



29 June 2010

To: *The independent board committee and  
the disinterested shareholders of  
Topsearch International (Holdings) Limited*

Dear Sirs,

**(1) TERMINATION OF ACQUISITION  
AND  
(2) OFF-MARKET REPURCHASE OF SHARES**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders in respect of the Termination Agreements and the transactions (including the Securities Repurchase) contemplated thereunder, 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 29 June 2010 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 27 August 2007, the Company announced that the Acquisition Agreement were entered into between the Company and Majestic Wealth on 23 August 2007 for the purchase of the Property at a consideration of RMB71,000,000 (equivalent to approximately HK\$80,940,000), of which RMB52,696,498 (equivalent to approximately HK\$60,074,008 was satisfied by the issue and allotment of Land Consideration Shares at the Issue Price to Majestic Wealth and the remaining balance of RMB18,303,502 (equivalent to approximately HK\$20,865,992) is to be settled in cash. As at the Latest Practicable Date, the cash consideration of RMB18,303,502 (equivalent to approximately HK\$20,865,992) has not been paid by the Company to Majestic Wealth.

On 18 February 2010, the Company announced that based on commercial decisions, the Termination Agreements were entered into between the Company, Majestic Wealth and Topsearch Tongliao (a wholly-owned subsidiary of the Company) after trading hours on 17 February 2010 to unwind the Acquisition by (i) terminating the transfer of the Property to the Group; (ii) extinguishing the Group’s payment obligation in respect of the remaining cash consideration of RMB18,303,502 (equivalent to approximately HK\$20,865,992); and (iii) repurchasing and canceling the Repurchased Shares by the Company. Pursuant to

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the Termination Agreements, upon Completion, an amount of RMB350,000 (equivalent to approximately HK\$399,000) will be payable in cash by the Company to Majestic Wealth as the consideration and termination fee (the "Fee"), which will be or shall be deemed to be in full and final settlement to extinguish in full (a) the transfer of the Property to the Group; (b) the payment obligation on the part of the Company and/or Topsearch Tongliao for the remaining balance of RMB18,303,502 (equivalent to approximately HK\$20,865,992) in relation to the Acquisition, representing approximately 36.3% of the bank balances and cash held by the Group as at 31 December 2009; and (c) the payment of RMB52,696,498 (equivalent to approximately HK\$60,074,008) by the Company to Majestic Wealth to effect the Securities Repurchase at the Reference Price. As stated in the Letter from the Board, the Fee was agreed after arm's length negotiations among the Company, Majestic Wealth and Topsearch Tongliao taken into account the possible return on investment which Majestic Wealth would have been received had the outstanding balance of RMB18,303,502 (equivalent to approximately HK\$20,865,992) been paid on or before 31 December 2008. Pursuant to the Termination Agreements, the provision in the Main Acquisition Agreement relating to the settlement of the outstanding sum in relation to the construction cost of the manufacturing plant on Land A between the Group and Majestic Wealth will not be terminated. As the outstanding sum is an independent transaction from, and is not conditional on, the Termination Agreements, therefore, we are not in a position to provide our opinion in the context of this letter.

The Securities Repurchase constitutes an off-market share repurchase by the Company under the Repurchase Code. The Company has made an application to the Executive for approval of the Securities Repurchase pursuant to Rule 2 of the Repurchase Code. The Executive's approval, if granted, will normally be conditional upon, among other things, approval of the Securities Repurchase by at least three-fourths of the votes cast on a poll by the Disinterested Shareholders present in person or by proxy at the SGM. According to the Repurchase Code requirements, Majestic Wealth and its respective associates and concert parties, who together held 93,400,000 Shares (representing approximately 9.34% of the existing issued share capital of the Company) as at the Latest Practicable Date shall abstain from voting at the SGM for the approval of the Termination Agreements and the transactions (including the Securities Repurchase) contemplated thereunder.

Shareholders should note that in the event that (i) the necessary approval for the off-market share repurchase pursuant to the Termination Agreements is not granted by the Executive (which approval, if granted, will normally be conditional upon, among other things, approval of the proposed repurchase by at least three-fourths of the votes cast on a poll by the Disinterested Shareholders present in person or by proxy at a general meeting of the Company to be held for such purposes) or (ii) the necessary special resolutions



are not passed by the Disinterested Shareholders in the SGM for the approval of the Termination Agreements and the transactions contemplated thereunder, the Termination Agreements will lapse and the respective rights, interests and obligations of the Company and Majestic Wealth under the Main Acquisition Agreement and that of Topsearch Tongliao and Majestic Wealth under the Supplemental Acquisition Agreement will be reinstated or shall be deemed to have been reinstated to the original positions as if no termination as such has ever been effected.

