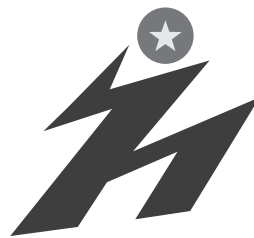

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 adviser.

If you have sold or transferred all your Shares in China Display Optoelectronics Technology Holdings Limited (the “Company”), 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.

The Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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)

CONTINUING CONNECTED TRANSACTIONS MASTER PROCESSING (2019 RENEWAL) AGREEMENT

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



Halcyon Capital Limited

A letter from the Board is set out on pages 5 to 20 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Shareholders is set out on page 21 to 22 of this circular. A letter from Halcyon Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Shareholders is set out on pages 23 to 42 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 17 September 2019, Tuesday at 3:30 p.m. is set out on pages 47 to 48 of this circular.

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 Hong Kong branch share registrar of the Company, 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.

28 August 2019

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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;
“Board”	the board of Directors of the Company;
“Company”	China Display Optoelectronics Technology Holdings Limited, a company incorporated in the Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 0334);
“connected person(s)”	has the meanings ascribed to it under the Listing Rules;
“CSOT”	Shenzhen CSOT and its subsidiaries, for the purpose of this circular shall not include the Group;
“Director(s)”	the director(s) of the Company;
“Finished Goods”	means small and medium sized LCD Modules manufactured, produced or otherwise sold or distributed by the Group;
“Group”	the Company and its Subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board established for the purpose of reviewing the terms of and the proposed annual caps for transactions under the Master Processing (2019 Renewal) Agreement;
“Independent Financial Adviser” or “Halcyon Capital Limited”	Halcyon Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Board to advise the Independent Board Committee and the Shareholders in respect of the terms of the Master Processing (2019 Renewal) Agreement;

DEFINITIONS

“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;
“August Announcement”	means the announcement of the Company dated 23 August 2019;
“June Announcement”	means the announcement of the Company dated 18 June 2019;
“Latest Practicable Date”	means 23 August 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“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;
“Master Processing Agreement”	the master processing agreement dated 18 June 2019 entered into between TCL Corporation and the Company;
“Master Processing (2019 Renewal) Agreement”	the master processing (2019 renewal) agreement dated 23 August 2019 entered into between TCL Corporation and the Company;
“Materials”	the articles, things, parts or materials required for manufacturing or production of Finished Goods, including light-emitting diode, iron frames and other components and parts;
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan for the purposes of this circular;

DEFINITIONS

“Quality Specification”	means the processing procedures and specifications of the Semi-Finished Materials and the Finished Goods (if applicable) provided by TCL Corp Group to the Group from time to time;
“Raw Materials”	means the article, things, components, moulds or raw materials sourced and owned by TCL Corp Group including but not limited to plastic parts;
“RMB”	Renminbi, the lawful currency of the PRC;
“Semi-Finished Materials”	means the semi-finished materials produced or manufactured by the Group pursuant to the terms of the Master Processing (2019 Renewal) Agreement including but not limited to small and medium sized LCD modules which will then be used by TCL Corp Group for the further processing, manufacturing and production of its 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 Master Processing (2019 Renewal) Agreement and the relevant proposed annual caps;
“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”	means the date on which the Shareholders approve the Master Processing (2019 Renewal) Agreement, the transactions contemplated thereunder and the proposed annual caps;

DEFINITIONS

“Shenzhen CSOT”	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 TCL Associate;
“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;
“TCL Associates”	the associate(s) of TCL Corporation;
“TCL Corporation”	TCL Corporation (TCL集團股份有限公司), a joint stock company established under the laws of the PRC, the ultimate controlling Shareholder of the Company, the shares of which are listed on Shenzhen Stock Exchange (stock code: 000100);
“TCL Corp Group”	means TCL Corporation and its Subsidiary(ies) and its associate(s) and any entity(ies) that may become Subsidiary(ies) or associates of TCL Corporation from time to time during the term of the Master Processing (2019 Renewal) Agreement and for the avoidance of doubt it shall not include the 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;
“Wuhan CSOT”	Wuhan China Star Optoelectronics Technology Co., Ltd* (武漢華星光電技術有限公司), a company established under the laws of the PRC with limited liability and a TCL Associate; and
“%”	per cent.

The English transliteration of the Chinese name(s) in this circular, where indicated with “”, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese names.*

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:

LIAO Qian (*Chairman*)

Executive Directors:

OUYANG Hongping

(Chief Executive Officer)

WEN Xianzhen

ZHAO Jun

Independent Non-executive Directors:

HSU Wai Man, Helen

XU Yan

LI Yang

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal Place of Business in Hong Kong:

8th Floor

Building 22E

Phase Three of Hong Kong Science Park

Pak Shek Kok

New Territories

Hong Kong

28 August 2019

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS MASTER PROCESSING (2019 RENEWAL) AGREEMENT

INTRODUCTION

Reference is made to the August Announcement. As stated in the August Announcement, on 23 August 2019 (after trading hours) the Company has entered into the Master Processing (2019 Renewal) Agreement with TCL Corporation, which is on substantially similar terms as the Master Processing Agreement. For more information of the Master Processing Agreement, please refer to the June Announcement.

LETTER FROM THE BOARD

The purposes of this circular are

1. to provide you with further details regarding the Master Processing (2019 Renewal) Agreement;
2. the recommendation from the Independent Board Committee regarding the Master Processing (2019 Renewal) Agreement;
3. the advice from Halcyon Capital Limited, the Independent Financial Adviser regarding the Master Processing (2019 Renewal) Agreement; and
4. other information in accordance with the requirements of the Listing Rules.

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

MASTER PROCESSING (2019 RENEWAL) AGREEMENT

The Company has entered into the Master Processing Agreement on 18 June 2019, which will expire on 31 December 2019. As the Company and TCL Corporation wish to enter into a long term arrangement with respect to the continuing connected transactions contemplated thereunder, the Company has on 23 August 2019 (after trading hours) entered into the Master Processing (2019 Renewal) Agreement with TCL Corporation, which is on substantially similar terms as the Master Processing Agreement.

Set out below are major terms of the Master Processing (2019 Renewal) Agreement:

Date:	23 August 2019 (after trading hours)
Parties:	(1) the Company (for itself and on behalf of its Subsidiaries) (2) TCL Corporation (for itself and on behalf of each and every member of TCL Corp Group)
Duration:	From the Shareholders' Approval Date to 31 December 2021 (both days inclusive)

LETTER FROM THE BOARD

Major Terms:

If any member of TCL Corp Group so requests, the Group shall or procure its member(s) to process the Raw Materials as provided by TCL Corp Group into Semi-Finished Materials and/or Finished Goods for the relevant member(s) of TCL Corp Group in accordance with the Quality Specification, provided that:

- (a) the relevant member(s) of the Group considers that it has the relevant resources to meet the timeline, quality and the quantity of the relevant order placed;
- (b) where the relevant member(s) of TCL Corp Group requests the same kind of service from an Independent Third Party, the overall commercial terms (including charges and payment terms) offered by the relevant member(s) of the Group to TCL Corp Group shall be no more favourable to TCL Corp Group than those offered by such third party; and
- (c) where the relevant member(s) of the Group simultaneously provides the same kind of service to an Independent Third Party, the overall commercial terms (including charges and payment terms) provided by the relevant member(s) of the Group to TCL Corp Group shall be no more favourable to TCL Corp Group than the relevant member(s) of the Group would offer to such third party.

