Product dropping below the minimum average of 3%, the Group will consider whether to purchase such Materials from TCL Technology Group based on a basket of factors, including not limited to (i) whether the Group is able to obtain better offer from Independent Third Parties; (ii) whether the Group has available production capacity and manpower to handle the relevant order; (iii) the customers' demand and the long-term relationship with the customers; and (iv) the overall impact to the profitability of the Group, and the Group shall only proceed on such purchase from TCL Technology Group if it is in the interest of the Shareholders and the Group as a whole to do so.

LETTER FROM THE BOARD

- (iv) The Group will set up half-year targets for sale of Products and purchase of Materials, which should generally not exceed 50% of the total sale or purchase target (as the case may be) of the Group for the period, together with the annual revenue target of the Group, it could project the approximate amount of sale and purchase from TCL Technology Group, which will be subject to review from time to time by its internal control unit depending on the surrounding circumstances such as Group's performance and overall market conditions. The finance department will provide the actual revenue in the end of each month to enable the sale unit, purchase unit and internal control unit to compare the actual sale and purchase figures against the sale and purchase targets, the sale and purchase limit as well as the latest revenue of the Group from time to time and to make necessary adjustment for the sale and purchase to and from TCL Technology Group for the remaining half year period, if needed, to ensure that the Revenue Limit will not be exceeded.
- (v) The internal control unit of the Group will maintain a database to record (a) the total revenue of the Group; and (b) the aggregate amount of purchase of Materials from and sale of Products to TCL Technology Group. Where the Group proposes to make a purchase or sale which will result in the then aggregate amount of purchase of Materials from or sale of Products to TCL Technology Group exceeding 45% of the then total revenue of the Group in the relevant financial year, the Group will favourably consider offers from other Independent Third Parties for purchase of Materials or sale of Products as and when appropriate and the internal control unit will notify the relevant department to temporarily decline or delay to process the sale or purchase instructions from the Group and any further instructions from the relevant departments can only be processed on a discretionary basis until there are sufficient purchases or sales from/to other Independent Third Parties to ensure that the Revenue Limit for the corresponding financial year will not be exceeded. Where necessary, the Group will also consider refusing purchase of Materials from or sale of Products to TCL Technology Group until there is sufficient Revenue Limit and/or the relevant Revenue Limit has been revised in compliance with the Listing Rules (including but not limited to obtaining Shareholders' approval, where appropriate).

LETTER FROM THE BOARD

Master HR Subcontracting (2022-2024) Agreement

To ensure that the continuing connected transactions contemplated under the Master HR Subcontracting (2022-2024) Agreement are on normal commercial terms and terms no less favourable than those available from Independent Third Parties, where comparable services are available on the market from Independent Third Parties, before requesting the Human Resources Services from Huizhou TCL Group, the Group would obtain a quotation from at least two Independent Third Parties for similar or comparable services and conduct an assessment on the terms of the provision of such services. The Group would only engage Huizhou TCL Group for the provision of the Human Resources Services when the terms offered by Huizhou TCL Group are better than those offered by Independent Third Parties. The quotations obtained from the Independent Third Parties would be recorded in an internal system maintained by the Group which would be updated from time to time so that the members of the Group would have an easy access of information regarding the market price and other terms of contract.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, TCL Technology, the ultimate controlling shareholder of the Company, indirectly held approximately 64.20% of the number of issued Shares and therefore is a connected person of the Company under the Listing Rules. Huizhou TCL is held as to 50% by TCL Technology and is therefore an associate of TCL Technology and hence also a connected person of the Company under the Listing Rules. Therefore, the Non-exempt Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) with reference to the respective proposed annual caps of each of the Master Processing (2022-2024) Agreement, the Master Sale and Purchase (2022-2024) Agreement and the Master HR Subcontracting (2022-2024) Agreement exceed 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement, circular (including independent financial advice), Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

In accordance with the Listing Rules, any connected person of the Company and any Shareholder with a material interest in the Non-exempt Transactions and its associate(s) must abstain from voting on the relevant resolution(s) at the SGM. At the Latest Practicable Date, High Value Ventures Limited, an indirect subsidiary of TCL Technology, is directly interested in 1,357,439,806 Shares, representing approximately 64.20% of the number of issued Shares. Accordingly, High Value Ventures Limited, being a TCL Associate and holder of 1,357,439,806 Shares, will abstain from voting on the resolution in respect of the Non-exempt Transactions to be put forward at the SGM. Save as the aforesaid, the Directors are not aware of any other Shareholders who are required to abstain from voting on the resolution(s) in respect of the Non-exempt Transactions to be put forward at the SGM.

LETTER FROM THE BOARD

Notwithstanding the respective interest and/or roles of certain Directors in TCL Technology Group, in particular, as at the Latest Practicable Date, (i) Mr. LIAO Qian who is interested in 229,596 shares in TCL Technology (representing approximately 0.0016% of the issued share capital of TCL Technology) and is also an executive director, the senior vice president and the secretary of the board of directors of TCL Technology; (ii) Mr. OUYANG Hongping who is interested in 26,600 shares in TCL Technology (representing approximately 0.0002% of the issued share capital of TCL Technology) and is also a general manager of low-temperature polysilicon division of small and medium-sized display business group of TCL CSOT, a general manager and a director of Wuhan CDOT, and a general manager of Wuhan CSOT; and (iii) Mr. ZHANG Feng who is interested in 358,148 shares in TCL Technology (representing approximately 0.0026% of the issued share capital of TCL Technology) and is also the legal representative of Wuhan CSOT and Wuhan CDOT, the senior vice president of TCL CSOT, the general manager of small and medium-sized display business group of TCL CSOT and the general manager and a director of Wuhan China Star Optoelectronics Semiconductor Display Technology Company Limited* (武漢華星光電半導體顯示技術有限公司, a subsidiary of TCL CSOT); as each of their respective direct interest in TCL Technology Group is either by virtue of common directorship/senior management role or the immaterial interest in shares of TCL Technology, their respective direct or indirect interests in TCL Technology Group are insignificant and that none of the TCL Associates are associates of any of the Directors, none of them is considered as having a material interest in the transactions contemplated under the Non-exempt Transactions, therefore all Directors are entitled to vote on the Board resolutions for considering and approving the Non-exempt Transactions pursuant to the Bye-laws.

GENERAL INFORMATION OF THE PARTIES

Headquartered in the PRC, the Group is principally engaged in the research and development, manufacture, sales and distribution of LCD modules. The Group is also one of the major suppliers of small and medium sized display modules in the PRC. The Group has its manufacturing plant in the PRC and distributes its products in Asia, with focus on Hong Kong and the PRC markets. For more information on the Group, please visit its official website at www.cdoth8.com (the information that appears in this website does not form part of this circular).

TCL Technology is a major PRC conglomerate and is principally engaged in semi-conductor display and material business. For more information on TCL Technology, please visit its official website at <http://www.tcltech.com> (the information that appears in that website does not form part of this circular). As at the Latest Practicable Date, based on the information available to the Directors, no shareholder of TCL Technology holds 10% or more equity interest in TCL Technology.

Huizhou TCL is principally engaged in the business of provision of human resources referral and subcontracting services in the area of electronic components. Huizhou TCL is held as to 50% by each of TCL Holdings and TCL Technology.

LETTER FROM THE BOARD

SGM

The Company will convene the SGM at 8th Floor, Building 22E, Phase Three, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong on 16 December 2021, Thursday at 3:00 p.m., at which resolutions will be proposed for the purposes of considering and, if thought fit, approving the Master Processing (2022-2024) Agreement, Master Sale and Purchase (2022-2024) Agreement, the Master HR Subcontracting (2022-2024) Agreement, the transactions contemplated thereunder and the proposed annual caps in relation thereto. The notice of the SGM is set out on pages 84 to 87 of this circular.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM or any adjournment thereof (as the case may be) in person, please complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, 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 the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjourned meeting should you so wish.

RECORD DATE

The record date (being the last date of registration of any transfer of Shares given there will be no closure of register of members) for determining the entitlements of the Shareholders to attend and vote at the SGM is 10 December 2021, Friday. In order to qualify to attend and vote at the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 10 December 2021, Friday.

RECOMMENDATION

Your attention is drawn to (a) the letter from the Independent Board Committee set out on page 37 of this circular which contains the recommendation of the Independent Board Committee to the Shareholders regarding the resolution in respect of the Non-exempt Transactions to be proposed at the SGM; (b) the letter from Halcyon Capital Limited, the Independent Financial Advisor, set out on pages 38 to 79 of this circular which contains its advice to the Independent Board Committee and the Shareholders in respect of the Non-exempt Transactions; and (c) additional information set out in the appendix to this circular.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice (together with principal factors and reasons considered in arriving at such advice) of the Independent Financial Advisor, considers that the Non-exempt Transactions are fair and reasonable, on normal commercial terms or better and are entered in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM in respect of the Non-exempt Transactions.

The Board considers that the Non-exempt Transactions are fair and reasonable; on normal commercial terms or better and in the ordinary and usual course of business of the Group; and in the interests of the Company and the Shareholders as a whole.

The Board also considers that the resolutions proposed in the notice of SGM are in the best interests of the Company and the Shareholders as a whole and therefore recommend you to vote in favour of all the relevant resolutions to be proposed at the SGM.

PRECAUTIONARY MEASURES FOR THE SGM IN VIEW OF COVID-19 PANDEMIC

In view of the recent development of the pandemic caused by corona virus disease 2019 (COVID-19), and in order to better protect the safety and health of the Shareholders, a series of pandemic precautionary measures will be implemented at the venue of the SGM:-

- (i) compulsory body temperature check will be conducted for every person at the entrance of the venue of SGM. Any person with a body temperature of over 37.5 degree Celsius will not be admitted to the venue;
- (ii) every person is required to wear facial mask at the venue of the SGM;
- (iii) seating in the SGM venue will be arranged so as to allow for appropriate social distancing; and
- (iv) no refreshments will be served at the SGM.

Subject to the development of the COVID-19 pandemic and in compliance with applicable laws and regulations, the Company may implement further precautionary measures at the SGM.

The Company wishes to remind the Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising their voting rights and strongly advises the Shareholders to appoint the chairman of the SGM as a proxy to vote on relevant resolution(s) as instructed in accordance with the relevant proxy form as an alternative to attending the SGM in person in light of the continuing risks posed by the COVID-19 pandemic. For more details, please refer to the proxy form for the SGM.

LETTER FROM THE BOARD

Shareholders and other participants who will attend the SGM in person are advised to (a) consider carefully the risk of attending the SGM, which will be held in an enclosed environment; (b) follow and comply with any laws, regulations, guidelines or requirements implemented by the Hong Kong Government relating to COVID-19 pandemic; and (c) not to attend the SGM if they have contracted or are suspected to have contracted COVID-19 or have been in close contact with anybody who has contracted or is suspected to have contracted COVID-19.