As at the Latest Practicable Date, the Independent Board Committee comprising four independent non-executive Directors namely Mr. Leung Shu Kin, Alfred, Mr. Wong Wing Kee, Mr. Ng Kee Sin and Mr. Xiang Dong and two non-executive Directors namely, Mr. Tang Yok Lam, Andy and Mr. Ng Kwok Ying, Alvin, has been established to advise the Disinterested Shareholders on the fairness and reasonableness of the terms of the Termination Agreements, including the Securities Repurchase insofar as the Disinterested Shareholders are concerned and as to whether the transactions contemplated under the Termination Agreements are in the interests of the Company and the Shareholders as a whole, and to make recommendations to the Disinterested Shareholders on how to vote on the relevant resolution(s) to be proposed at the SGM. We, CSC Asia, have been appointed to advise the Independent Board Committee and the Disinterested Shareholders in this regard. Our appointment has been approved by the Independent Board Committee.

CSC Asia is independent from, and not connected with, the Group or Majestic Wealth or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, and is accordingly qualified to give independent advice to the Independent Board Committee and the Disinterested Shareholders in relation to the Termination Agreements and the transactions contemplated thereunder including the Securities Repurchase.

#### **BASIS OF OUR OPINION**

In formulating our recommendations, we have relied on the information and facts supplied by the Company and the representations of, the Directors and management of the Company, including those set out in the Circular. We have assumed that all the information and representations so supplied by the Company and/or the Directors and all information and representations referred to or contained in the Circular, for which the Company and the Directors are solely and wholly responsible, were true, accurate and complete at the time they were made and continue to be so as at the Latest Practicable Date. No representation or warranty, expressed or implied, is made by us on the accuracy



of such information or representation. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. The Directors have confirmed, having made all reasonable enquiries that to the best of their knowledge and belief, there are no material facts the omission of which would make any statements in the Circular misleading.

We consider that we have reviewed sufficient information and documents to reach an informed view and to provide a reasonable basis for our recommendations. We have not, however, conducted any independent investigation into the businesses or affairs or assets and liabilities or future prospects of the Group, Majestic Wealth or any of their associates, nor have we carried out any independent verification of information supplied.

#### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion regarding the Termination Agreements and the transactions (including the Securities Repurchase) contemplated thereunder, we have taken into consideration the following principal factors and reasons:

**1. Background of and reasons for entering into the Acquisition Agreement and the Termination Agreements**

The Group is principally engaged in the manufacture and sale of a broad range of double-sided and multilayer printed circuit boards.

As disclosed in the announcement of the Company dated 27 August 2007 and the circular of the Company dated 17 September 2007, at the time of entering into the Acquisition Agreement, the Directors considered that it would be beneficial for the Group to shift part of its production from Guangdong area to Tongliao Economic Development Zone, Inner Mongolia, the PRC, which has lower production and labour costs. Tongliao manufacturing plant was expected to locate on Land A and operation was expected to commence in the fourth quarter of 2007. The Directors then considered that the acquisition of Property, being adjacent to Land A, would be an appropriate investment for future development of the Property.

As stated in the "Letter from the Board" in the Circular, the demand for the printed circuit boards, the manufacture and sale of which the Group is principally engaged in, has decreased substantially due to the economic recession at the beginning of



2008. The Directors expected that the demand for printed circuit boards would be unlikely to be restored in the near future to the level prior to 2008, which made the acquisition of the Property no longer meaningful for the Group to proceed further for the development of another manufacturing plant apart from Tongliao manufacturing plant located on Land A which, as advised by the Directors, has commenced operation in June 2010. Further, as at the Latest Practicable Date, the Company has not obtained the land use right certificate of the Property and such Property has been idled for a significant period of time. Pursuant to the Rules of Idle Land (Land Resources Department of PRC reference no. 5), any delay in the development of the Property under PRC law would attract a land idle fee and the Property would be subject to resumption by the PRC government. The PRC government resumed the Property on 10 October 2009.