The material processing services provided by the Group shall be on a non-exclusive basis but orders placed by TCL Corp Group shall be given priority, provided that such order placed by TCL Corp Group shall be on terms no less favourable to the Group than those offered by an Independent Third Party.

LETTER FROM THE BOARD

Processing fee and price determination: The processing fee to be charged by the Group (including the payment terms) against TCL Corp Group shall be no more favourable to TCL Corp Group than those which the Group would offer to Independent Third Parties.

(Note: To ensure the processing fee to be charged by the Group (including the payment terms) against TCL Corp Group shall be no more favourable to TCL Corp Group than those which the Group would offer to Independent Third Parties, the processing fee will be determined in accordance with the pricing policy set out in the section headed "PRICING POLICY AND INTERNAL CONTROL PROCEDURES" in this circular)

Termination of Master Processing Agreement: Upon the Master Processing (2019 Renewal) Agreement becoming effective, the Master Processing Agreement will be automatically terminated.

Condition Precedent: The Master Processing (2019 Renewal) Agreement is conditional on and subject to compliance by the Company with all requirements of the Listing Rules in respect of the Master Processing (2019 Renewal) Agreement, including but not limited to obtaining the Shareholders' approval at the SGM.

PRICING POLICY AND INTERNAL CONTROL PROCEDURES

To ensure that the transactions under the Master Processing (2019 Renewal) Agreement are on normal commercial terms and on terms no more favourable than those offered to Independent Third Parties by the Group, or offered by Independent Third Parties to the relevant member of TCL Corp Group, the Company has adopted the following measures:

- (1) Every time before the relevant member of the Group accepts a request from the relevant member of TCL Corp 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 of 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.

LETTER FROM THE BOARD

- (2) The internal control unit will then review the terms of the draft individual processing order to make sure that the terms are in compliance with the Master Processing (2019 Renewal) Agreement and the overall terms of the engagement in respect of processing similar Raw Materials to similar Semi-Finished Materials and/or Finished Goods are no more favourable to TCL Corp Group than those offered by the Group to Independent Third Parties. 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 Corp 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 Corp 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. The reasons for requesting the relevant member of TCL Corp 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. Secondly, as processing service is still a new mode of business for the Group, the Group has yet to receive orders from Independent Third Parties in this regard, and as such the Group currently does not have a benchmark quotation for processing service offered to Independent Third Parties as at the Latest Practicable Date.
- (3) 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 the most favourable to the Group.

LETTER FROM THE BOARD

- (4) The relevant member of the Group will only enter into individual processing order with the relevant member of TCL Corp Group after receiving the approval by the internal control unit which confirms that the overall terms are no more favourable than those offered by the Group to Independent Third Parties or those offered by Independent Third Parties to the relevant member of TCL Corp Group.
- (5) The internal control unit of the Group will conduct a monthly review on whether the Group still has sufficient unused amount under the relevant annual caps for carrying out the continuing connected transactions during the year, and will provide a report on the relevant continuing connected transactions and data on utilisation of the relevant annual cap to the Board every quarter. If it is anticipated that the annual caps may be exceeded and if the Group is to continue carrying out the continuing connected transactions throughout the year, the Group will take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules and seek to revise the relevant annual caps in accordance with the relevant requirements of the Listing Rules before entering into the proposed transactions. In particular, when 80% of the amount under the relevant annual cap has been utilized, the internal control unit 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 TCL Corp Group. When 90% of the amount under the relevant annual cap has been utilized, the Group will consider refusing orders from TCL Corp Group until the relevant annual cap has been revised in compliance with the Listing Rules. Priority would only be given to orders from TCL Corp Group if there is still sufficient unused amount under the relevant annual cap.
- (6) Generally, processing orders accepted by the Group would be handled on a first-come-first-serve basis if there is sufficient capacity to undertake all the orders. However, where an order from an Independent Third Party and an order from TCL Corp Group are being negotiated during the same period of time and there is insufficient capacity to process both orders at the same time, the Group will give priority to the order from TCL Corp Group to that from the Independent Third Party, provided that the order from TCL Corp Group is on terms no less favourable to the Group than those offered by the Independent Third Party and subject to the Group having sufficient unused amount under the relevant annual cap.
- (7) The members who perform the aforesaid internal procedures are all employees of the Company who are independent from TCL Corp Group.

LETTER FROM THE BOARD

Accordingly, notwithstanding the absence of specific pricing terms in the Master Processing (2019 Renewal) Agreement for the continuing connected transactions, the Directors are of the view that given the methods and procedures adopted allow comprehensive comparison between these pricing terms with market standards, they can ensure the fairness and reasonableness of these pricing terms and that the continuing connected transactions are conducted on normal commercial terms, hence the interests of the Company and its Shareholders as a whole are not prejudiced.

HISTORICAL FIGURES

The following table sets out the historical figures of the continuing connected transactions under the Master Processing Agreement for the period from 18 June 2019 to 31 July 2019:

	For the period from 18 June 2019 to 31 July 2019 (unaudited) (for actual amount only)/31 December 2019 (for original annual cap only) <i>RMB'000</i>
Processing Fee	
– original annual cap	54,000
– actual	39,565

PROPOSED ANNUAL CAPS

The following table sets out the respective proposed annual caps of the continuing connected transactions under the Master Processing (2019 Renewal) Agreement:

	For the period from 18 June 2019 to 31 December 2019 <i>RMB'000</i>	For the year ending 31 December 2020 <i>RMB'000</i>	For the year ending 31 December 2021 <i>RMB'000</i>
Processing Fee	518,000	1,092,000	1,029,756

LETTER FROM THE BOARD

DETERMINATION OF THE PROPOSED ANNUAL CAPS

In determining the annual caps for the processing service under the Master Processing (2019 Renewal) Agreement, the Directors have taken into account, among others:

- (i) historical figures under the Master Processing Agreement. As the Group has just commenced its processing business under the Master Processing Agreement, the annual cap of RMB54 million thereunder was intended to cater for a small amount of processing orders to be undertaken by the Group during the trial period. The trial-run has proven successful and as the Group could smoothly transit into this new business model, the Group began to undertake more processing orders from TCL Corp Group. Based on (i) historical figures from 18 June to 31 July 2019, the amount of servicing fee received from TCL Corp Group was RMB39.6 million; and (ii) the scheduled orders to be undertaken by the Group, the amount of servicing fee received from TCL Corp Group is expected to reach approximately RMB127 million by end of September 2019. Further, the Group has intended to lease 6 production lines with aggregate production capacity of 4 million units per month from Independent Third Parties from September to December 2019 to support the expected processing orders from TCL Corp Group, and pursuant to latest negotiation with TCL Corp Group, the amount of servicing fee to be received by the Group for the three months of October to December 2019 is expected to amount to approximately RMB351 million. In this regard, the Group is able to project the approximate annual amount of processing fees to be received from TCL Corp Group based on the expected figure of approximately RMB518 million for the period from 18 June 2019 to 31 December 2019;
- (ii) the processing fee quoted by the Group to members of TCL Corp Group for processing LCD Modules with reference to the pricing policy disclosed in this circular;
- (iii) the proposed annual cap of RMB1.09 billion for the year ending 31 December 2020 represents a 13.8% increase as compared to the annualized figure of the proposed annual cap of RMB960 million for the year ending 31 December 2019, this is because it is estimated that the projected amount of Raw Materials expected to be processed by the Group and TCL Corp Group's projected requirement of, Semi-Finished Materials and Finished Goods would increase to approximately 104 million units for the year ending 31 December 2020 as compared to the year ending 31 December 2019 due to the expected increase in demand from existing major customers of members of TCL Corp Group based on the preliminary discussion between such major customers and TCL Corp Group in relation to the supply for 2020;

LETTER FROM THE BOARD

- (iv) the Group is setting up new production lines, which are expected to complete trial-run in around the fourth quarter of 2019 and commence mass production in the first quarter of 2020, are expected to contribute an additional capacity of 5 million units per month and hence bring about a two-fold increase in the Wuhan CDOT's production capacity from approximately 60 million units in 2019 to approximately 120 million units from 2020 onwards, coupled with the Group's existing production capacity excluding Wuhan CDOT of approximately 88 million units, the Group's overall production capacity is expected to reach approximately 208 million units in 2020;
- (v) having considered that the manufacturing mode of processing Raw Materials provided by customers can help the Group to stabilize its costs and expenses as compared to selling LCD Modules manufactured by the Group, the Group will gradually shift its mode of production to the processing model for the three years ending 31 December 2021 as further explained in the section under "REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS"; and
- (vi) given the Group has just commenced this new mode of production in the second half of 2019, the Group plans to market the processing service to Independent Third Party customers in the beginning of 2020. Before the Group could successfully engage a customer, the Group has to undergo a thorough selection process carried out by the customer which includes financial and operational due diligence on the Group, assessment of whether the Group satisfies the qualification requirements of the relevant customer, quality assessment of the Group's products and factories, small-batch production trials and medium-batch production trials. The Group expects that cooperation relationship with new Independent Third Party customers could be established by the end of 2020 the earliest, thus it is expected that the Group would receive more processing orders from Independent Third Party(ies) in 2021 the earliest, which would consume part of the production capacity of the Group and lead to a slight drop in the amount of Raw Materials expected to be processed for TCL Corp Group and hence the processing fee to be received by the Group for the year ending 31 December 2021. As a result, the proposed annual cap for the year ending 31 December 2021 is expected to decrease by 5.7% as compared to that of the year ending 31 December 2020.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

As the Group is a midstream player in the smart display device market, the Group will from time to time receive commission projects from customers (including relevant member(s) of TCL Corp Group) for processing Raw Materials into Semi-Finished Materials and/or Finished Goods to be used in downstream end products. Having undertaken commission work from members of TCL Corp Group under the Master Processing Agreement, the Company considers that entering into the Master Processing (2019 Renewal) Agreement to extend the arrangement into a long term one will facilitate the smooth operation of the Group's business by providing a source of business opportunities to enhance the efficient use of resources and utilisation of the expanded production capacity of the Group.

Under this manufacturing mode of processing Raw Materials provided by customers, the customers will procure the requisite Raw Materials to be processed by the Group; comparing to the mode of selling LCD Modules manufactured by the Group, where the Group needs to handle procurement, storage and management of Raw Materials. In this regard, the processing mode also reduces the impact of Raw Materials supplies and cost fluctuations on the gross profit margin of the Group, thereby stabilising the cost structure of the Group. Further, labour costs, procurement costs, inventory storage and management costs as well as management overhead can be reduced in the long run in the manufacturing mode of processing Raw Materials provided by customers, which results in a higher gross profit margin as compared to that of selling LCD Modules manufactured by the Group. Accordingly, the Directors consider that the arrangement under the Master Processing (2019 Renewal) Agreement provides the Group with a more stable cost structure which will create greater value to Shareholders and is therefore in the interest of the Company and the Shareholders as a whole, and as the processing mode stabilizes the cost structure of the Group, the Directors are of the view that this mode of business can generate stable profits in the long term.

In view of the aforesaid, the Group will gradually focus more on the processing mode of production. While there is no difference in the equipment, machinery and level of technology required for the processing mode of production as compared to the Group's current mode of production, it would ultimately depend on whether the customer is willing to procure and provide the Raw Materials on its own. Accordingly, from a technical standpoint, the Group does not expect that any material difficulty would arise when shifting to the processing mode of production.

LETTER FROM THE BOARD

The Directors consider that the Group is able to maintain its revenue from Independent Third Parties and the continuing connected transactions contemplated under the Master Processing (2019 Renewal) Agreement will not result in significant reliance on TCL Corp Group for the following reasons:

- (1) On one hand, the Group expects to maintain its existing Independent Third Party customer base, which are mainly in the mobile phone industry, as none of the existing Independent Third Party customers has indicated any intention to discontinue the cooperation with the Group. On the other hand, the Group has been exploring new markets such as the smart home market. The Group has successfully partnered with an Independent Third Party in March 2018 to introduce a smart speaker with interactive touch display module, and orders for the relevant display module is expected to increase by approximately 700% in 2019 as compared to 2018, bringing in a new source of revenue from Independent Third Party. Furthermore, the Group is planning to explore the point-of-sale (POS) system market and educational learning machine market by partnering up with Independent Third Parties. The customer base of the Group's Independent Third Party customers has also been expanding, as evidenced by the 24% increase from 25 Independent Third Party customers in 2018 to 31 Independent Third Party customers in 2019. In view of the aforesaid, the Group is confident that it could maintain its revenue from Independent Third Parties in the future.
- (2) The Group does not intend to offer the processing service solely to members of TCL Corp Group. As explained in the paragraph (vi) under the section headed "DETERMINATION OF THE PROPOSED ANNUAL CAPS", the Group will start to market the processing service to Independent Third Parties in the beginning of 2020 and expect to receive orders from Independent Third Parties starting from 2021.
- (3) Through the cooperation and vertical integration with CSOT, the Group has been able to ride on CSOT's connection and technology advancement in the industry to partner with many Independent Third Party brand customers which the Group would not be able reach out to on its own as the Group could not meet the requisite qualification/specification of such customers. However, the Group has since then been striving to ramp up the capabilities in order to forge a direct business relationship with such customers. Subject to the Group passing the relevant selection process, the Group aims to establish a direct business relationship with such customers by 2021, thereby increasing the Group's revenue from Independent Third Party and reducing its reliance on CSOT.