Yours faithfully,
By order of the Board
LIAO Qian
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

China Display Optoelectronics Technology Holdings Limited
華顯光電技術控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 334)

30 November 2021

To: the Shareholders

Dear Sirs or Madam,

**(1) RENEWAL OF
EXISTING CONTINUING CONNECTED TRANSACTIONS –
MASTER PROCESSING (2022 – 2024) AGREEMENT AND
MASTER SALE AND PURCHASE (2022 – 2024) AGREEMENT**

AND

**(2) CONTINUING CONNECTED TRANSACTIONS –
MASTER HR SUBCONTRACTING (2022 – 2024) AGREEMENT**

We refer to the circular of the Company dated 30 November 2021 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms defined in the Circular bear the same meanings when used in this letter unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider and advise the Shareholders in respect of the Non-exempt Transactions, details of which are set out in the Circular.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Advisor set out on pages 7 to 36 and pages 38 to 79 of the Circular respectively.

Having taken into account of the advice (together with principal factors and reasons considered in arriving at such advice) of Halcyon Capital Limited, the Independent Financial Advisor, we consider that the Non-exempt Transactions are fair and reasonable, on normal commercial terms or better and are entered in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM in respect of the Non-exempt Transactions.

Yours faithfully,
HSU Wai Man, Helen,
XU Yan, LI Yang
Independent Board Committee

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The following is the full text of the letter of advice from Halcyon Capital Limited to the Independent Board Committee and the independent Shareholders, which has been prepared for the purpose of the inclusion in this circular.



Halcyon Capital Limited
11/F, 8 Wyndham Street,
Central, Hong Kong

30 November 2021

To the Independent Board Committee and the independent Shareholders

Dear Sirs,

**(1) RENEWAL OF
EXISTING CONTINUING CONNECTED TRANSACTIONS –
MASTER PROCESSING (2022 – 2024) AGREEMENT AND
MASTER SALE AND PURCHASE (2022 – 2024) AGREEMENT**

AND

**(2) CONTINUING CONNECTED TRANSACTIONS –
MASTER HUMAN RESOURCES SUBCONTRACTING
(2022 – 2024) AGREEMENT**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders in relation to (i) the Master Processing (2022-2024) Agreement (including the proposed annual caps); (ii) the Master Sale and Purchase (2022-2024) Agreement (including the proposed annual caps); and (iii) the Master Human Resources Subcontracting (2022-2024) Agreement (including the proposed annual caps) (together the “**2022-2024 Master Agreements**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 30 November 2021 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

On 24 November 2021, the Company entered into the 2022-2024 Master Agreements with TCL Technology and Huizhou TCL (as the case maybe). As at the Latest Practicable Date, TCL Technology, the ultimate controlling shareholder of the Company, indirectly held approximately 64.20% of the number of issued Shares and therefore is a connected person of the Company under the Listing Rules. Huizhou TCL is held as to 50% by TCL Technology and is therefore an associate of TCL Technology and hence also a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the 2022-2024 Master Agreements constitute continuing connected transactions of the Company. As one or more of the applicable percentage ratios (other than the profits ratio) with reference to the annual caps of the 2022-2024 Master Agreements exceed 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement, independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Hsu Wai Man Helen, Mr. Xu Yan and Mr. Li Yang, has been established to advise the independent Shareholders as to whether the terms of the 2022-2024 Master Agreements (including the proposed annual caps) are fair and reasonable so far as the independent Shareholders are concerned, whether they are in the interest of the Company and the independent Shareholders as a whole and how to vote on the relevant resolutions in the SGM. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders, our role is to provide the Independent Board Committee and the independent Shareholders with an independent opinion and recommendation in this regard.

BASIS OF OUR OPINION

Except for being appointed as the independent financial adviser to the then independent board committees and independent Shareholders of the Company (details of which have been set out in the letters from the independent financial adviser contained in the circulars of the Company dated 9 December 2019, 5 June 2020 and 12 July 2021) and this appointment as the Independent Financial Adviser and normal professional fees paid or payable to us in connection therewith, we had no relationships with or interests in the Company and any other parties and no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. We are hence independent from the Company pursuant to Rule 13.84 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

In formulating our opinion and recommendation, we have relied on the information, financial information and facts included in the Circular and supplied to us, and the representations expressed by the Directors and/or management of the Group, and have assumed that all such information, financial information, facts and any representations made to us, or referred to in the Circular, in all material aspects, were true, accurate and complete as at the time they were made and as at the Latest Practicable Date, have been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The Directors and/or the management of the Group have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and representations provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the information provided by the Group including the announcements, financial reports of the Company and the Circular. We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the transactions contemplated under the 2022-2024 Master Agreements (including the proposed annual caps) and considered that we have reviewed sufficient information to reach an informed view and to justify reliance on the information provided and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and supplied to us by the Directors and/or the management of the Group nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or prospects of the Group, TCL Technology, Huizhou TCL and each of their respective associates, and the parties involved in the transactions contemplated under the 2022-2024 Master Agreements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the the 2022-2024 Master Agreements, we have considered the following principal factors and reasons:

1. Background information of the Group

As stated in the Letter from the Board, headquartered in the PRC, the Group is principally engaged in the research and development, manufacture, sales and distribution of LCD modules. The Group is also one of the major suppliers of small and medium sized display modules in the PRC. The Group has its manufacturing plant in the PRC and distributes its products in Asia, with focus on Hong Kong and the PRC markets. The following table sets out the financial performance of the Group for the six months ended 30 June 2020 and 2021 and for the two years ended 31 December 2019 and 2020 as extracted from the Company's interim report for the six months ended 30 June 2021 (the "2021 Interim Report") and annual report for the year ended 31 December 2020 (the "2020 Annual Report") respectively:

	Period ended 30 June		Year ended 31 December	
	2021 (unaudited) <i>RMB'000</i>	2020 (unaudited) <i>RMB'000</i>	2020 (audited) <i>RMB'000</i>	2019 (audited) <i>RMB'000</i>
Sale of TFT LCD module				
– Non-laminated modules	93,000	104,000	198,000	716,000
– Laminated modules	2,738,000	1,196,000	3,293,000	4,232,000
Processing TFT LCD module				
– Non-laminated modules	–	28,000	47,000	43,000
– Laminated modules	22,000	44,000	815,000	465,000
Revenue	2,853,000	1,372,000	4,353,000	5,456,000
Gross profit	223,634	125,578	219,619	268,237
Profit/(loss) attributable to owners of the parent of the Company	97,552	(88,527)	25,147	52,448

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

As set out in the 2020 Annual Report, the Group's revenue amounted to approximately RMB4,353 million for the year ended 31 December 2020, representing a decrease of approximately 20.2% from approximately RMB5,456 million for the year ended 31 December 2019, primarily due to: (a) the Group recorded a lower average unit price as compared to the year ended 31 December 2019 due to the increase of approximately 51.5% in the Group's annual sales volume of processing products to 71 million units for the year ended 31 December 2020, accounted for approximately 63% of the total sales volume, while only processing fee was charged for these products; and (b) the decrease in the sales volume and revenue of the non-processing products, of which the revenue of laminated LCD module products decreased by approximately 22.2% to RMB3,293 million; whereas the revenue of non-laminated LCD module products decreased by approximately 72.4% to RMB198 million.

As advised by the management of the Group, despite the COVID-19 pandemic in the first half of 2020 affecting the Group's production and operation, the market demand for mobile phone has rebounded and the productivity of the Group's production base in Wuhan has returned to normal seasonal levels as the pandemic was gradually contained domestically. For the year ended 31 December 2020, the Group's gross profit amounted to approximately RMB220 million with a gross profit margin of 5.0%, representing an increase of 0.1 percentage points as compared to the year ended 31 December 2019. For the year ended 31 December 2020, the Group has made a turnaround with profits attributable to owners of the parent reaching approximately RMB25 million.

As stated in the 2021 Interim Report, the Group recorded revenue of approximately RMB2,853 million for the six months ended 30 June 2021, representing a period-on-period increase of approximately 108.0% over its revenue of approximately RMB1,372 million for the six months ended 30 June 2020, which was mainly due to: (i) the increase of approximately 52.2% in the Group's sales volume to 33.8 million units as driven by the orders placed actively by smartphones brand customers; (ii) the growth in the sales of A-Si LCD modules which has a high cost-performance ratio, the Group's sales volume of modules for sale increased by 119.0% period-on-period to 32.0 million units, accounting for 94.7% of the Group's total sales volume; and (iii) the period-on-period increase of 131.6% in sales volume of laminated modules for sale to 30.9 million units, with the corresponding revenue of RMB2,738 million, representing a period-on-period increase of 128.8%. For the six months ended 30 June 2021, the Group recorded a gross profit margin of 7.8%, representing a decrease of 1.4 percentage points as compared to the six months ended 30 June 2020. The decrease was mainly attributable to a surge in cost of raw materials due to tight supply. On the other hand, benefited from the economies of scale, the Group recorded a gross profit of approximately RMB224 million, representing a period-on-period increase of 78.1%. The Group recorded profits attributable to owners of the parent of the Company of approximately RMB98 million, as compared to the loss attributable to owners of the parent of the Company of approximately RMB89 million for the six months ended 30 June 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The Group's management was of the view that owing to the Mainland Chinese government's effective pandemic prevention and control policies as well as the persistent push to develop 5G networks, the penetration rate of 5G smartphones has continued to rise, driving a strong rebound in China's smartphone shipment volume. In addition, as the COVID-19 pandemic eased and vaccination programs were gradually launched around the world, the global economy showed signs of sustained recovery, which led to a sharp rebound in smartphone shipment volume. As a qualified supplier of the world's top mobile phone brands, the Group continued to provide customers with high-quality and customised services. The orders from brand customers continued to increase in proportion during the six months ended 30 June 2021. During the first half of 2021, the Group has capitalised on the persistently rising demand for remote work driven by the new life-style under the pandemic. The sales volume of display modules for tablets increased 21% year-on-year to 1.2 million units in the first half of 2021. The Group will also continue to actively develop the markets of medium-size smart home and wearable products, so as to seize the huge opportunities in these markets and expand its business horizontally. As advised by the Group's management, the Group will closely monitor the market trends and take the initiative to map out its sales strategies for smartphones, tablets, smart home and wearable products to seize business opportunities and actively achieve horizontal expansion in the business of display modules.

2. Background to and reasons for the 2022-2024 Master Agreements

Master Processing (2022-2024) Agreement

The Group commenced provision of processing of raw material services for TCL Technology Group since June 2019 pursuant to the terms of the Master Processing Agreement and the Master Processing (2019 Renewal) Agreement. With years of co-operation, TCL Technology Group intended to continue to engage the Group for the provision of processing of raw material services. As the Master Processing (2019 Renewal) Agreement will expire by the end of 2021, to govern the on-going processing of raw material services for TCL Technology Group by the Group, the Company and TCL Technology Group entered into the Master Processing (2022-2024) Agreement on 24 November 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

In general, for processing of raw material services for TCL Technology Group, raw materials will be provided by TCL Technology Group. Due to recent shortage of certain raw materials which is/are part of the components required for provision of processing services, the Group will procure such raw materials (with compliance of all relevant law and regulations) on behalf of TCL Technology Group and TCL Technology Group will reimburse the Group for the cost of the relevant raw materials. The Directors considered that, (i) in view of the tight supply and cost fluctuation of raw materials in recent years, such business mode provides the Group with more flexible option to satisfy the needs of the customers; and (ii) with the additional purchase demand, the Group may be able to obtain better commercial terms with due to bulk purchase.