In these circumstances, the Termination Agreements were entered into between the Company, Majestic Wealth and Topsearch Tongliao after trading hours on 17 February 2010 to unwind the Acquisition. The Company agreed to pay the Fee to Majestic Wealth to extinguish in full (a) the transfer of the Property to the Group; (b) the payment obligation on the part of the Company and/or Topsearch Tongliao for the remaining balance of RMB18,303,502 (equivalent to approximately HK\$20,865,992) in relation to the Acquisition, representing approximately 36.3% of the bank balances and cash held by the Group as at 31 December 2009; and (c) the payment of RMB52,696,498 (equivalent to approximately HK\$60,074,008) by the Company to Majestic Wealth to effect the Securities Repurchase at the Reference Price.

As stated in the "Letter from the Board" in the Circular, in the event of lapse of the Termination Agreements, (a) the Company under the Main Acquisition Agreement and Topsearch Tongliao under the Supplemental Acquisition Agreement are liable to pay to Majestic Wealth the balance of the consideration in the amount of RMB18,303,502 (equivalent to approximately HK\$20,865,992) in relation to the Acquisition (the total consideration for the sale of the Property by Majestic Wealth is RMB71,000,000 (equivalent to approximately HK\$80,940,000), of which RMB52,696,498 (equivalent to approximately HK\$60,074,008) was already settled by issuance and allotment of the Land Consideration Shares at the Issue Price by the Company to Majestic Wealth), and (b) Majestic Wealth is not obligated to offer the Repurchased Shares for the repurchase and cancellation by the Company and Majestic Wealth will continue to be the registered holder of the Repurchased Shares. Majestic Wealth shall also be entitled to enforce its rights and interest or even

institute proceedings against the Company under the Main Acquisition Agreement and Topsearch Tongliao under the Supplemental Acquisition Agreement to claim and sue for the outstanding balance of RMB18,303,502 (equivalent to approximately HK\$20,865,992) in whole or in part should the Termination Agreements lapse as a result of non-approval of the Disinterested Shareholders in the SGM.

Further, given that the Property was resumed by the PRC government on 10 October 2009 pursuant to the Rules of Idle Land (Land Resources Department of PRC reference no. 5), according to the PRC legal advice to the Company, as at the Latest Practicable Date, the Company and/or Topsearch Tongliao will have to pay at least approximately RMB15,792,291 (equivalent to approximately HK\$18,003,212), including but not limited to the idle land fee of RMB2,178,800, urban land-use tax of RMB8,938,681, title deed taxes of RMB2,130,000 and land value-added tax of RMB2,544,810, for the Company to acquire and re-gain the land use right of the Property from the PRC government.

Taking into account (i) the conservative prospect of the printed circuit board market, which is no longer meaningful for the Group to proceed the Acquisition; (ii) the uncertainty for the Company to obtain land use right certificate of the Property; (iii) the significant amount of capital expenditures required for the restoration of the Property; and (iv) the termination of Acquisition would extinguish the Group's payment obligation owed to Majestic Wealth which represents approximately 36.3% of the bank balances and cash held by the Group as at 31 December 2009, we consider that the entering into the Termination Agreements represents the best alternative for the Company to exit from acquiring the unnecessary Property with unclear title and also enables the Group to concentrate on its businesses that would not cause substantial strain on the Group's cash reserves, and that it is in the interests of the Company and the Shareholders as a whole.

## **2. Principal terms of the Termination Agreements**

Pursuant to the terms of the Termination Agreements, the Company, Majestic Wealth and Topsearch Tongliao agreed to unwind the Acquisition at the Fee of RMB350,000 (equivalent to approximately HK\$399,000) by (i) terminating the transfer of the Property to the Group; (ii) extinguishing the Group's payment obligation in respect of the remaining cash consideration of RMB18,303,502 (equivalent to approximately HK\$20,865,992) in relation to the Acquisition; and (iii) repurchasing and canceling the Repurchased Shares.

Pursuant to the Termination Agreements, the provision in the Main Acquisition Agreement relating to the settlement of the outstanding sum in relation to the construction cost of the manufacturing plant on Land A between the Group and Majestic Wealth will not be terminated.