LETTER FROM THE BOARD

In view of the above, the Directors (excluding the independent non-executive Directors whose views will be set out in the Letter from the Independent Board Committee contained in the circular to be despatched by the Company) consider that the pricing term for the Master Processing (2019 Renewal) Agreement are fair and reasonable, and consider that the continuing connected transactions contemplated thereunder and the annual cap thereof are in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

ANNUAL REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions under the Master Processing (2019 Renewal) Agreement will be subject to the following annual review requirements:

1. the independent non-executive Directors shall review annually the continuing connected transactions under the Master Processing (2019 Renewal) Agreement and confirm in the Company's corresponding annual report that the such transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Group;
 - (b) on normal commercial terms and on terms no less favourable to the Group than those available from or offered to the Independent Third Parties; and
 - (c) in accordance with the respective agreements and on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

2. the auditors of the Company shall review annually the continuing connected transactions under the Master Processing (2019 Renewal) Agreement and confirm in a letter to the Board (a copy of which shall be provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) that the continuing connected transactions under the Master Processing (2019 Renewal) Agreement:
 - (a) have received the approval of the Board;
 - (b) have been, in all material respects, in accordance with the pricing policies of the Group;
 - (c) have been entered into in accordance with the respective agreements; and

LETTER FROM THE BOARD

- (d) have not exceeded the caps; and
- 3. the Directors shall state in the Company's annual report whether its auditors have confirmed the matters stated in Rule 14A.57 of the Listing Rules.

GENERAL INFORMATION ON 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 plants in 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 Corporation is a major PRC conglomerate and is principally engaged in semi-conductor display and material business. For more information on TCL Corporation, please visit its official website at <http://www.tcl.com> (the information that appears in that website does not form part of this circular).

LISTING RULES IMPLICATIONS

TCL Corporation, the ultimate controlling Shareholder of the Company, currently indirectly holds approximately 64.21% of the number of issued Shares of the Company, and therefore is a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the Master Processing (2019 Renewal) Agreement 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 respective annual caps of the Master Processing (2019 Renewal) Agreement exceed 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Notwithstanding the respective interest and/or roles of certain Directors in TCL Corp Group, in particular (i) Mr. Liao Qian who also holds various positions in TCL Corp Group, namely an executive director, the chief of staff, a vice president and the secretary of the board of directors of TCL Corporation; (ii) Mr. Zhao Jun who is also a director and the general manager of Wuhan CSOT, the senior vice president of Shenzhen CSOT, and the vice president of TCL Corporation, and (iii) and Mr. Ouyang Hongping who is interested in 26,600 shares in TCL Corporation (representing approximately 0.0002% of the issued share capital of TCL Corporation) as at the Latest Practicable Date; as each of their respective direct interest in TCL Corp Group is either by virtue of common directorship/senior management role (in the case of Mr. Liao Qian and Mr. Zhao Jun) or the immaterial interest in shares of TCL Corp Group (in the case of Mr. Ouyang Hongping), their respective direct or indirect interests in TCL Corp 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 Master Processing (2019 Renewal) Agreement, therefore all Directors are entitled to vote on the Board resolution for considering and approving the Master Processing (2019 Renewal) Agreement pursuant to the Company's bye-laws.

At the Latest Practicable Date, High Value Ventures Limited, an indirect subsidiary of TCL Corporation is directly interested in 1,357,439,806 Shares, representing approximately 64.21% of the number of issued Shares of the Company. Hence, 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 Master Processing (2019 Renewal) Agreement 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 in respect of the Master Processing (2019 Renewal) Agreement to be put forward at the SGM.

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 17 September 2019, Tuesday at 3:30 p.m., at which resolutions will be proposed for the purposes of considering and, if thought fit, approving the Master Processing (2019 Renewal) Agreement and the proposed annual caps. The notice of the SGM is set out on pages 47 and 48 of this circular.

LETTER FROM THE BOARD

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 Hong Kong branch share registrar of the Company, 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 11 September 2019, Wednesday. 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 11 September 2019 Wednesday.

RECOMMENDATION

Your attention is drawn to (a) the letter from the Independent Board Committee set out on page 21 to 22 of this circular which contains the recommendation of the Independent Board Committee to the Shareholders regarding the resolution in respect of the Master Processing (2019 Renewal) Agreement and the proposed annual caps to be proposed at the SGM; (b) the letter from Halcyon Capital Limited, the Independent Financial Adviser, set out on pages 23 to 42 of this circular which contains its advice to the Independent Board Committee and the Shareholders in respect of the Master Processing (2019 Renewal) Agreement and (c) additional information set out in the appendix to this circular.

The Independent Board Committee, having taken into account the advice (together with principal factors and reasons considered in arriving at such advice) of Halcyon Capital Limited, the Independent Financial Adviser, considers that the terms of the Master Processing (2019 Renewal) Agreement and the transactions contemplated thereunder and the proposed annual caps are fair and reasonable, and on normal or better commercial terms and are entered in the ordinary and usual course of business. Accordingly, the Independent Board Committee recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM in respect of the Master Processing (2019 Renewal) Agreement, the transactions contemplated thereunder and the proposed annual caps.

LETTER FROM THE BOARD

The Board considers that the terms of the Master Processing (2019 Renewal) Agreement and the transactions contemplated thereunder and the proposed annual caps are entered in the ordinary and usual course of business, on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

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)

Date: 28 August 2019

To: the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS MASTER PROCESSING (2019 RENEWAL) AGREEMENT

We refer to the circular of the Company dated 28 August 2019 (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 Master Processing (2019 Renewal) Agreement and the proposed annual caps, details of which are set out in the Circular.

We wish to draw your attention to the letter from the Board and the letter of advice from Halcyon Capital Limited set out on pages 5 to 20 and pages 23 to 42 of the Circular respectively.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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 Adviser, we consider that the Master Processing (2019 Renewal) Agreement is on normal commercial terms, in the interests of the Company and the Shareholders as a whole and the terms thereof are fair and reasonable so far as the Company and the Shareholders are concerned and that the Master Processing (2019 Renewal) Agreement and the transactions contemplated thereunder and the proposed annual caps are entered in the ordinary and usual course of business. Accordingly, we recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM in respect of the Master Processing (2019 Renewal) Agreement and the proposed annual caps.