The Master Processing (2022-2024) Agreement enables the Group to continue to provide processing service to TCL Technology Group, which will facilitate the operation of the Group's business by providing additional and stable sources of business opportunities and enhancing the efficient use of resources and utilisation of the production capacity of the Group.

The Directors consider that the continuing connected transactions contemplated under the Master Processing (2022-2024) Agreement will not result in significant reliance on TCL Technology Group as the proposed annual cap of RMB239 million for the year ending 31 December 2024 accounts for only 5.5% of the total revenue of the Group for the year ended 31 December 2020.

Master Sale and Purchase (2022-2024) Agreement

TCL Technology is a major PRC conglomerate and is principally engaged in semi-conductor display and material business.

The Group had been engaging TCL Technology Group for procurement of certain raw materials from time to time and TCL Technology Group is one of the long-term suppliers of the Group. Furthermore, as the Group currently has not established direct business relationship with certain Independent Third Party brand customers, the Group had been selling certain products to TCL Technology Group for its processing or onward sale to such Independent Third Party brand customers, by which the Group may gradually establish direct sales channel with these Independent Third Party brand customers. In view of the above-mentioned on-going sales and purchase transactions with TCL Technology Group, the Group and TCL Technology Group entered into various framework agreements from time-to-time. Given, the current effective framework agreement namely the Master Sale and Purchase (2018 Renewal) Agreement will expire by the end of 2021, the Group entered into the Master Sale and Purchase (2022-2024) Agreement on 24 November 2021 to govern the on-going transactions between both parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The Directors considered that given the Master Sale and Purchase (2022-2024) Agreement will also provide the Group with more flexible options as to the sales channels of its Products. As the market of smartphone products is dynamic and ever-changing. A holistic customer experience is of critical importance and that there are brand customers which order for multiple types of electronic products at the same time. Meanwhile, the products produced or manufactured by the Group and TCL Technology Group are of different types (with the former focusing on LCD modules while the latter focusing on home appliances). Thus, in order to swiftly cope with market changes, to strengthen the operating capability of the Group, and to share the sales channels within TCL Technology Group, the Group would first sell its products to members of the TCL Technology Group for reselling such products to third party customers.

The Directors consider that the continuing connected transactions contemplated under the Master Sale and Purchase (2022-2024) Agreement will not result in significant reliance on TCL Technology Group as the purchase of Materials from and sale of Products to TCL Technology Group will be subject to the Revenue Limit such that the size of the Group's continuing connected transactions under the Master Sale and Purchase (2022-2024) Agreement will be tied to the growth of the Group's relevant transactions with Independent Third Party suppliers and customers.

Master HR Subcontracting (2022-2024) Agreement

According to the management of the Group, the Group have been fulfilling its' workforce requirements for its manufacturing operation via engaging labor dispatching company in the PRC. As the economics of scale achieved by labor dispatching company will allow the Group to obtain skilled labour at a lower cost when compared to the Group hiring similar skilled labour by itself.

Huizhou TCL Group is a labor dispatching company principally engaged in the business of provision of human resources services in the area of electronic components production. The specialisation and experience of the labour and that supplied by Huizhou TCL Group is able to meet the requirements of the Group.

To provide flexibility for the Group to consider Huizhou TCL Group as one of the labor dispatching companies to be engaged by the Group, on 24 November 2021 the Group entered into the Master HR Subcontracting (2022-2024) Agreement with Huizhou TCL Group, by which Huizhou TCL Group will provide a stable and flexible supply of human resources to the Group upon the Group's request, which saves the Group from the time and resources required in recruiting sufficient and additional skilled workers on a short-term basis in particular at peak seasons and reduces the risk of production disruption in case the Group could not recruit the necessary skilled workers in time.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

In view of the above, we considered that the 2022-2024 Master Agreements provides flexibility but not an obligation to the Group to engage TCL Technology Group and Huizhou TCL Group in their respective business operation whenever their respective directors consider appropriate.

Having considered that the transactions between the Group, TCL Technology Group and Huizhou TCL Group have been carried out in their respective ordinary and usual course of businesses among the Group, TCL Technology Group and Huizhou TCL Group, we considered that the entering into of the 2022-2024 Master Agreements is in the ordinary and usual course of business of the Group.

3. Principal terms of the 2022-2024 Master Agreements

(1) The Master Processing (2022-2024) Agreement

The Master Processing (2022-2024) Agreement is on substantially similar terms as the Master Processing (2019 Renewal) Agreement, with the major differences set out as follows:-

- (i) the expansion in the scope of Finished Goods to cover products other than small and medium-sized LCD modules in view of the increasing product variety of the Group;
- (ii) the Group may source Raw Materials on behalf of TCL Technology Group in the event that TCL Technology Group is unable to provide sufficient Raw Materials; and
- (iii) the Master Processing (2022-2024) Agreement will be for a term of 3 years.

The terms of the Master Processing (2022-2024) Agreement are summarised below:

Date:	24 November 2021 (after trading hours)
Parties:	(i) the Company (for itself and on behalf of the Group); and (ii) TCL Technology (for itself and on behalf of TCL Technology Group).
Duration:	From 1 January 2022 or the Shareholders' Approval Date (whichever is later) to 31 December 2024 (both days inclusive).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

Condition Precedent: The Master Processing (2022-2024) Agreement is conditional on and subject to compliance by the Company with relevant requirements of the Listing Rules in respect of the Master Processing (2022-2024) Agreement, including but not limited to obtaining the Shareholders' approval at the SGM.

Save as disclosed above, the Master Processing (2022-2024) Agreement is not subject to other condition precedent.

Major Terms: If any member of TCL Technology Group so requests, the Company may, at its absolute discretion, procure the relevant member of the Group to process Raw Materials into Semi-Finished Materials and/or Finished Goods for the relevant member of TCL Technology Group in accordance with the Quality Specification.

The material processing services provided by the Group shall be on a non-exclusive basis.

TCL Technology will procure the relevant member of TCL Technology Group to provide the relevant member of the Group with the Raw Materials. The title to the Raw Materials (to the extent sourced from and owned by TCL Technology Group), the Semi-Finished Materials and the Finished Goods shall at all times be vested with the relevant member of TCL Technology Group.

In the event that the relevant member of TCL Technology Group is unable to provide sufficient Raw Materials to the Group to process into the requisite Semi-Finished Materials and/or Finished Goods, the relevant member of the Group may (but is not obliged to) source for any such shortfall in Raw Materials from other suppliers on behalf of the relevant member of TCL Technology Group and the relevant member of TCL Technology Group shall reimburse the relevant member of the Group of cost of such Raw Materials.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The terms and conditions of the material processing services provided by the Group to TCL Technology Group shall be agreed by relevant member of the Group and TCL Technology Group in writing by individual agreements from time to time. The terms of such individual agreements shall be consistent with the terms of the Master Processing (2022-2024) Agreement save and except the clauses regarding applicable law and dispute resolution.

Processing fee and price determination:

The overall terms and conditions (including but not limited to processing fees and payment terms) as a whole of each processing order offered by the relevant member of TCL Technology Group to the Group shall be no less favourable to the Group than those offered by Independent Third Parties and shall be on normal commercial terms. Each processing order shall be negotiated on an arm's length basis.

In determining whether the overall terms and conditions of any material processing services conducted pursuant to the the Master Processing (2022-2024) Agreement are no less favourable to the Group than those offered by Independent Third Parties, the Group shall take into account all relevant factors including the fair market price ranges and pricing terms of material processing services of identical, or (if that is not available) of comparable or similar nature, quality, specifications, required time, etc. offered by other Independent Third Parties in the market at the time when the relevant individual agreement is entered into.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

(2) Master Sale and Purchase (2022-2024) Agreement

The terms of the Master Sale and Purchase (2022-2024) Agreement are summarised below:

Date:	24 November 2021 (after trading hours)
Parties:	(i) the Company (for itself and on behalf of the Group); and (ii) TCL Technology (for itself and on behalf of TCL Technology Group).
Duration:	From 1 January 2022 or the Shareholders' Approval Date (whichever is later) to 31 December 2024 (both days inclusive).
Conditions Precedent:	The Master Sale and Purchase (2022-2024) Agreement is conditional on and subject to compliance by the Company with relevant requirements of the Listing Rules in respect of the Master Sale and Purchase (2022-2024) Agreement, including but not limited to obtaining the Shareholders' approval at the SGM. Save as disclosed above, the Master Sale and Purchase (2022-2024) Agreement is not subject to other condition precedent.
Sale of Products to TCL Technology Group:	Each member of TCL Technology Group may, at its absolute discretion, request to purchase Products from members of the Group. If any member of TCL Technology Group so requests or makes a written offer to any member of the Group to purchase from the Group any Products, the Company may, at its absolute discretion, procure relevant members of the Group to supply such Products to the relevant member of TCL Technology Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The terms and conditions of the sale of Products shall be agreed by relevant member of the Group and TCL Technology Group in writing by individual agreements from time to time. The terms of such individual agreements shall be consistent with the terms of the Master Sale and Purchase (2022-2024) Agreement save and except the clauses regarding applicable law and dispute resolution.

Purchase of Materials
from TCL Technology
Group:

Where the Group requires Materials for the manufacture or production of any Products, the Company may, at its absolute discretion, procure members of the Group to purchase required Materials from members of TCL Technology Group.

Upon receiving purchase request from members of the Group, TCL Technology may, at its absolute discretion, procure the relevant member of TCL Technology Group to sell to the relevant member of the Group the required Materials.

The terms and conditions of the purchase of Materials shall be agreed by relevant member of the Group and TCL Technology Group in writing by individual agreements from time to time. The terms of such individual agreements shall be consistent with the terms of the Master Sale and Purchase (2022-2024) Agreement save and except the clauses regarding applicable law and dispute resolution.

Price determination:

The overall terms and conditions (including but not limited to price, payment terms and credit terms) as a whole offered by the relevant member of TCL Technology Group to relevant member of the Group shall be no less favourable to the relevant member of the Group than those offered by Independent Third Parties and shall be on normal commercial terms or better. Each purchase order shall be negotiated on an arm's length basis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

In determining whether the overall terms and conditions of any sale and purchase conducted pursuant to the Master Sale and Purchase (2022-2024) Agreement are no less favourable to the relevant member of the Group than those offered by Independent Third Parties, the Group shall take into account all relevant factors including the fair market price ranges and pricing terms of goods of identical, or (if this is not available) of comparable or similar quality, specifications, quantities, required time of delivery, etc. offered by Independent Third Parties in the market as at the time when the relevant individual agreement is entered into.

Revenue Limit:

Each of the Company and TCL Technology undertakes with each other that:

- (i) the aggregate amount of purchase of Materials from TCL Technology Group by the Group shall not exceed 50% of the Group's then total revenue in each of the financial year during the term of the Master Sale and Purchase (2022-2024) Agreement; and
- (ii) the aggregate amount of sale of Products to TCL Technology Group by the Group shall not exceed 50% of the Group's then total revenue in each of the financial year during the term of the Master Sale and Purchase (2022-2024) Agreement. (hereinafter "**Revenue Limit**").