(i) *Basis of consideration*

Pursuant to the Termination Agreements, the Company will pay Majestic Wealth the Fee of RMB350,000 (equivalent to approximately HK\$399,000), and to be settled in cash upon Completion, which will be or shall be deemed to be in full and final settlement to extinguish in full (a) the transfer of the Property to the Group; (b) the payment obligation on the part of the Company and/or Topsearch Tongliao for the remaining balance of RMB18,303,502 (equivalent to approximately HK\$20,865,992) in relation to the Acquisition, representing approximately 36.3% of the bank balances and cash held by the Group as at 31 December 2009; and (c) the payment of RMB52,696,498 (equivalent to approximately HK\$60,074,008) by the Company to Majestic Wealth to effect the Securities Repurchase at the Reference Price. As disclosed in the Letter from the Board, the Fee has been agreed among the Company, Majestic Wealth and Topsearch Tongliao after arm's length negotiations taken into account the possible return on investment which Majestic Wealth would have received had the outstanding balance of RMB18,303,502 (equivalent to approximately HK\$20,865,992) been paid on or before 31 December 2008.

Based on the annual report of the Company for the year ended 31 December 2009 (the "2009 Annual Report"), we note that the Fee of RMB350,000 (equivalent to approximately HK\$399,000), which will be settled in cash by the Company's internal resources, only accounted for approximately 0.69% of the HK\$57,547,000 cash reserves held by the Group as at 31 December 2009. Accordingly, we are of the view that the Fee is insignificant and the cash reserves of the Group remains healthy after payment of the Fee. To further assess the fairness and reasonableness of the Fee of RMB350,000 (equivalent to approximately HK\$399,000), we also made reference to the calculation on the outstanding balance of approximately RMB18,303,502 (equivalent to approximately HK\$20,865,992) originally payable on or before 31 December 2008 with the relevant one-year benchmark deposit rate of 2.25% effective from 23 December 2008 and noted that the Fee represents a discount of approximately 15% as compared to the estimated return on investment of approximately RMB411,829 (equivalent to approximately HK\$469,485) which Majestic Wealth should have received assuming the Company had paid the outstanding balance to Majestic Wealth on or before 31 December 2008.



Having considered that (i) the Fee is determined among the parties after arm's length negotiations; (ii) the amount of Fee is insignificant and the cash reserves of the Group remains healthy after payment of the Fee; (iii) the obligation for the payment of outstanding balance of RMB18,303,502 (equivalent to approximately HK\$20,865,992), representing approximately 36.3% of the cash and cash equivalents held by the Group as at 31 December 2009, will be extinguished upon Completion; and (iv) as compensation to Majestic Wealth, the Fee is at 15% discount to the estimated return on investment which Majestic Wealth should have received assuming the outstanding balance had been paid on or before 31 December 2008, we are of the view that the Fee is fair and reasonable insofar as the Disinterested Shareholders are concerned.

**(ii) *Terms of the Securities Repurchase***

*The Reference Price*

The Reference Price of HK\$0.58 per Share represents:

- (a) the Issue Price;
- (b) a premium of approximately 41.46% over the closing price of HK\$0.41 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a premium of approximately 46.84% to the closing price of HK\$0.395 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (d) a premium of approximately 45.36% over the average of the closing prices as quoted on the Stock Exchange of HK\$0.399 per Share for the last 5 trading days up to and including the Latest Practicable Date;
- (e) a premium of approximately 45.36% over the average of the closing prices as quoted on the Stock Exchange of HK\$0.399 per Share for the last 10 trading days up to and including the Latest Practicable Date;
- (f) a premium of approximately 51.04% over the average of the closing prices as quoted on the Stock Exchange of HK\$0.384 per Share for the last 30 trading days up to and including the Latest Practicable Date;



- (g) a discount of approximately 46.30% to the audited NAV per Share of approximately HK\$1.08 as at 31 December 2009 (based on the Company's latest audited net assets of approximately HK\$1,078.1 million as at 31 December 2009 as contained in the 2009 Annual Report and total number of 1,000,000,000 Shares); and
- (h) a discount of approximately 48.67% to the unaudited NAV per Share of approximately HK\$1.13 as at 30 June 2009 (based on the Company's latest unaudited net assets of approximately HK\$1,134.2 million as at 30 June 2009 as contained in the interim report for the six months ended 30 June 2009 and total number of 1,000,000,000 Shares).