Yours faithfully,

**HSU Wai Man, Helen,
XU Yan, LI Yang**

Independent Board Committee

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

28 August 2019

To the Independent Board Committee and the independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS MASTER PROCESSING (2019 RENEWAL) 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 the Master Processing (2019 Renewal) Agreement (including the proposed annual caps), 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 28 August 2019 (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.

On 23 August 2019, the Company and TCL Corporation entered into the Master Processing (2019 Renewal) Agreement for the renewal of the existing Master Processing Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, TCL Corporation, the ultimate controlling Shareholder, indirectly held approximately 64.21% of the number of issued Shares, and is a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the Master Processing (2019 Renewal) Agreement 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 Master Processing (2019 Renewal) Agreement 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 Master Processing (2019 Renewal) Agreement (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 resolution 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

In the last two years from the date of this appointment, there was no engagement between the Company and us. Other than 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 ADVISER

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 Master Processing (2019 Renewal) Agreement (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 Corporation and each of their respective associates, and the parties involved in the transactions contemplated under the Master Processing (2019 Renewal) Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Master Processing (2019 Renewal) Agreement, we have considered the following principal factors and reasons:

1. Background information of the Group

As stated in the Letter from the Board, 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 plants 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 2019 and 2018 and for the two years ended 31 December 2018 and 2017 as extracted from the Company's interim results announcement for the six months ended 30 June 2019 (the "2019 Interim Results Announcement") and annual report for the year ended 31 December 2018 (the "2018 Annual Report") respectively:

	30 June		31 December	
	2019	2018	2018	2017
	(unaudited)	(unaudited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sale of TFT LCD module				
– Non-laminated modules	598,222	317,604	900,028	1,291,789
– Laminated modules	2,898,624	946,152	4,380,833	2,172,784
Processing TFT LCD module				
– Laminated modules	19,747	–	–	–
Revenue	<u>3,516,593</u>	<u>1,263,756</u>	<u>5,280,861</u>	<u>3,464,573</u>
Gross profit	<u>76,981</u>	<u>24,093</u>	<u>248,257</u>	<u>279,819</u>
Profit/(loss) attributable to owners of the parent of the Company	<u>13,122</u>	<u>(11,896)</u>	<u>81,782</u>	<u>115,734</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the 2018 Annual Report, the Group's revenue amounted to approximately RMB5.28 billion for the year ended 31 December 2018, representing an increase of approximately 52.4% from approximately RMB3.46 billion for the year ended 31 December 2017, primarily due to: (a) the increase of approximately 13.1% in the Group's annual sales volume of LCD Module products to approximately 60.4 million units for the year ended 31 December 2018 mainly driven by the orders placed by new first-tier brand customers in the second half of 2018; and (b) the Group's continued optimisation of its product mix with increase in proportion of high-end products, as evidenced by the rise in portion of laminated LCD Module products in terms of sales volume from approximately 40.5% for the year ended 31 December 2017 to approximately 68.9% for the year ended 31 December 2018, with the overall average selling price rising by approximately 34.7% to approximately RMB87.5.

As advised by the management of the Group, despite the strong rebound of the Group's sales volume and improvement of the gross profit margin in the second half of 2018, the Group's gross profit amounted to approximately RMB248.3 million for the year ended 31 December 2018, representing a drop of approximately 11.3% from approximately RMB279.8 million for the year ended 31 December 2017, and the Group's profit attributable to owners of the parent amounted to approximately RMB81.8 million for the year ended 31 December 2018, representing a drop of approximately 29.3% from approximately RMB115.7 million for the year ended 31 December 2017, mainly as a result of the weak sales performance in the first half of 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the 2019 Interim Results Announcement, the Group recorded revenue of approximately RMB3.5 billion for the six months ended 30 June 2019, representing a period-on-period increase of approximately 178.3% over its revenue of approximately RMB1.3 billion for the six months ended 30 June 2018, which was mainly due to: (i) the period-on-period increase of approximately 182.3% in the Group's sales volume to 49.6 million units as driven by the orders placed by new first-tier brand customers; (ii) the Group's continuous optimization of its product mix with increased proportion of high-end products, as evidenced by the increase in portion of laminated LCD Module products (excluding processing of LCD Modules) to approximately 68.1% of sales volume for the six months ended 30 June 2019 from approximately 58.7% of sales volume in the same period of previous year, and the increase in proportion of the sales volume of low-temperature poly-silicon ("LTPS") products to approximately 88% for the six months ended 30 June 2019 from approximately 38% for the same period of previous year. Benefited from the growth in sales volume, the Group's gross profit for the six months ended 30 June 2019 was approximately RMB77.0 million, representing a period-on-period increase of approximately 219.5% over its gross profit of approximately RMB24.1 million for the six months ended 30 June 2018. The Group's gross profit margin increased by 0.3 percentage point and the improvement of gross profit margin was not considerable, which was mainly due to: (i) the adoption of a relatively aggressive pricing strategy by the Group in order to actively seize the market share, increase the scale of the sales and establish long term and stable relationships with customers; and (ii) high raw material costs. The Group's profit attributable to owners of the parent amounted to approximately RMB13.1 million for the six months ended 30 June 2019, which has turned around from loss of approximately RMB11.9 million for the six months ended 30 June 2018, mainly as a result of improvement in the sales performance.

The Group's management was of the view that owing to the intensified trade conflicts and geopolitical tensions in the first half of 2019, the demand for smartphones remained weak and the cycle of smartphone replacement lengthened. Under this business environment, the Group had to adopt a more aggressive pricing strategy and leveraged on the order placement by new first-tier brand customers through collaboration with its controlling shareholder, Shenzhen CSOT, the Group will continue to be committed, through deepening the cooperation with CSOT, to responding to customers' needs proactively and offering customized products to first-tier brand customers in order to strengthen its customer base, and strengthen its research and development by joining hands with CSOT, and consistently enhance the capabilities in the LTPS and active-matrix organic light-emitting diode ("AMOLED") display technology. As advised by the Group's management, the Group is also increasing its presence in the smart home and automotive display markets to capture the potential opportunities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Background to and reasons for the Master Processing (2019 Renewal) Agreement

The Group is a midstream player in the smart display device market with focus on small-to-medium sized display modules. The LCD Modules are the assembled product comprising of liquid crystal display, integrated circuit, connector and other structural components. We have discussed with management of the Group and understood that many large customers, especially top tier brands, tend to place large batch of orders of LCD Modules with manufacturers equipped with display panels manufacturing plant for the sake of greater assurance on sufficient supply of display panels to meet the orders even during peak seasons. Accordingly, the Group has set up its plant in Wuhan (the “**Wuhan Plant**”) jointly with Wuhan CSOT nearby the display panel production plant of the controlling shareholder. As noted from the 2018 Annual Report, with CSOT’s 6th generation LTPS liquid crystal display (“**LCD**”) display panel production line reaching full production and sales capacities in the fourth quarter of 2018, the Wuhan Plant also operated at full production capacity in late 2018 and as noted from the section headed “1. Background information of the Group” above, the Group’s sales performance has recorded improvement since the second half of 2018 mainly driven by the orders placed by new first-tier brand customers through collaboration with its controlling shareholder.