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

(3) Master Human Resources Subcontracting (2022-2024) Agreement

The terms of the Master HR Subcontracting (2022-2024) Agreement are summarised below:

- Date: 24 November 2021 (after trading hours)
- Parties: (i) the Company (for itself and on behalf of the Group); and
(ii) Huizhou TCL (for itself and on behalf of the Huizhou TCL Group)
- Duration: From 1 January 2022 or the Shareholders' Approval Date (whichever is later) to 31 December 2024 (both days inclusive).
- Conditions Precedent: The Master HR Subcontracting (2022-2024) Agreement is conditional on and subject to compliance by the Company with relevant requirements of the Listing Rules in respect of the Master HR Subcontracting (2022-2024) Agreement, including but not limited to obtaining the Shareholders' approval at the SGM.
- Save as disclosed above, the Master HR Subcontracting (2022-2024) Agreement is not subject to other condition precedent.
- Major terms: Members of the Group may, at its absolute discretion, engage the relevant member of Huizhou TCL Group for provision of the Human Resources Services.
- The relevant member of Huizhou TCL Group shall be responsible for, among other things:
- (i) organisation, recruitment and provision of suitable production labour and support staff to the Group under the Human Resources Services;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

- (ii) supervision and training (including legal compliance, labour protection, safety training in respect of personal injury and incident and disaster prevention) of labour under the Human Resources Services; and
- (iii) day-to-day management of labour and designated projects under the Human Resources Services to ensure that the requirements of the relevant member of the Group are satisfied.

The relevant member of the Group shall be responsible for, among other things:

- (i) provision of work premises, facilities, equipment, and raw materials etc. necessary for completion of the designated projects;
- (ii) provision of specific guidelines, regulations, standards, requirements or targets in respect of each designated project; and
- (iii) ensuring a safe working environment and provision of specialised safety training or other necessary training.

The relevant member of the Group and the relevant member of Huizhou TCL Group shall agree on the terms (including but not limited to fees and payment terms) of the provision of Human Resources Services in writing by individual agreements from time to time. The terms (other than terms in relation to jurisdiction and dispute resolution) of such individual agreements shall be consistent with and not deviate from the Master HR Subcontracting (2022-2024) Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The relevant member of the Group shall have absolute discretion in deciding whether and to what extent the requirements under the designated projects are satisfied and such decision of the relevant member of the Group shall be final and conclusive. In the event that the relevant member of the Group determines that the relevant member(s) of Huizhou TCL Group is unable to satisfy in any respect the relevant requirements in a timely manner, the Group shall have the right to terminate the relevant individual agreement.

Price determination:

The fees under the Human Resources Services are calculated based on:

- (i) the salaries/wages of the relevant labour/staff provided by the relevant member of Huizhou TCL Group under the Human Resources Services; and
- (ii) the actual costs and other disbursements incurred by the relevant member of Huizhou TCL Group under the Human Resources Services.

An estimation of the aforesaid salaries, costs and other disbursements to be incurred or paid by the relevant member of Huizhou TCL Group shall be set out in the individual agreements and be supported with written evidence. If the actual salaries, costs and other disbursements incurred by the relevant member of Huizhou TCL Group are higher than those set out in the individual agreements, the relevant member of the Group shall have absolute discretion to pay to the relevant member of Huizhou TCL Group only such estimated amounts set out in the individual agreements.

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The overall terms and conditions (including but not limited to the fees and payment terms) as a whole offered by the relevant member of Huizhou TCL Group to relevant member of the Group shall be no less favourable to the relevant member of the Group than those offered by Independent Third Parties and shall be on normal commercial terms or better. Each individual agreement shall be negotiated on an arm's length basis.

In determining whether the terms and conditions of any individual agreements for the Human Resources Services are no less favourable to the relevant member of the Group than those offered by independent third parties, the Group shall take into account all relevant factors including, in respect of salaries/wages of relevant labour/staff, the fair market price ranges and pricing terms of human resources services of identical, or (if this is not available) of comparable or similar nature, quality, type, specifications, required time, etc. offered by Independent Third Parties in the market as at the time when the relevant individual agreement is entered into.

Payment term:

Unless otherwise agreed in the individual agreements, the fees for the Human Resources Services shall be payable by the relevant member of the Group to the relevant member of Huizhou TCL Group on a monthly basis and shall be settled on or before the 15th day of next month.

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4. Internal control procedures and pricing policies

In order to safeguard the interests of the Company and the Shareholders, and to ensure that the Non-exempt Transactions are on normal commercial terms and on terms no less favourable to the Group than those offered by Independent Third Parties, in addition to those disclosed above, the Company has also adopted the following general and specific internal control procedures and pricing policies:

General internal control procedures and pricing policies

- (i) The finance department of the Company has maintained a list of transaction parties (the “**Transaction Parties List**”) of all material transactions and highlighted those who are connected persons of the Company so that staff members could identify transactions that constitute connected transactions of the Company. Whenever the relevant department of the Company intends to enter into transaction with an entity, the relevant department would check against the Transaction Parties List to see if such entity is a connected person of the Company, and if so the connected transaction would be subject to applicable review and monitoring procedures (including those set out herein, if applicable) to ensure the connected transactions would be on normal commercial terms and on terms no less favourable from the perspective of the Group.
- (ii) The finance department of the Company has, on a quarterly basis, counterchecked with each party in the Transaction Parties List to ascertain whether they are connected persons of the Company, so as to maintain the list of connected persons (the “**Connected Person List**”) for the staff members to identify transactions constituting connected transactions of the Company in particular those to be made pursuant to the Non-exempt Transactions (where the connected person is a member of TCL Technology Group). Any alteration to the Connected Person List could only be made after checking with the counterparty to ascertain the relationship with the Company, in the case of an addition to the Connected Person List, evidence such as organisation chart will have to be obtained, and in the case of a removal from the Connected Person List, evidence will have to be obtained to confirm the date of cessation as a connected person of the Company. Whenever there is an update to the Connected Person List, it must be reported and approved by the management of the Group to ensure the management is aware of such update.

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- (iii) The finance department of the Group will maintain a database to record and monitor the aggregate transaction amounts under the continuing connected transactions from time to time and prepare a monthly report on the status of the aggregate transaction amounts which will be submitted to the finance director of the Group for review.
- (iv) Before conducting any transactions with connected persons, the finance department would confirm that the Group still has sufficient unused annual caps for carrying out the relevant continuing connected transactions. The finance department would on a regular basis review the continuing connected transactions carried out during the period under review to assess, and compile a report, on (i) whether the continuing connected transactions of the Group have been carried out in accordance with the terms of the relevant agreement and the Company's pricing policy; and (ii) the transactions amount during the month under review, the aggregate amount of transactions conducted during the relevant financial year and whether the relevant annual caps have been exceeded. If it is anticipated that the annual caps may be exceeded if the Company is to carry out the proposed transactions, it would take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules including but not limited to revising the relevant annual caps before entering into the proposed transactions. In particular, when 80% of the amount under the relevant annual cap has been utilised, the finance department would send an alert to the operation unit and management, and they would be required to ascertain if there is still sufficient unused annual cap before accepting any further order from the relevant connected persons. When 90% of the amount under the relevant annual cap has been utilised, the Group will consider refusing orders from relevant connected persons until the relevant annual cap has been revised in compliance with the Listing Rules.
- (v) Every time before conducting any continuing connected transactions, the relevant department of the Group would first prepare the relevant individual agreement for the continuing connected transactions and submit it to the finance department and legal department of the Group for review and approval. The finance department and the legal department of the Group would review the terms of the proposed transaction and the draft individual agreement to be entered into to make sure that the terms are in compliance with the pricing policy of the Group and the overall terms and conditions (including prices and payment terms) are no less favourable to the relevant member of the Group than those offered by Independent Third Parties. The transactions could only be carried out after the finance department and the legal department have separately given their approval therefor.

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- (vi) The Company's internal control unit will on a half-year basis review the monitoring of the continuing connected transactions to ensure the abovementioned policies and procedures are adequate and effective, the findings of the review will be reported by the head of internal control unit to the finance director of the Company. The internal control unit regularly reviews and monitors whether the continuing connected transactions are conducted on normal commercial terms and in compliance with the policies and procedures. In the event of any non-compliance issue or inadequacy in the policies and procedures, the internal control unit will immediately report such matters to the independent non-executive directors and will take remedial actions.

- (vii) The independent non-executive Directors will be provided with the internal control report which sets out the matters subject to review, the methodology adopted, the findings of the internal control department as well as remedial actions taken (if any). Further, the management will provide independent non-executive Directors with half-yearly reports in respect of the on-going continuing connected transactions; sufficient information relating to (i) financial performance and position of the Company; (ii) the implementation of the continuing connected transactions and (iii) the agreement(s) on the continuing connected transactions to be entered into will also be provided to enable the independent non-executive Directors to make their independent judgment in reviewing the continuing connected transactions. The internal control department of the Company will alert the independent non-executive Directors of any deficiency of internal controls or non-compliance issue.

- (viii) All such personnel involved in the internal control procedures are independent of TCL Technology and its associates.

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(1) *Master Processing (2022-2024) Agreement*

- (i) Every time before the relevant member of the Group accepts a request from the relevant member of TCL Technology Group for the processing of Raw Materials, the operation unit of the relevant member of the Group will review the draft individual processing order for the engagement to confirm that the Group has the relevant resources to meet the timeline, quality and the quantity of the relevant order placed. The processing fee that the Group charges is in general determined based on factors such as the cost for processing, level of technology and skills required and quantity ordered etc. taking into account prevailing market conditions, and will vary depending on the specification of each order. Such price determination mechanism is in line with the market or the industry. In any event, the Group will make reference to the prevailing market or industry practices and conditions to ensure the processing fee to be charged is consistent with the market or industry.
- (ii) When evaluating the terms of a draft individual processing order, the internal control unit will compare it with all quotations provided to or by Independent Third Parties for the same or equivalent processing services at comparable quality and determine whether on an overall evaluation of the processing fees to be charged, the payment terms as stated in the draft individual processing order against the quotations offered to or by Independent Third Parties, are no less favourable to the Group.
- (iii) Where no similar service for processing the relevant Raw Material into similar Semi-Finished Materials and/or Finished Goods is offered by the Group to Independent Third Parties, the Group will request the relevant member of TCL Technology Group to obtain at least two quotations from Independent Third Parties (who are able to provide the required services of satisfactory quality and at satisfactory standard to TCL Technology Group) whereby the Group will compare the overall terms of the engagement, and in particular the processing fee to be charged, against those offered by Independent Third Parties to ensure that those offered by the Group are no more favourable. Where no such quotations could be obtained, the Group will compare the gross profit margin of the processing fee to be charged by the Group against the gross profit margin for selling similar Semi-Finished Materials and/or Finished Goods to ensure that a higher gross profit margin will be achieved by offering processing service. For illustration purpose only, the current gross profit margin of processing service in general is within the range of approximately 3% to 20%, depending on the type and specification of Semi-Finished Materials and/or Finished Goods required by the customers. Nevertheless, the margin that the Group charges may vary

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during the term of the Master Processing (2022-2024) Agreement depending on factors such as market circumstances, customer relationship, product specifications, transportation and mode of delivery, production cost, etc. The reason for requesting the relevant member of TCL Technology Group to obtain quotations from Independent Third Parties instead of obtaining quotations by the Group itself is because it is impractical for the Group, as a service provider in the context of processing service, to obtain quotations from Independent Third Party processing service providers who are competitors of the Group, as those Independent Third Parties will be reluctant to provide the Group with such sensitive information.