As illustrated above, the Company has adopted the Reference Price of HK\$0.58 which is the same price as the Issue Price for the basis of repurchasing and canceling the Repurchase Shares. The Company considers it appropriate to adopt the same price under the Acquisition Agreement and the Termination Agreements as both are related to the same subject matter. Pursuant to the Termination Agreements, the Fee of RMB350,000 (equivalent to approximately HK\$399,000) will extinguish, among other things, the payment of RMB52,696,498 (equivalent to approximately HK\$60,074,008) by the Company to Majestic Wealth to effect the Securities Repurchase at the Reference Price. Hence, the Reference Price shall not be construed to the unit price that the Company or Topsearch Tongliao need to pay for each of the Repurchased Share. In view that the Company's intention behind the Termination Agreements is to unwind the Acquisition and the Reference Price for repurchasing and canceling the Repurchased Shares equals to the Issue Price, in this regard, we are of the view that it is not appropriate or practicable to evaluate the Reference Price of HK\$0.58 on a stand alone basis without taking into account factors, such as the rationale to unwind the Property and the magnitude of the Fee to extinguish, among other things, the payment obligation for the Securities Repurchase. As such we consider the Reference Price, being the same price as the Issue Price, is fair and reasonable and the Securities Repurchase, payment obligation of which will be distinguished by the Fee, is in the interests of the Company and the Shareholders as a whole.

Having considered the above and taking into account of the components, including the terms of the Termination Agreements and the financial effects as a result of the Completion of the Termination Agreements (details of

which are set out in the section headed “Financial effects of the Termination Agreements” below), we are of the view that the terms of the Termination Agreements as a whole are fair and reasonable as far as the Disinterested Shareholders are concerned.

### 3. Financial Effects of the Termination Agreements

#### (i) *Effect on net asset value per Share*

The Company issued and allotted 93,400,000 Shares at HK\$0.58 each, totalling HK\$54,172,000 (equivalent to approximately RMB52,696,498) to Majestic Wealth as part of the consideration for the Acquisition. The sum has been booked as “deposit paid for land lease” in the financial statement and inflated to HK\$59,882,000 as at the balance sheet date of 31 December 2008 due to the appreciation in RMB. On 10 October 2009, the PRC government, pursuant to the Rules of Idle Land, resumed the Property as the Property has been idled for a significant period of time. Accordingly, the deposit paid for land lease of the Property was reclassified to other receivable of the Company. For the year ended 31 December 2009, the Group recognised an impairment loss of HK\$28,126,000 in relation to other receivable by reference to the fair value of the underlying shares of the Company which the Group expected to receive as return of the deposit at the balance sheet date. It follows that when the repurchase and cancellation of the Repurchased Shares are completed, the whole amount of such other receivable for HK\$31,756,000 will be charged against the share capital and share premium accounts of the Company where further impairment loss may be recorded dependent upon the actual market price of the underlying shares at the date of effecting the Securities Repurchase.

The audited net asset value of the Group as at 31 December 2009 was approximately HK\$1,078.1 million. Based on 1,000,000,000 Shares in issue as at the Latest Practicable Date, the net asset value per Share before Completion was approximately HK\$1.08. Assuming there will be no change in the number of issued Shares other than the effect of the Securities Repurchase, the net asset value per Share will increase to approximately HK\$1.19 as a result of the Securities Repurchase.

**(ii) Loss per Share**

As set out in the 2009 Annual Report, the loss attributable to the equity holders of the Company for the year ended 31 December 2009 was approximately HK\$95.02 million (taking into account, among other things, an impairment loss of HK\$28,126,000, being the difference between the deposit paid for land lease related to the Acquisition of HK\$59,882,000 as at 31 December 2008 and other receivable of HK\$31,756,000 as at 31 December 2009 mentioned in (i) Effect on net asset value per Share above). Further, as advised by the auditors of the Company, the amount of impairment loss is subject to change based on the actual market price per Share at the share purchase date. For illustration purpose only, calculated with the closing price of the Shares of HK\$0.395 as at the Latest Practicable Date, the impairment loss amounted to HK\$22,989,000.