As advised by the management of the Group, the full manufacturing mode of the LCD modules requires the Group to purchase raw materials including LTPS display panels from suppliers and then go through a series of processes including LCD cleansing, polarizer attaching, COG (chip bonding on glass, a process that connects directly and conducts integrated circuits to LCD panels) process, FOG (flexible printed circuit on glass, a process that connects directly and conducts the flexible printed circuit to LCD panels) process and back light unit assembly. With the entering into of the Master Processing Agreement, the Raw Materials are provided by TCL Corp Group as customers for the Group to further process into the LCD Modules. Under this processing arrangement, the Group charges processing fee for the processing services provided and is not required to source and purchase Raw Materials which can save costs and staff resources for raw material sourcing and procurement and inventory storage and management. Accordingly, the gross profit margin under this processing mode of operation is expected to be enhanced. While there is no difference in the equipment, machinery and level of technology required for the processing arrangement as compared to the Group’s current mode of production, it would ultimately depend on whether the customer is willing to procure and provide the Raw Materials on its own. Accordingly, in terms of technical aspect, the Group does not expect that any material difficulty would arise when shifting to the processing mode of production. Furthermore, as noted from the Group’s interim report for the six months ended 30 June 2018, the Group’s gross profit margin was decreased from approximately 9.5% to approximately 1.9% and one of the reasons was driven by the increase in cost of raw materials as a result of supply shortage of some upstream components. Under the processing arrangement, no sourcing and procurement of Raw Materials are to be handled by the Group, which can reduce the impact of fluctuations of costs of Raw Materials to the Group’s financial performance.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the foregoing, the Group would like to continue such processing arrangement under the Master Processing Agreement and hence entered into the Master Processing (2019 Renewal) Agreement for a term of three years ending 31 December 2021.

3. Principal terms of the Master Processing (2019 Renewal) Agreement

The principal terms of the Master Processing (2019 Renewal) Agreement are summarised as follows:

- Date: 23 August 2019
- Parties:
- (i) the Company (for itself and on behalf of its Subsidiaries)
 - (ii) TCL Corporation (for itself and on behalf of each and every member of TCL Corp Group)
- Duration: From the Shareholders' Approval Date to 31 December 2021 (both days inclusive)
- Major Terms: If any member of TCL Corp Group so requests, the Group shall or procure its member(s) to process the Raw Materials as provided by TCL Corp Group into Semi-Finished Materials and/or Finished Goods for the relevant member(s) of TCL Corp Group in accordance with the Quality Specification, provided that:
- (a) the relevant member(s) of the Group considers that it has the relevant resources to meet the timeline, quality and the quantity of the relevant order placed;
 - (b) where the relevant member(s) of TCL Corp Group requests the same kind of service from an Independent Third Party, the overall commercial terms (including charges and payment terms) offered by the relevant member(s) of the Group to TCL Corp Group shall be no more favourable to TCL Corp Group than those offered by such third party; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) where the relevant member(s) of the Group simultaneously provides the same kind of service to an Independent Third Party, the overall commercial terms (including charges and payment terms) provided by the relevant member(s) of the Group to TCL Corp Group shall be no more favourable to TCL Corp Group than the relevant member(s) of the Group would offer to such third party.

The material processing services provided by the Group shall be on a non-exclusive basis but orders placed by TCL Corp Group shall be given priority, provided that such order placed by TCL Corp Group shall be on terms no less favourable to the Group than those offered by an Independent Third Party.

Processing fee and
price determination:

The processing fee to be charged by the Group (including the payment terms) against TCL Corp Group shall be no more favourable to TCL Corp Group than those which the Group would offer to Independent Third Parties.

(Note: To ensure the processing fee to be charged by the Group (including the payment terms) against TCL Corp Group shall be no more favourable to TCL Corp Group than those which the Group would offer to Independent Third Parties, the processing fee will be determined in accordance with the pricing policy set out in the section headed "PRICING POLICY AND INTERNAL CONTROL PROCEDURES" in the Letter from the Board)

Termination of
Master Processing
Agreement:

Upon the Master Processing (2019 Renewal) Agreement becoming effective, the Master Processing Agreement will be automatically terminated.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Condition Precedent: The Master Processing (2019 Renewal) Agreement is conditional on and subject to compliance by the Company with all requirements of the Listing Rules in respect of the Master Processing (2019 Renewal) Agreement, including but not limited to obtaining the Shareholders' approval at the SGM.

We have reviewed the Master Processing (2019 Renewal) Agreement and noted that the Master Processing (2019 Renewal) Agreement is on substantially similar terms as the Master Processing Agreement. We have also reviewed the Group's pricing policy and internal control procedures as follows for ensuring that the transactions under the Master Processing (2019 Renewal) Agreement are on normal commercial terms and on terms no more favourable than those offered to Independent Third Parties by the Group, or offered by Independent Third Parties to the relevant member of TCL Corp Group.

- (1) Every time before the relevant member of the Group accepts a request from the relevant member of TCL Corp 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 of 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (2) The internal control unit will then review the terms of the draft individual processing order to make sure that the terms are in compliance with the Master Processing (2019 Renewal) Agreement and the overall terms of the engagement in respect of processing similar Raw Materials to similar Semi-Finished Materials and/or Finished Goods are no more favourable to TCL Corp Group than those offered by the Group to Independent Third Parties. 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 Corp 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 Corp 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.

The reasons for requesting the relevant member of TCL Corp 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. Secondly, as processing service is still a new mode of business for the Group, the Group has yet to receive orders from Independent Third Parties, and as such the Group currently does not have a benchmark quotation for processing service offered to Independent Third Parties as at the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (3) 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 the most favourable to the Group.
- (4) The relevant member of the Group will only enter into individual processing order with the relevant member of TCL Corp Group after receiving the approval by the internal control unit which confirms that the overall terms are no more favourable than those offered by the Group to Independent Third Parties or those offered by Independent Third Parties to the relevant member of TCL Corp Group.
- (5) The internal control unit of the Group will conduct a monthly review on whether the Group still has sufficient unused amount under the relevant annual caps for carrying out the continuing connected transactions during the year, and will provide a report on the relevant continuing connected transactions and data on utilisation of the relevant annual cap to the Board every quarter. If it is anticipated that the annual caps may be exceeded and if the Group is to continue carrying out the continuing connected transactions throughout the year, the Group will take all appropriate steps in advance to comply with the relevant requirements under the Listing Rules and seek to revise the relevant annual caps in accordance with the relevant requirements of the Listing Rules before entering into the proposed transactions. In particular, when 80% of the amount under the relevant annual cap has been utilized, the internal control unit 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 order from TCL Corp Group. When 90% of the amount under the relevant annual cap has been utilized, the Group will consider refusing orders from TCL Corp Group until the relevant annual cap has been revised in compliance with the Listing Rules. Priority would only be given to orders from TCL Corp Group if there is still sufficient unused amount under the relevant annual cap.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (6) Generally, processing orders accepted by the Group would be handled on a first-come-first-serve basis if there is sufficient capacity to undertake all the orders. However, where an order from an Independent Third Party and an order from TCL Corp Group are being negotiated during the same period of time and there is insufficient capacity to process both orders at the same time, the Group will give priority to the order from TCL Corp Group to that from the Independent Third Party, provided that the order from TCL Corp Group is on terms no less favourable to the Group than those offered by the Independent Third Party and subject to the Group having sufficient unused amount under the relevant annual cap.
- (7) The members who perform the aforesaid internal procedures are all employees of the Company who are independent from TCL Corp Group.