(2) *Master Sale and Purchase (2022-2024) Agreement*

- (i) Before selling any Products to or purchasing any Materials from TCL Technology Group, the Group would ensure that the transactions are on normal commercial terms and on terms no less favourable from the perspective of the Group than those offered by Independent Third Parties. The internal control unit of the Group will compare the terms offered by TCL Technology Group with the terms offered by at least two Independent Third Party and make an overall assessment of the terms offered, including the quality of the Products or Materials, past history of dealing with the such party (if any), payment terms and Product or Materials price (as the case may be), to ensure that those offered by TCL Technology Group is no less favourable to the Group than those offered by Independent Third Parties.
- (ii) Where no identical Products or Materials are offered by Independent Third Parties, the internal control unit will then obtain at least two quotations from Independent Third Parties in respect of similar or comparable Products or Materials and compare them with those offered by TCL Technology Group and determine whether on an overall evaluation of the prices to be charged, payment terms and other terms and conditions, the terms offered by TCL Technology Group are no less favourable to the Group than those offered by Independent Third Parties.

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- (iii) It is the current pricing policy of the Group that the gross profit margin of the Products shall be no less than 3% on average. In the case where no quotations for identical, similar or comparable Materials can be obtained and the Group decides to purchase Materials from TCL Technology Group, if the cost of such Materials is so high that it will result in the gross profit margin of the relevant Product dropping below the minimum average of 3%, the Group will consider whether to purchase such Materials from TCL Technology Group based on a basket of factors, including not limited to (i) whether the Group is able to obtain better offer from Independent Third Parties; (ii) whether the Group has available production capacity and manpower to handle the relevant order; (iii) the customers' demand and the long-term relationship with the customers; and (iv) the overall impact to the profitability of the Group, and the Group shall only proceed on such purchase from TCL Technology Group if it is in the interest of the Shareholders and the Group as a whole to do so.

- (iv) The Group will set up half-year targets for sale of Products and purchase of Materials, which should generally not exceed 50% of the total sale or purchase target (as the case may be) of the Group for the period, together with the annual revenue target of the Group, it could project the approximate amount of sale and purchase from TCL Technology Group, which will be subject to review from time to time by its internal control unit depending on the surrounding circumstances such as Group's performance and overall market conditions. The finance department will provide the actual revenue in the end of each month to enable the sale unit, purchase unit and internal control unit to compare the actual sale and purchase figures against the sale and purchase targets, the sale and purchase limit as well as the latest revenue of the Group from time to time and to make necessary adjustment for the sale and purchase to and from TCL Technology Group for the remaining half year period, if needed, to ensure that the Revenue Limit will not be exceeded.

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- (v) The internal control unit of the Group will maintain a database to record (a) the total revenue of the Group; and (b) the aggregate amount of purchase of Materials from and sale of Products to TCL Technology Group. Wherever the Group proposes to make a purchase or sale which will result in the then aggregate amount of purchase of Materials from or sale of Products to TCL Technology Group exceeding 45% of the then total revenue of the Group in the relevant financial year, the Group will favourably consider offers from other Independent Third Parties for purchase of Materials or sale of Products as and when appropriate. The internal control unit will notify the relevant departments to temporarily decline or delay to process the sale or purchase instructions from the Group and any further instructions from the relevant departments can only be processed on a discretionary basis until there are sufficient purchases or sales from/to other Independent Third Parties to ensure that the Revenue Limit for the corresponding financial year will not be exceeded. Where necessary, the Group will also consider refusing purchase of Materials from or sale of Products to TCL Technology Group until there is sufficient Revenue Limit and/or the relevant Revenue Limit has been revised in compliance with the Listing Rules (including but not limited to obtaining Shareholders' approval, where appropriate). Taking into consideration of the above, we consider such recording and reporting measures will be able to ensure the relevant Revenue Limit of the Group for the corresponding financial year will not be exceeded.

(3) *Master HR Subcontracting (2022-2024) Agreement*

- (i) To ensure that the continuing connected transactions contemplated under the Master HR Subcontracting (2022-2024) Agreement are on normal commercial terms and terms no less favourable than those available from Independent Third Parties, where comparable services are available on the market from Independent Third Parties, before requesting the Human Resources Services from Huizhou TCL Group, the Group would obtain a quotation from at least two Independent Third Parties for similar or comparable services and conduct an assessment on the terms of the provision of such services. The Group would only engage Huizhou TCL Group for the provision of the Human Resources Services when the terms offered by Huizhou TCL Group are better than those offered by Independent Third Parties. The quotations obtained from the Independent Third Parties would be recorded in an internal system maintained by the Group which would be updated from time to time so that the members of the Group would have an easy access of information regarding the market price and other terms of contract.

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Since the pricing for the Non-exempt Transactions would be compared to the best available quotations or profit margin in respect of each the Non-exempt Transactions with those comparable transactions entered into with Independent Third Parties, we concur with the view of the Directors that, such price determination procedures would ensure the price of the Non-exempt Transactions to be no less favorable to those of independent third-party transactions.

5. Comparison of terms with independent third parties

Master Processing (2022-2024) Agreement

We have discussed with the management of the Group and understood that the Group has yet to provide any processing service to any independent third parties. As such the Group had compared the gross profit margin of the processing fee to be charged by the Group against the gross profit margin for selling similar Semi-Finished Materials and/or Finished Goods to ensure that a higher gross profit margin will be achieved by offering processing service.

We have obtained and reviewed random sample documents of the Group's quotations for sales of Semi-Finished Materials and Finished Goods to Independent Third Parties and quotations for offering processing services to the relevant member of TCL Technology Group among. We noted that the gross profit margin of offering processing services to the relevant member of TCL Technology Group were higher than the gross profit margin of sales of Semi-Finished Materials or Finished Goods to Independent Third Parties.

Given that the Group will (a) request the relevant member of TCL Technology Group to obtain at least two quotations from Independent Third Parties for comparison of the overall terms of the engagement; (b) where no such quotations could be obtained, the Group will compare the gross profit margin of the processing fee to be charged by the Group against the gross profit margin for selling similar Semi-Finished Materials and/or Finished Goods to ensure that a higher gross profit margin will be achieved by offering processing service; and (c) before accepting request from the relevant member of TCL Technology Group for the processing of Raw Materials, confirm that the Group has the relevant resources to meet the timeline, quality and the quantity of the relevant order placed and if there is insufficient capacity to process both orders from Independent Third Party and relevant member of TCL Technology Group at the same time, and to give priority to process orders of the Independent Third Party and only process order from relevant member of TCL Technology Group with terms no less favorable to the Group than those offered by the Independent Third Party. With the appropriate procedures as mentioned above would be in place to monitor the carrying out of the continuing connected transactions, the Directors are of the view that and we concur, the above mentioned procedures could assist to safeguard the interests of the Group.

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Master Sale and Purchase (2022-2024) Agreement

We have discussed with the management and obtained random sample documents from the Group with respect to the transactions under Master Sale and Purchase (2018 Renewal) Agreement conducted with TCL Technology and comparable transactions conducted with independent third parties during the same period. Based on the review of certain sample documents in which pricing and payment terms details were shown and as confirmed by the Company, we note that the prices and payment terms of those sample transactions were no less favourable than those of the transactions with independent third parties for sale of Products to TCL Technology Group.

In respect of purchase of Raw Materials from TCL Technology Group, the Group was unable to identify identical Raw Materials are offered by Independent Third Parties, thus the Group was unable to obtain quotations from Independent Third Parties. According to the management of the Group, the Raw Materials are with specified size and cutting which most manufacturers in the industry would not produce and such materials will only be available from the other suppliers which are major competitors of TCL Technology Group, as a result it would be impossible for the Group or TCL Technology Group to obtain such quotations containing sensitive and confidential information from the competitors.

In view of the above, we have obtained and reviewed random sample quotations of the Group's sales of Semi-Finished Materials and Finished Goods which contain the Raw Materials purchased from TCL Technology Group. We noted that the gross profit margin of such products were higher than 3%.

From our understanding, given that the Group will (a) request the relevant member of TCL Technology Group to obtain at least two quotations from Independent Third Parties for comparison of the overall terms of the engagement; (b) where no such quotations could be obtained, the Group will maintain the gross profit margin of the finished products made of Raw Materials purchased from TCL Technology Group not below the minimum average of 3%; and (c) if the cost of such Materials is so high that it will result in the gross profit margin of the relevant Product dropping below the minimum average of 3%, consider whether to purchase such Materials from TCL Technology Group based on a basket of factors, including but not limited to (i) whether the Group is able to obtain better offer from Independent Third Parties; (ii) whether the Group has available production capacity and manpower to handle the relevant order; (iii) the customers' demand and the long-term relationship with the customers; and (iv) the overall impact to the profitability of the Group, and the Group shall only proceed on such purchase from TCL Technology Group if it is in the interest of the Shareholders and the Group as a whole to do so. With the appropriate procedures as mentioned above would be in place to monitor the carrying out of the continuing connected transactions, the Directors are of the view that and we concur, the above mentioned procedures could assist to safeguard the interests of the Group.

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As stated in the 2020 Annual Report, the independent non-executive Directors have confirmed that the continuing connected transactions under Master Processing (2019 Renewal) Agreement and Master Sale and Purchase (2018 Renewal) Agreement were entered into: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the agreements governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Master Human Resources Subcontracting (2022-2024) Agreement

Huizhou TCL Group has not provided similar Human Resources Services to the Group historically. To ensure that the continuing connected transactions contemplated under the Master HR Subcontracting (2022-2024) Agreement are on normal commercial terms and terms no less favourable than those available from Independent Third Parties, where comparable services are available on the market from Independent Third Parties, before requesting the Human Resources Services from Huizhou TCL Group, the Group would obtain a quotation from at least two Independent Third Parties for similar or comparable services and conduct an assessment on the terms of the provision of such services. With the above-mentioned measures in place, we consider terms to be obtained from Huizhou TCL Group will be no less favourable to those offered by the Independent Third Party.