Based on 1,000,000,000 Shares in issue as at 31 December 2009, the loss per Share is approximately HK\$0.095. As the number of issued Shares will be decreased from 1,000,000,000 Shares to 906,600,000 Shares as a result of cancellation of the Repurchased Shares, loss per Share of the Group will be increased from HK\$0.095 to HK\$0.105 after Completion.

**(iii) Effect on working capital and gearing**

Since the Fee will be satisfied in cash by the Company's internal resources, the working capital of the Group would decrease as a result of payment of the Fee upon Completion. Given that the amount of Fee is insignificant and the Securities Repurchase is at no consideration, it is not expected to have any immediate material adverse effect to the working capital of the Group as a result of the Termination Agreements. As advised by the Directors, the impairment loss of HK\$28,126,000 and other receivable of HK\$31,756,000 as mentioned above will not involve any cash outflow or inflow.

Based on the 2009 Annual Report, the gearing ratio of the Group (net debt over total equity plus net debt) as at 31 December 2009 was approximately 40.04%. After Completion, given the net asset value of the Group will decrease after payment of the Fee, the gearing ratio of the Group will increase accordingly.



Despite of the increase in loss per Share and gearing ratio of the Group as well as the decrease in the Group's working capital upon Completion, there will be increase in the net asset value per Share and would not have any immediate material adverse effect to the working capital of the Group. On balance, we consider that the Securities Repurchase has an overall positive financial effect to the Group and is in the interests of the Company and the Shareholders as a whole.

#### 4. Effects on the shareholding structure of the Company

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the Completion, assuming that there will be no change in the issued share capital and the shareholding structure of the Company from the Latest Practicable Date up to and including the date of Completion:

|                                  | As at the Latest<br>Practicable Date |   | Immediately after<br>Completion |   |
|----------------------------------|--------------------------------------|---|---------------------------------|---|
|                                  | <i>Number of<br/>Shares</i>          | <i>Approximate<br/>percentage<br/>(%)</i> | <i>Number of<br/>Shares</i>     | <i>Approximate<br/>percentage<br/>(%)</i> |
| Inni International Inc. (Note 1) | 510,250,000                          | 51.03                                     | 510,250,000                     | 56.28                                     |
| Kingboard Group (Note 2)         | 206,992,000                          | 20.69                                     | 206,992,000                     | 22.83                                     |
| <b>Public Shareholders</b>       |                                      |   |                                 |   |
| Majestic Wealth                  | 93,400,000                           | 9.34                                      | —                               | —   |
| Other public Shareholders        | 189,358,000                          | 18.94                                     | 189,358,000                     | 20.89                                     |
| <b>Total</b>                     | <b>1,000,000,000</b>                 | <b>100.00</b>                             | <b>906,600,000</b>              | <b>100.00</b>                             |

*Notes:*

- (1) As at the Latest Practicable Date, 510,250,000 Shares are being held as to 432,000,000 Shares by Inni International Inc., representing approximately 43.20% of the issued share capital of the Company and 78,250,000 Shares by Mr. Cheok Ho Fung, representing approximately 7.83% of the issued share capital of the Company. Inni International Inc is owned as to 49% by Mr. Cheok Ho Fung and as to 51% jointly by Mr. Cheok Ho Fung and his wife, Mrs. Cheok Chu Wai Min.



- (2) As at the Latest Practicable Date, 206,992,000 Shares are being held as to 204,024,000 Shares by Kingboard Investments Limited, 202,000 Shares by Kingboard Laminates Limited and 2,766,000 Shares by Kingboard Chemical Holdings Limited (collectively the “Kingboard Group”), representing approximately 20.40%, 0.02% and 0.27% of the issued share capital of the Company respectively. Kingboard Investments Limited and Kingboard Laminates Limited are wholly-owned subsidiaries of Jamplan (BVI) Limited which in turn is a wholly-owned subsidiary of Kingboard Chemical Holdings Limited.