We have discussed with the management of the Group and understood that the Group has not yet provided any processing service to any parties except under the Master Processing Agreement and hence it has requested the relevant member of TCL Corp Group to obtain two quotations from Independent Third Parties whereby the Group has compared 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 to TCL Corp Group. We have reviewed the two quotations from Independent Third Parties and the processing order under the Master Processing Agreement and noted that the terms offered by the Group are no more favourable than those offered by Independent Third Parties to the relevant member of TCL Corp Group. We understood from the management of the Group that there was practical difficulty for the Group to obtain quotations from Independent Third Parties who are the competitors of the Group. Given that the Group will (a) request the relevant member of TCL Corp Group to obtain at least two quotations from Independent Third Parties for comparison of the overall terms of the engagement; and (b) before accepting request from the relevant member of TCL Corp 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 Corp Group at the same time, give priority to the order from relevant member of TCL Corp Group to that from the Independent Third Party only if the order from relevant member of TCL Corp Group is on terms no less favourable to the Group than those offered by the Independent Third Party, appropriate procedures are in place to monitor the conduct of the continuing connected transactions and assist to safeguard the interests of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the foregoing, we are of the view that the terms of the Master Processing (2019 Renewal) Agreement are on normal commercial terms, and are fair and reasonable so far as the Company and the independent Shareholders are concerned.

4. Basis of the Annual Caps

As stated in the Letter from the Board, the proposed annual caps of the continuing connected transactions under the Master Processing (2019 Renewal) Agreement are as follows:

	For the period from 18 June 2019 to 31 December 2019 <i>RMB'000</i>	For the year ending 31 December 2020 <i>RMB'000</i>	For the year ending 31 December 2021 <i>RMB'000</i>
Processing fee	518,000	1,092,000	1,029,756

As stated in the Letter from the Board, in determining the annual caps for the processing service under the Master Processing (2019 Renewal) Agreement, the Directors have taken into account, among others:

- (i) historical figures under the Master Processing Agreement. As the Group has just commenced its processing business under the Master Processing Agreement, the annual cap of RMB54 million thereunder was intended to cater for a small amount of processing orders to be undertaken by the Group during the trial period. The trial-run has proven successful and as the Group could smoothly transit into this new business model, the Group began to undertake more processing orders from TCL Corp Group. Based on (i) historical figures from 18 June to 31 July 2019, the amount of servicing fee received from TCL Corp Group was RMB39.6 million; and (ii) the scheduled orders to be undertaken by the Group, the amount of servicing fee to be received from TCL Corp Group is expected to reach approximately RMB127 million by end of September 2019. Further, the Group intended to lease 6 production lines with aggregate

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production capacity of 4 million units per month from Independent Third Parties from September to December 2019 to support the expected processing orders from TCL Corp Group, and pursuant to latest negotiation with TCL Corp Group, the amount of servicing fee to be received by the Group for the three months of October to December 2019 is expected to amount to approximately RMB351 million. In this regard, the Group is able to project the approximate annual amount of processing fees to be received from TCL Corp Group based on the actual figure of approximately RMB518 million for the period from 18 June 2019 to 31 December 2019;

- (ii) the processing fee quoted by the Group to members of TCL Corp Group for processing LCD Modules with reference to the pricing policy disclosed in this circular;
- (iii) the proposed annual cap of approximately RMB1.09 billion for the year ending 31 December 2020 represents a 13.8% increase as compared to the annualized figure of the proposed annual cap of RMB960 million for the year ending 31 December 2019, this is because it is estimated that the projected amount of Raw Materials expected to be processed by the Group and TCL Corp Group's projected requirement of, Semi-Finished Materials and Finished Goods would increase to approximately 104 million units for the year ending 31 December 2020 as compared to the year ending 31 December 2019 due to the expected increase in demand from existing major customers of members of TCL Corp Group based on the preliminary discussion between such major customers and TCL Corp Group in relation to the supply for 2020;
- (iv) the Group is setting up new production lines, which are expected to complete trial-run in around the fourth quarter of 2019 and commence mass production in the first quarter of 2020, are expected to contribute an additional capacity of 5 million units per month and hence bring about a two-fold increase in Wuhan CDOT's production capacity for the year ending 31 December 2020 from approximately 60 million units in 2019 to approximately 120 million units from 2020 onwards, coupled with the Group's existing production capacity excluding Wuhan CDOT of approximately 88 million units, the Group's overall production capacity is expected to reach approximately 208 million units in 2020;

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- (v) having considered that the manufacturing mode of processing Raw Materials provided by customers can help the Group to stabilize its costs and expenses as compared to selling LCD Modules manufactured by the Group, the Group will gradually shift its mode of production to the processing model for the three years ending 31 December 2021 as further explained in the section under “REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS” of the Letter from the Board; and

- (vi) given the Group has just commenced this new mode of production in the second half of 2019, the Group plans to market the processing service to Independent Third Party customers in the beginning of 2020. Before the Group could successfully engage a customer, the Group has to undergo a thorough selection process by the customer which includes financial and operational due diligence on the Group, assessment of whether the Group satisfies the qualification requirements of the relevant customer and quality assessment of the Group’s products and factories, small-batch production trials and medium-batch production trials. The Group expects that cooperation relationship with new Independent Third Party customers could be established by the end of 2020 the earliest, thus it is expected that the Group would receive more processing orders from Independent Third Party(ies) in 2021 the earliest, which would consume part of the production capacity of the Group and lead to a slight drop in the amount of Raw Materials expected to be processed for TCL Corp Group and hence the processing fee to be received by the Group for the year ending 31 December 2021. As a result the proposed annual cap for the year ending 31 December 2021 is expected to decrease by approximately 5.7% as compared to that of the year ending 31 December 2020.