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6. Industry review

According to the annual report of the Company, in the first half of 2021, as the COVID-19 pandemic eased and vaccination programs were gradually launched around the world, the global economy showed signs of sustained recovery, which led to a sharp rebound in smartphone shipment volume. According to the second quarter preliminary report from global market researcher OMDIA (<https://omdia.tech.informa.com/>), the global smartphone shipment volume increased by 17.4% year-on-year to 652 million units in the first half of 2021, with the main driving force of growth coming from China and the Asia-Pacific region. In addition, owing to the Mainland Chinese government's effective pandemic prevention and control policies as well as the persistent push to develop 5G networks, the penetration rate of 5G smartphones has continued to rise, driving a strong rebound in China's smartphone shipment volume. According to the China Academy of Information and Communication Technology (<http://www.caict.ac.cn/>), China's smartphone shipment volume for the first half of 2021 was 174 million units, representing an increase of 13.7% year-on-year, of which the shipment volume of 5G smartphone was 128 million units, representing a 100.9% growth year-on-year. Benefitting from the continuous increase in demand for remote work under the pandemic and the rising public consumption sentiment, the shipment volume for tablets has increased significantly. According to the Worldwide Quarterly Personal Computing Device Tracker of IDC (International Data Corporation) (https://www.idc.com/tracker/showproductinfo.jsp?containerId=IDC_P36344), in the first half of 2021, the global tablet shipment increased by 24.5% year-on-year.

7. Basis of the annual caps

The transactions contemplated under the 2022-2024 Master Agreements are subject to the Listing Rules' requirements and conditions as further discussed under the section headed "Reporting requirements and conditions of the Non-exempt Transactions" below. In particular, the transactions contemplated under the 2022-2024 Master Agreements are also subject to the annual caps as discussed below.

In assessing the reasonableness of the annual caps for the 2022-2024 Master Agreements, we have discussed with the Management the basis and assumptions underlying the projections pursuant to the 2022-2024 Master Agreements for the purpose of determining the relevant annual caps (the "**Renewal Caps**").

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i. Review of the historical figures

The following table sets out the historical figures of the continuing connected transactions under the Master Processing (2019 Renewal) Agreement for the period from 18 June 2019 to 30 September 2021 and under the Master Sale and Purchase (2018 Renewal) Agreement for the period from 1 January 2019 to 30 September 2021 and the respective historical annual caps (for the avoidance of doubt, there is no historical figures for Master HR Subcontracting (2022-2024) Agreement):

	For the period from 18 June 2019 to 31 December 2019 (for the Master Processing (2019 Renewal) Agreement)/ For the year ended 31 December 2019 (for the Master Sale and Purchase (2018 Renewal) Agreement) <i>(Note 1)</i> RMB'000	For the year ended 31 December 2020 RMB'000	For the year ending 31 December 2021 (for historical annual cap)/ For the period from 1 January 2021 to 30 September 2021 (for actual amount) RMB'000
(a) Processing fees			
Historical annual caps	518,000	1,092,000	772,317 <i>(nine months prorated of the annual cap of 2021)</i>
Actual amount <i>(Note 1)</i>	507,818	863,454	490,181
Utilization	98.0%	79.1%	63.5%
(b) Purchase of Materials from TCL Technology Group			
Historical annual caps	1,610,000	1,750,000	1,470,000 <i>(nine months prorated of the annual cap of 2021)</i>
Actual amount	840,357	280,433	81,977
Utilization	52.2%	16.0%	5.6%

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	For the period from 18 June 2019 to 31 December 2019 (for the Master Processing (2019 Renewal) Agreement)/ For the year ended 31 December 2019 (for the Master Sale and Purchase (2018 Renewal) Agreement) <i>(Note 1)</i> RMB'000	For the year ended 31 December 2020 RMB'000	For the year ending 31 December 2021 (for historical annual cap)/ For the period from 1 January 2021 to 30 September 2021 (for actual amount) RMB'000
(c) Sale of Products to TCL Technology Group			
Historical annual caps	2,300,000 <i>(Note 2)</i>	2,500,000	2,100,000 <i>(nine months prorated of the annual cap of 2021)</i>
Actual amount	2,390,836	877,209	1,538,935
Utilization	103.9%	35.1%	73.3%

Notes:

- The Company entered into the Master Processing Agreement with TCL Technology on 18 June 2019 for a term from 18 June 2019 to 31 December 2019. Thereafter, the Company entered into the Master Processing (2019 Renewal) Agreement with TCL Technology on 23 August 2019, which was on substantially similar terms as the Master Processing Agreement, for a term from the relevant Shareholders' approval date to 31 December 2021. Accordingly, pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the transactions under both the Master Processing Agreement and the Master Processing (2019 Renewal) Agreement were required to be aggregated, hence the annual caps of the Master Processing (2019 Renewal) Agreement were set to cover the period from 18 June 2019 to 31 December 2019. Whilst the actual transactions under the Master Processing (2019 Renewal) Agreement only commenced on 17 September 2019 after obtaining the relevant Shareholders' approval during the general meeting held on the same day. For details, please refer to August 2019 Circular. During the period from 18 June 2019 to 31 December 2019, the actual transaction amounts under the Master Processing Agreement and Master Process (2019 Renewal) Agreement were RMB43,074,000 and RMB464,744,000 respectively.
- For the year ended 31 December 2019, the actual amount of sale of Products to TCL Technology Group exceeded the relevant annual cap. The rectification of the said annual cap by an amount equal to the relevant actual amount was approved by the Shareholders at the special general meeting of the Company held on 2 July 2020. For details, please refer to the circular of the Company dated 5 June 2020 and the announcements of the Company dated 18 March 2020 and 2 July 2020 respectively.

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(a) *Processing fees*

Actual transaction amounts during 2019, 2020 and for the nine months ended 30 September 2021 were approximately RMB507.8 million, RMB863.5 million and RMB490.2 million respectively. Utilization rate of the annual caps for the processing fees during 2019, 2020 and for the nine months ended 30 September 2021 were approximately 98.0%, 79.1% and 63.5% respectively.

The actual transaction amount of processing fee for 2019 was substantially less than the amount in 2020, as the actual amount for 2019 were only for the period from 18 June 2019 to 31 December 2019 while the amount in 2020 accounted for the actual transaction amount for the entire year of 2020.

Utilization of the processing fee annual cap during the three periods were all over 62%. Utilization for the nine months pro-rata annual cap of 2021 amounted to 63.5% for the nine months ended 30 September 2021, which was less than the previous periods. According to the management, the Group had completed a disposal of one of its subsidiaries in June 2021 which substantially utilized the Group's processing services in the past, with the absent of such subsidiary, the utilization rate has decreased.

(b) *Purchase of Materials from TCL Technology Group*

Actual transaction amounts during 2019, 2020 and for the nine months ended 30 September 2021 were approximately RMB840.4 million, RMB280.4 million and RMB82.0 million respectively. Utilization rate of the annual caps for the purchase of materials from TCL Technology Group during 2019, 2020 and for the nine months ended 30 September 2021 were approximately 52.2%, 16.0% and 5.6% respectively.

According to the management of the Group, the Group experienced a shift in product mix in 2020 and the demand for product which requires materials from TCL Technology Group recorded a decrease and as a result less materials was required to be procured from TCL Technology Group. During the nine months ended 30 September 2021, the demand of such product continued to decrease as such procurement of materials further decrease in the first three quarters of 2021.

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(c) *Sale of Products to TCL Technology Group*

Actual transaction amount during 2019, 2020 and for the nine months ended 30 September 2021 were approximately RMB2,390.8 million, RMB877.2 million and RMB1,538.9 million respectively. Utilization rate of the annual caps for the sales of product to TCL Technology Group during 2019, 2020 and for the nine months ended 30 September 2021 were approximately 103.9%, 35.1% and 73.3% respectively.

According to the management of the Group, the substantial decrease in both transaction value and utilization rate for the year ended 31 December 2020 were mainly due to the slowing of market in 2020 due to the global impact of COVID-19 by which demand of the Group's product by TCL Technology Group decreased substantially. As the market have been picking up in 2021, the actual sales to TCL Technology Group have been recovering and increased to RMB1,538.9 million exceeding the full year actual sales amount in 2020.

ii. Assessment of the annual caps

When assessing the reasonableness of the Renewal Caps, we have discussed with the Directors the basis and assumptions underlying the projection of the Renewal Caps. Set out below is the Renewal Caps being proposed for the transactions contemplated under the 2022-2024 Master Agreements for the three years ending 31 December 2024:

	For the year ending 31 December 2022 RMB'000	For the year ending 31 December 2023 RMB'000	For the year ending 31 December 2024 RMB'000
(a) Processing fees ("Processing Cap")	198,000	218,000	239,000
(b) Purchase of Materials from TCL Technology Group ("Purchase Cap")	387,000	426,000	469,000
(b) Sale of Products to TCL Technology Group ("Sales Cap")	2,781,000	3,059,000	3,364,000
(c) Service fees for HR subcontracting ("HR Cap")	106,000	122,000	141,000

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(a) *Processing fees*

The Directors determined the proposed annual caps in relation to the Master Processing (2022-2024) Agreement with reference to, among others, the following factors:

- (i) the historical amounts of the relevant transactions under the Master Processing (2019 Renewal) Agreement, in particular, the processing fees received by the Group for the nine months ended 30 September 2021 was RMB490.2 million, and it is expected that the Group could retain such processing orders in the three years ending 31 December 2024;
- (ii) it is expected that the Group will be engaged in a new medium sized processing project starting in 2022 with an expected annual shipment of approximately 50 million units from 2022 to 2024;
- (iii) the 10% annual increase in the proposed annual caps from 2022 to 2024 has taken into account the 10% expected annual organic growth rate in respect of the sale volume of processing products to TCL Technology Group during the three years ending 31 December 2024; and
- (iv) it is expected that majority of the Group's customers would prefer and opt for the sale and purchase model, that is the sale of Products to and purchase of Materials from TCL Technology Group contemplated under the Master Sale and Purchase (2022-2024) Agreement and transactions of similar scope conducted with Independent Third Parties (if any), over the processing model, that is the processing service provided to TCL Technology Group contemplated under the Master Processing (2022-2024) Agreement and transactions of similar scope conducted with Independent Third Parties (if any), for the three years ending 31 December 2024, hence the proposed annual caps are reduced accordingly. Whereas both models involve the Group supplying Products to its customers, the difference lies in whether the Raw Materials are sourced and purchased by the Group (as in the case of sale and purchase model), or supplied by its customers (as in the case of the processing model).

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We noted that the Processing Cap for the year ending 31 December 2022 represented around 40.4% of the actual transaction processing amount for the nine months ended 30 September 2021. We understand from the Directors that, they were informed by TCL Technology Group that, majority of the processing demand units within TCL Technology Group would prefer and opt for the sale and purchase model over the processing model for the coming 3 years ending 31 December 2024. As such the Group estimated Processing Cap decreased when compare to the actual transaction amount during the nine months ended 30 September 2021. Furthermore, the Group had disposed one of its subsidiaries which substantially utilized its processing services in the past, with the absent of such subsidiary, it is expected that processing fee will decrease in the coming three years. Such decrease however is estimated to be partly offset by the increase in the demand for new processing products with larger size for application on tablets and smart home product. As estimated by the Directors, the initial demand for processing of such products would amounted to 50 million pieces in 2022 and increase by 10% thereafter, with processing fee estimated to remain stable in the next three years. The annual caps for processing such new product will accounted for 74.8%, 74.7% and 74.9% of the total Processing Cap for the coming three years ending 31 December 2024.

We understand from the industry overview that, market have been picking up in 2021 and recording growth figures in the global smartphone shipment volume of 17.4% year-on-year. Furthermore, the Group also recorded a revenue growth of 108.0% as compared to the corresponding year in 2020. With such robust growth rates in the first half of 2021, we consider estimating a 10% growth rate in the coming three years to be appropriate.