Following Completion, the Repurchase Shares will be cancelled and the number of Shares in issue following the Securities Repurchase will be reduced from 1,000,000,000 (being the number of Shares in issue as at the Latest Practicable Date) to 906,600,000 Shares. The Disinterested Shareholders should note that notwithstanding the increase in the shareholding in the Company of Inni International Inc. from approximately 51.03% to approximately 56.28%, the shareholding interests of all Shareholders, other than Majestic Wealth which will cease to hold any Shares upon Completion, in the Company will increase proportionately, which will benefit the Disinterested Shareholders who wish to retain their shareholdings in the Company upon Completion. As a result of the Securities Repurchase, less than 25% of the issued Shares will remain in the public hands. The Directors have confirmed that, upon Completion, the Company will try its best endeavor to restore a sufficient public float of the Company’s Shares by way of, including but not limited to, placing and issuance of new shares of the Company as soon as possible. As disclosed in the Letter from the Board, the aforesaid possible ways for restoration are still in a preliminary and initial stage and have not been finalised yet. Moreover, the Securities Repurchase will not result in the change of Inni International Inc. as the controlling Shareholder. Shareholders should be aware that in the event of a lapse of Termination Agreements at the SGM, dilution effect in shareholding will remain.

Based on the SFO register maintained by the Company as at the Latest Practicable Date and to the best knowledge of the Directors, having made reasonable enquiry, there is no person or group of persons acting in concert who, as a result of the transactions contemplated under the Termination Agreements (including the Securities Repurchase), will become obliged to make a general offer for all the issued Shares.



## RECOMMENDATION

Having considered the above-mentioned principal factors and reasons in respect of the Termination Agreements and the transactions contemplated thereunder including the Securities Repurchase, in particular:

- the poor market condition which made the Acquisition no longer meaningful for the Group to proceed further for the development of another manufacturing plant apart from Tongliao manufacturing plant on Land A, which will commence operation in the second quarter of 2010;
- the uncertainty for the Company to obtain land use right of the Property which has been idled for a significant period of time;
- the Property, being the subject matter of the Acquisition, was resumed by the PRC government on 10 October 2009. In case of restoration of the Property, It will incur a significant amount of capital expenditures for land idle fee and other relevant taxes according to the PRC law;
- the Group's payment obligation in respect of the remaining cash consideration of RMB18,303,502 (equivalent to approximately HK\$20,865,992) in relation to the Acquisition, which represents approximately 36.3% of the bank balances and cash held by the Group as at 31 December 2009, will be extinguished;
- as compensation to Majestic Wealth, the Fee is at 15% discount to the estimated return on investment which Majestic Wealth should have received assuming the outstanding balance had been paid on or before 31 December 2008;
- the cash reserves of the Group remains healthy after payment of the cash consideration of RMB350,000 (equivalent to approximately HK\$399,000), which accounted for approximately 0.69% is insignificant as compared to the cash reserves of the Group as at 31 December 2009;
- the Repurchased Shares, being partial consideration for the acquisition of the Property, are repurchased for cancellation which is in line with the rationale of the Termination Agreements to unwind the Acquisition;
- Despite of the increase in loss per Share and gearing ratio of the Group as well as the decrease in the Group's working capital upon Completion, there will be increase in the NAV per Share and would not have any immediate material adverse effect to the working capital of the Group; and



- the shareholding interests of all Shareholders, other than Majestic Wealth, which will cease to hold any Shares upon Completion, in the Company will increase proportionately after Securities Repurchase.

We consider that the terms of the Termination Agreements (including the Securities Repurchase) are fair and reasonable so far as the Disinterested Shareholders are concerned, and that the Termination Agreements (including the Securities Repurchase) are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Disinterested Shareholders to vote in favour of the special resolutions to be proposed at the SGM to approve the Termination Agreements (including the Securities Repurchase).

Shareholders should also note that the approval by the Executive of the Securities Repurchase is one of the conditions precedent to the Termination Agreements which cannot be waived, and the Executive's approval of the Securities Repurchase is conditional upon the approval of the same by at least three-fourth of the votes cast on a poll by the Disinterested Shareholders present in person or by proxy at the SGM. If the Securities Repurchase is not approved by the Disinterested Shareholders at the SGM, the Executive will not grant his approval for the same and the Termination Agreement will not proceed. Accordingly, we recommend the Independent Board Committee to advise the Disinterested Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Termination Agreements and the transactions (including the Securities Repurchase) contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**CSC Asia Limited**

A handwritten signature in black ink, appearing to read 'A. Chiu'.

**Andrew Chiu**  
*Managing  
Director*

A large, stylized handwritten signature in black ink, appearing to read 'Bernard Wu'.

**Bernard Wu**  
*Director and Head of  
Investment Banking*