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We noted from the 2018 Annual Report that there was strong rebound of the Group's sales volume and improvement of the gross profit margin in the second half of 2018 mainly driven by the orders placed by new first-tier brand customers and such improved operating performance continued in the first half of 2019 as stated in the 2019 Interim Results Announcement. We have discussed with the management of the Group and understood that since the commencement of operation of the Wuhan Plant, the Group has proactively explored the business opportunities with top tier mobile brands through collaboration with CSOT and the Wuhan Plant has reached full production capacity in late 2018. Hence, the Group has planned to increase production capacity for the processing of Raw Materials of the Wuhan Plant from annual production capacity of approximately 60 million units in 2019 to approximately 120 million units from 2020 onwards, in order to accommodate more orders from these top tier brand customers through collaboration with its controlling shareholder. We also understood from the management of the Group that certain orders have been taken up by its plant in Huizhou, the PRC when the orders could not be handled by the Wuhan Plant.

Furthermore, we have discussed with the management of the Group and understood that the Group has not yet provided any processing service to any parties except under the Master Processing Agreement and hence it has requested the relevant member of TCL Corp Group to obtain two quotations from Independent Third Parties whereby the Group has compared 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 were no more favourable. We have reviewed the two quotations from Independent Third Parties and noted that the proposed annual caps have been determined after taking into account those quotations.

Given that the Group's trial-run of undertaking the processing orders in June 2019 was smooth, the Group has proactively discussed with CSOT the amount of proposed processing orders for the period ending 31 December 2021 and we have reviewed the schedule of proposed processing orders and noted that the Group has to ramp up its existing production capacity of Wuhan Plant in order to fulfill the proposed processing orders. We have reviewed the capacity expansion plan of Wuhan Plant and noted that 10 production lines will be added to increase its annual production capacity from approximately 60 million units in 2019 to approximately 120 million units from 2020 onwards. As discussed with the management of the Group, before the planned increment of production capacity of Wuhan Plant to be in place in the beginning of 2020, the Group plans to lease 6 production lines with aggregate production capacity of 4 million units per month from Independent Third Parties as an interim measure to cater for the proposed processing orders for September to December 2019.

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On the other hand, in order to maintain the Group's revenue from Independent Third Parties to avoid being over reliance on TCL Corp Group, the Group's capacity ramp up plan has taken into account its proposed initiative to undertake processing orders from the Independent Third Party customers instead of through CSOT when the Group can fulfil the customers' assessment criteria of supplier. While at the same time, the Group expects to maintain its business relationship with current Independent Third Party customers and has been exploring business opportunities with new customers and new markets such as the smart home market, the point-of-sale (POS) system market and educational learning machine market. We have discussed with management of the Group and understood that the Group has successfully partnered with an Independent Third Party in March 2018 to introduce a smart speaker with interactive touch display module, and orders for the relevant display module is expected to increase by approximately 700% in 2019 as compared to 2018, bringing in a new source of revenue from Independent Third Party. Furthermore, there is an increase of 24% by number of the Group's Independent Third Party customers (from 25 in 2018 to 31 in 2019) which demonstrates the Group's commitment in maintaining the balance between the revenue from the Independent Third Parties and the continuing connected transactions.

Based on the foregoing review and analyses, we consider that the basis for determining the proposed annual caps in relation to the transactions contemplated under the Master Processing (2019 Renewal) Agreement is fair and reasonable so far as the independent Shareholders are concerned, and concur with the Director's view that the Group is endeavoured to maintain the Group's revenue from Independent Third Parties to avoid being over reliance on TCL Corp Group.

5. Reporting requirements and conditions of the continuing connected transactions contemplated under the Master Processing (2019 Renewal) Agreement

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the continuing connected transactions contemplated under the Master Processing (2019 Renewal) Agreement 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;
 - (ii) on normal commercial terms or better; and

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- (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.

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RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the entering into of the Master Processing (2019 Renewal) Agreement 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 resolution to be proposed at the SGM in respect of the Master Processing (2019 Renewal) Agreement and the proposed annual caps.

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 19 years of experience in corporate finance industry.

1. RESPONSIBILITY OF THE DIRECTORS

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

2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives 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, 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 of the Company as at the Latest Practicable Date, being 2,114,117,429 Shares in issue.

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

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 Corporation <i>(Note 1)</i>
	Personal interest	Other interests			
OUYANG Hongping	26,600	–	–	26,600	0.0002%

Note:

- Such percentage was calculated based on the number of issued share capital of TCL Corporation as at the Latest Practicable Date provided by TCL Corporation.

Mr. ZHAO Jun, an executive Director, is also a director and the general manager of Wuhan CSOT. Mr. LIAO Qian, a non-executive Director and the chairman of the Company, is currently an executive director, the chief of staff, a vice president and the secretary of the board of directors of TCL Corporation.

Save as disclosed in this paragraph 2, as at the Latest Practicable Date, none of the Directors and chief executive 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 for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, 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 2018 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 2018 (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 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 had 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. 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 activity.

Halcyon Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 28 August 2019 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 2018 (being the date to which the latest published audited consolidated financial statements of the Company were made up), been acquired or disposed of by, of 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.

8. MISCELLANEOUS

This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 8th Floor, Building 22E, Phase Three, Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong, for a period of 14 days from the date of this circular:

- (a) the Master Processing Agreement;
- (b) the Master Processing (2019 Renewal) Agreement;
- (c) this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (e) the letter from Halcyon Capital Limited, the Independent Financial Adviser, the text of which is set out in this circular; and
- (f) the written consent from Halcyon Capital Limited referred to in the section headed “EXPERT AND CONSENT” in this appendix.

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 17 September 2019, Tuesday, at 3:30 p.m., for the purposes of considering and, if thought fit, passing the following ordinary resolutions (with or without modifications):

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the Master Processing (2019 Renewal) Agreement (as defined in the circular of the Company dated 28 August 2019), a copy of which is marked “A” and initialled by the Chairman of the SGM for the purpose of identification, the terms and the transactions thereunder together with the relevant proposed annual caps in relation to such transactions for the three financial years ending 31 December 2021 as set out in the Circular be and are hereby approved, confirmed and ratified; and
- (b) any one or more of the Directors 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 things and take all such actions as he 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 (2019 Renewal) Agreement or the transactions contemplated thereunder.”

By order of the Board

LIAO Qian

Chairman

Hong Kong, 28 August 2019

NOTICE OF SGM

Notes:

1. A member of the Company who is holder of two or more shares, and who is entitled to attend and vote at the meeting, is entitled to appoint more than one proxy to attend and vote on his/her behalf. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person. In such event, his/her form of proxy will be deemed to have been revoked.
2. A form of proxy for the SGM is enclosed to the notice of the SGM. In order to be valid, the form of proxy together with the power of attorney, if any, under which it is signed, or a notarially certified copy of such power or authority must be lodged at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
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 to attend and vote at the SGM is 11 September 2019, Wednesday. 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 11 September 2019, Wednesday.

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. Zhao Jun as executive Directors; and Ms. Hsu Wai Man Helen, Mr. Xu Yan and Mr. Li Yang as independent non-executive Directors.