For processing products, which the Group had been processing in the past, we noted that when estimating the Processing Cap, the Group assumed the processing fee will remain comparable to 2021. For new processing products, the estimated processing fee for the such products is higher than the current processing fee for original product. The additional processing fee is mainly catering for covering the cost of utilizing certain specialised equipment for processing of the new products. As the Group has no intention to increase their processing fee of original processing products up to the Latest Practicable Date and the processing fee had remained stable since 2019, we considered that estimating a stable processing fee with reference to the processing fee in 2021 for the coming three years to be acceptable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

(b) Purchase of Materials from TCL Technology Group and sale of Products to TCL Technology Group

The Directors determined the proposed annual caps in relation to the Master Sale and Purchase (2022-2024) Agreement with reference to, among others, the following factors:

Purchase of Materials from TCL Technology Group:

- (i) the historical amounts of the relevant transactions under the Master Sale and Purchase (2018 Renewal) Agreement, in particular, it is expected that the total amount of relevant transactions for the year ending 31 December 2021 would reach approximately RMB118 million;
- (ii) the demand for Materials corresponds to a new sales project in which the Group is expected to be engaged from 2022 to 2024 with the expected annual shipment of 4 million units in 2022;
- (iii) the 10% annual increase in the proposed annual caps taking into account the Materials sourcing demand corresponding to the 10% expected annual organic growth rate in the sales volume of the Group from 2022 to 2024; and
- (iv) the average price of Materials and Products is expected to remain stable for the three years ending 31 December 2024;

Sale of Products to TCL Technology Group:

- (i) the historical amounts of the relevant transactions under the Master Sale and Purchase (2018 Renewal) Agreement, in particular, it is expected that approximately 80% of the proposed annual cap for the year ending 31 December 2021 would be utilised in view of the fourth quarter being the traditional peak season;
- (ii) it is expected that the Group will be engaged in a new sales project from 2022 to 2024 with the expected annual shipment of 4 million units in 2022;
- (iii) the 10% annual increase in the proposed annual caps taking into account the 10% expected annual organic growth rate in the sales volume of the Group from 2022 to 2024;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

- (iv) it is expected that majority of the Group's customers would prefer and opt for the sale and purchase model, that is the sale of Products to and purchase of Materials from TCL Technology Group contemplated under the Master Sale and Purchase (2022-2024) Agreement and transactions of similar scope conducted with Independent Third Parties (if any), over the processing model, that is the processing service provided to TCL Technology Group contemplated under the Master Processing (2022-2024) Agreement and transactions of similar scope conducted with Independent Third Parties (if any), hence there will likely be more demand for products manufactured under sale and purchase model. Whereas both models involve the Group supplying Products to its customers, the difference lies in whether the Raw Materials are sourced and purchased by the Group (as in the case of sale and purchase model), or supplied by its customers (as in the case of the processing model); and
- (v) the average selling price of Products is expected to remain stable for the three years ending 31 December 2024.

Purchase Cap

When estimating the Purchase Cap, the Directors took into account (i) an estimated purchase quantity which was based on the purchase demand for 2021 plus a 10% increment; and (ii) a selling price based on the average selling price in 2021. According to the management of the Group, as the market have been picking up and the Group recorded a revenue growth of 108.0% for the first half of 2021 as compared to the corresponding year in 2020, it is reasonable to estimated an increase in demand of products and therefore estimate an increase in procurement of raw materials from TCL Technology Group. As the Group was approached by TCL Technology Group to sale and process certain new products for them. To catering for the production of the relevant new products to sell to TCL Technology Group, additional raw materials would be required. Pursuant to the discussion between the management of the Group and TCL Technology Group, based on the procurement intention, 4 to 4.84 million pieces of raw material could be required to be purchase from TCL Technology Group. By taking into account the unit price of the raw material, a purchase cap of RMB240.0 million, RMB264.0 million and RMB290.4 million accounting for approximately 62% of the Purchase Cap for the three years ending 31 December 2024 respectively would be require for accommodating the production demand in manufacturing new products to be sold to TCL Technology Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

In terms of pricing, as the price of relevant raw materials remained stable, we consider estimating a stable average purchase price in the coming three years to be appropriate.

For the 10% increment on Purchase Cap for 2022 and 2023, taking into consideration the robust market growth in the 2021, we consider a 10% increment on Purchase Cap for 2022 and 2023, catering any additional demand of raw materials to be reasonable.

Sales Cap

When estimating the Sales Cap, the Directors took into account (i) an estimated sales quantity which was based on the annualizing average monthly sales to TCL Technology Group in 2021 plus a 10% increment; (ii) a selling price based on the average selling price in 2021; and (iii) the demand of new products from TCL Technology Group.

According to the management of the Group, the demand from TCL Technology Group was mainly driven from one of their branded customer as the demand from such customer had recorded substantial increase and as the market have been picking up and the Group recorded a revenue growth of 108.0% for the first half of 2021 as compared to the corresponding year in 2020, it is reasonable to estimate an increase in demand of products.

In respect of the demand of new products from TCL Technology Group, we understand from the management of the Group that starting from 2022, TCL Technology Group intended to procure new tablet and smart home products from the Group. Pursuant to the discussion between the management of the Group and TCL Technology Group, referring to the volume of new products to be procure under the procurement plan of TCL Technology Group and the estimated selling price of the Company Sales Cap in respect to sales of new products to TCL Technology Group, would amounted to RMB340.0 million, RMB374.0 million and RMB411.4 million accounting for approximately 12% of the Sales Cap for the year ending 31 December 2022, 2023 and 2024 respectively.

In terms of pricing, as the selling price had remained stable and according to the management of the Group they have no plans to adjust the selling price, we consider estimating a stable average selling price in the coming three years to be appropriate. For the new product to be sold to TCL Technology Group, we noted that the estimated selling price is comparable to the selling price of similar products to independent third party.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

For the 10% increment on Sales Cap for 2022 and 2023, taking into consideration the robust market growth in the 2021, we consider a 10% increment on Sales Cap for 2022 and 2023, catering any additional demand from the branded customers.

(c) *Service fees for HR subcontracting*

The Directors determined the proposed annual caps in relation to the Master HR Subcontracting (2022-2024) Agreement with reference to, among others, the following factors:

- (i) the historical labour costs incurred by members of the Group for similar projects and operations, in particular, the relevant historical labour costs for the nine months ended 30 September 2021 was approximately RMB73 million;
- (ii) the expected increase of labour demand (in terms of man hour) of the Group at an annual rate of 10% during the term of the Master HR Subcontracting (2022-2024) Agreement taking into account the Group's business development plan and expected organic growth of the Group's sales volume for the three years ending 31 December 2024;
- (iii) the prevailing market rate of services similar to the Human Resources Services which is expected to increase at an annual rate of 5% taking into consideration of inflation; and
- (iv) the experience and expertise of the labour supplied by Huizhou TCL Group.

Estimated number of work hours required for the HR Cap for the year ending 31 December 2022 were estimated base on the annualized work hours for 2021 projected by using the actual hours in the first eight months of 2021 plus a 10% increment. As we understand from the industry overview that, market has been picking up in 2021 and recording growth figures, we consider using the latest available actual work hours in the first eight months of 2021 for estimating the number of work hours require for the HR Cap for the year ending 31 December 2022 would reflect that latest demand for labour hours as require by the production sale of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

We understand from the Directors that, the subcontracting fee per hour estimated in the HR Cap for the year ending 31 December 2022 was comparable to the average cost per hour for sub-contracting labour in the first eight months of 2021. Given quotations would have to be obtained by the Group prior engaging Huizhou TCL Group to provide sub-contracting HR services, the average cost per hour for sub-contracting labour in the first eight months of 2021 would be an appropriate reference to formulate the HR Cap as all sub-contracting HR services in the first eight months of 2021 were obtained from independent third parties. We noted that the estimated average cost per hour for sub-contracting labour in coming up the HR Cap for the two years ending 31 December 2024 took into consideration a 5% growth per year catering for any increment of labour cost. Pursuant to the national bureau of statistics of the PRC, in the first half of 2021, the actual wage of resident in the PRC recorded an increase by 12% as compared the corresponding period in 2020. Taking into consideration the growth in wages in the PRC, a 5% growth per year for the coming two years ending 31 December 2024 would be appropriate.

A 10% growth rate per year was also estimated by the Directors for the HR Cap in the coming three years including a growth of 10% from the annualized 2021 actual work hours. We understand that the 10% growth rate for the HR Cap for 2023 and 2024 are in-line with the estimated growth rate estimated in the Sales Cap for such period, we consider if sales increase additional labour would be require for manufacturing products for sales, therefore a 10% growth rate per year estimated in the HR Cap would be reasonable. For the growth of 10% for the HR Cap estimated work hours as compared to the annualized 2021 actual work hours, considering the robust growth in the first half of 2021, referring to the industry overview, we consider a 10% growth to be acceptable.

8. Reporting requirements and conditions of the Non-exempt Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the continuing connected transactions contemplated under the 2022-2024 Master Agreements are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the continuing connected transactions and confirm in the annual report that the continuing connected transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

- (ii) on normal commercial terms or better; and
 - (iii) in accordance with the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the Company's annual report) confirming that the continuing connected transactions:
 - (i) have received the approval of the Board;
 - (ii) are, in all material respects, in accordance with the pricing policies of the Group (if applicable);
 - (iii) have been entered into, in all material respects, in accordance with the relevant agreement governing the continuing connected transactions; and
 - (iv) have not exceeded the annual cap;
- (c) the Company shall allow, and shall procure the relevant counterparties to the continuing connected transactions to allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the continuing connected transactions as set out in paragraph (b); and
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively.

In light of the reporting requirements attached to the continuing connected transactions and the Group's internal control policies as detailed in the paragraph headed "Pricing Policy and Internal Control Procedures" of the Letter from the Board, which includes, (i) the internal control procedures with appropriate segregation of duties for the Group to monitor the continuing connected transactions; (ii) the restriction of the value of the continuing connected transactions by way of the annual caps; and (iii) the on-going review by the independent non-executive Directors and auditors of the Company of the continuing connected transactions, we are of the view that appropriate measures will be in place to effectively monitor the conduct of the continuing connected transactions and assist to safeguard the interests of the independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the entering into of the 2022-2024 Master Agreements is in the ordinary and usual course of business of the Group and in the interests of the Company and the independent Shareholders as a whole, the terms of which are on normal commercial terms and are fair and reasonable so far as the Company and the independent Shareholders are concerned, and the basis for determining the proposed annual caps is fair and reasonable so far as the Company and the independent Shareholders are concerned.

Accordingly, we would recommend the independent Shareholders, and advise the Independent Board Committee to recommend the independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM in respect of the 2022-2024 Master Agreements and the proposed annual cap(s).

Yours faithfully,
For and on behalf of
Halcyon Capital Limited

Terry Chu
Managing Director

Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 20 years of experience in corporate finance industry.

1. RESPONSIBILITY OF THE DIRECTORS

This document, 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 Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document 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 document misleading.

2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (“**Model Code**”), to be notified to the Company and the Stock Exchange, were as follows:

(a) Interest in the Company – Long Positions

Name of Directors	Number of ordinary Shares held		Number of underlying shares held under equity derivatives (Note 1)	Total	Approximate percentage of total number of issued Shares (Note 2)
	Personal interest	Other interests			
OUYANG Hongping	14,037,998	–	9,076,528	23,114,526	1.09%
HSU Wai Man, Helen	–	–	260,000	260,000	0.01%
XU Yan	–	–	260,000	260,000	0.01%
LI Yang	–	–	260,000	260,000	0.01%

Notes:

- These equity derivatives were outstanding share options granted to the relevant Directors under a share option scheme of the Company.
- Such percentage was calculated based on the number of shares and underlying shares of the Company in which the relevant Director was interested as notified to the Company and disclosed on the website of the Stock Exchange pursuant to Part XV of the SFO, against the number of issued Shares as at the Latest Practicable Date, being 2,114,307,929 Shares in issue.

(b) Interest in associated corporations of the Company – Long Positions***TCL Technology***

Name of Directors	Number of ordinary shares held		Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of TCL Technology (Note 1)
	Personal Interest	Other Interest			
LIAO Qian	229,596	–	–	229,596	0.0016%
OUYANG Hongping	26,600	–	–	26,600	0.0002%
ZHANG Feng	358,148	–	–	358,148	0.0026%

Note:

- Such percentage was calculated based on the number of issued share capital of TCL Technology as at the Latest Practicable Date, being 14,030,642,421 shares in issue, as informed by TCL Technology.

Mr. LIAO Qian is also an executive director, the senior vice president and the secretary of the board of directors of TCL Technology. Mr. OUYANG Hongping is also a general manager of low-temperature poly-silicon division of small and medium-sized display business group of TCL CSOT, a general manager and a director of Wuhan CDOT, and a general manager of Wuhan CSOT. Mr. ZHANG Feng is also the legal representative of Wuhan CSOT and Wuhan CDOT, the senior vice president of TCL CSOT, the general manager of small and medium-sized display business group of TCL CSOT and the general manager and a director of Wuhan China Star Optoelectronics Semiconductor Display Technology Company Limited* (武漢華星光電半導體顯示技術有限公司, a subsidiary of TCL CSOT).

Save as disclosed in this paragraph 2, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

3. MATERIAL ADVERSE CHANGES

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since the date to which the latest published audited accounts for the financial year ended 31 December 2020 of the Group were made up.

4. 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 which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTEREST IN THE GROUP'S ASSETS

As at the Latest Practicable Date, none of the Directors had any interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group as referred to in paragraph 40 of Appendix 1B to the Listing Rules.

As at the Latest Practicable Date, none of the Directors had any material interest in any contract or arrangement which was subsisting and significant in relation to the business of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, the Directors were not aware that any of them (or his/her respective close associates) had direct or indirect interests in any business which competes or was likely to compete, either directly or indirectly, with the business of the Group which would fall to be discloseable under the Listing Rules.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

8. EXPERT AND CONSENT

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

Name	Qualification
Halcyon Capital Limited	A licensed corporation under the SFO to conduct Type 6 (advising on corporate finance) regulated activities for the purpose of the SFO

Halcyon Capital Limited, the Independent Financial Advisor, has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 30 November 2021 and references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, Halcyon Capital Limited did not have (i) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and (ii) any direct or indirect interest in any assets which have, since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Company were made up), been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

9. MISCELLANEOUS

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business in Hong Kong is 8th Floor, Building 22E, Phase Three, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong.
- (b) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The secretary of the Company is Ms. CHEUNG Bo Man, a practising solicitor of Hong Kong.
- (d) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

10. DOCUMENTS ON DISPLAY

Electronic copies of the following documents are published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (www.cdoth8.com) for a period of 14 days from the date of this circular (both days inclusive):

- (a) the Master Processing (2022-2024) Agreement;
- (b) the Master Sale and Purchase (2022-2024) Agreement; and
- (c) the Master HR Subcontracting (2022-2024) Agreement.

NOTICE OF SGM

China Display Optoelectronics Technology Holdings Limited 華顯光電技術控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 334)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of China Display Optoelectronics Technology Holdings Limited (the “**Company**”) will be held at 8th Floor, Building 22E, Phase Three, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong, on 16 December 2021, Thursday, at 3:00 p.m., for the purposes of considering and, if thought fit, passing the following ordinary resolution(s) (with or without modifications):

ORDINARY RESOLUTION(S)

1. “**THAT:**

- (a) the Master Processing (2022-2024) Agreement (as defined in the circular of the Company dated 30 November 2021), a copy of which has been produced to the meeting and marked “A” and initialled by the chairperson of the meeting for the purpose of identification, the terms and the transactions thereunder together with the relevant annual caps in relation thereto for the three years ending 31 December 2024 as set out in the circular of the Company dated 30 November 2021 be and are hereby approved, confirmed and ratified; and
- (b) any one or more of the directors of the Company be and is hereby authorised to sign and execute such other documents or supplemental agreements or deeds for and on behalf of the Company and to do all such acts and take all such steps as he/she or they may consider necessary, desirable or expedient for the purpose of carrying out or giving effect to or otherwise in connection with the Master Processing (2022-2024) Agreement or the transactions contemplated thereunder, and to agree with such variation, amendment or waiver as are, in the opinion of the directors of the Company, in the interest of the Company and the shareholders of the Company as a whole, provided that such variation, amendment or waiver shall not be material in nature.”

NOTICE OF SGM

2. **“THAT:**

- (a) the Master Sale and Purchase (2022-2024) Agreement (as defined in the circular of the Company dated 30 November 2021), a copy of which has been produced to the meeting and marked “B” and initialled by the chairperson of the meeting for the purpose of identification, the terms and the transactions thereunder together with the relevant annual caps in relation thereto for the three years ending 31 December 2024 as set out in the circular of the Company dated 30 November 2021 be and are hereby approved, confirmed and ratified; and
- (b) any one or more of the directors of the Company be and is hereby authorised to sign and execute such other documents or supplemental agreements or deeds for and on behalf of the Company and to do all such acts and take all such steps as he/she or they may consider necessary, desirable or expedient for the purpose of carrying out or giving effect to or otherwise in connection with the Master Sale and Purchase (2022-2024) Agreement or the transactions contemplated thereunder, and to agree with such variation, amendment or waiver as are, in the opinion of the directors of the Company, in the interest of the Company and the shareholders of the Company as a whole, provided that such variation, amendment or waiver shall not be material in nature.”

3. **“THAT:**

- (a) the Master HR Subcontracting (2022-2024) Agreement (as defined in the circular of the Company dated 30 November 2021), a copy of which has been produced to the meeting and marked “C” and initialled by the chairperson of the meeting for the purpose of identification, the terms and the transactions thereunder together with the relevant annual caps in relation thereto for the three years ending 31 December 2024 as set out in the circular of the Company dated 30 November 2021 be and are hereby approved, confirmed and ratified; and

NOTICE OF SGM

- (b) any one or more of the directors of the Company be and is hereby authorised to sign and execute such other documents or supplemental agreements or deeds for and on behalf of the Company and to do all such acts and take all such steps as he/she or they may consider necessary, desirable or expedient for the purpose of carrying out or giving effect to or otherwise in connection with the Master HR Subcontracting (2022-2024) Agreement or the transactions contemplated thereunder, and to agree with such variation, amendment or waiver as are, in the opinion of the directors of the Company, in the interest of the Company and the shareholders of the Company as a whole, provided that such variation, amendment or waiver shall not be material in nature.”

By order of the Board
LIAO Qian
Chairman

Hong Kong, 30 November 2021

Notes:

1. A member of the Company who is a holder of two or more shares of the Company (“**Share(s)**”), and who is entitled to attend and vote at the SGM is entitled to appoint more than one proxy or a duly authorised corporate representative to attend and vote in his stead. A proxy needs not be a member of the Company.
2. A form of proxy for the SGM is enclosed with the Company’s circular dated 30 November 2021. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with a valid power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the SGM and any adjournment thereof should he so wish. In such event, his form of proxy will be deemed to have been revoked.
3. The record date (being the last date of registration of any transfer of Shares given there will be no closure of register of members) for determining the entitlements of the shareholders of the Company to attend and vote at the SGM is 10 December 2021, Friday. In order to qualify to attend and vote at the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, by no later than 4:30 p.m. on 10 December 2021, Friday.
4. Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally by proxy, in respect of such Share as if he was solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders, stand on the register in respect of the relevant joint holding.

NOTICE OF SGM

5. If a Typhoon Signal No. 8 or above or a Black Rainstorm Warning Signal or “extreme conditions” as defined under Chapter 1 of the Rules of the Exchange of the Stock Exchange is/are issued and in force at or at any time after 12:00 noon on the date of the SGM, and/or the Hong Kong Observatory and/or the government of Hong Kong (as the case may be) has announced at or before 12:00 noon on the date of the SGM that either of the above mentioned warnings is to be issued within the next two hours, the SGM will be adjourned. The Company will publish an announcement to notify shareholders of the Company of the date, time and place of the adjourned SGM.

The SGM will be held as scheduled when an Amber or Red Rainstorm Warning Signal is in force. Shareholders of the Company should decide on their own whether they would attend the SGM under bad weather conditions bearing in mind their own situation.

6. In view of the recent development of the pandemic caused by coronavirus disease 2019 (COVID-19), and in order to better protect the safety and health of the shareholders of the Company, a series of pandemic precautionary measures will be implemented at the venue of the SGM:-
- (i) compulsory body temperature check will be conducted for every person at the entrance of the venue of SGM. Any person with a body temperature of over 37.5 degree Celsius will not be admitted to the venue;
 - (ii) every person is required to wear facial mask at the venue of the SGM;
 - (iii) seating in the SGM venue will be arranged so as to allow for appropriate social distancing; and
 - (iv) no refreshments will be served at the SGM.

Subject to the development of the COVID-19 pandemic and in compliance with applicable laws and regulations, the Company may implement further precautionary measures at the SGM.

The Company wishes to remind its shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising their voting rights and strongly advises the shareholders to appoint the chairman of the SGM as a proxy to vote on relevant resolution(s) as instructed in accordance with the relevant proxy form as an alternative to attending the SGM in person in light of the continuing risks posed by the COVID-19 pandemic. For more details, please refer to the proxy form for the SGM.

Shareholders of the Company and other participants who will attend the SGM in person are advised to (a) consider carefully the risk of attending the SGM, which will be held in an enclosed environment; (b) follow and comply with any laws, regulations, guidelines or requirements implemented by the Hong Kong Government relating to COVID-19 pandemic; and (c) not to attend the SGM if they have contracted or are suspected to have contracted COVID-19 or have been in close contact with anybody who has contracted or is suspected to have contracted COVID-19.

As at the date of this notice, the Board comprises Mr. LIAO Qian as Chairman and non-executive director; Mr. OUYANG Hongping, Mr. WEN Xianzhen and Mr. ZHANG Feng as executive directors; and Ms. HSU Wai Man Helen, Mr. XU Yan and Mr. LI Yang as independent non-executive directors.