



高信融資
Karl Thomson

高信融資服務有限公司
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21 November 2023

To the Independent Board Committee and the Independent Shareholders of
Kingboard Laminates Holdings Limited

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the continuing connected transactions contemplated under the New Supply Framework Agreement between the Company and Kingboard Holdings Limited (the “**Continuing Connected Transactions**”) and the proposed annual caps for the financial years ending 31 December 2024, 2025 and 2026 (the “**Proposed Annual Caps**”), particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular of the Company dated 21 November 2023 (the “**Circular**”), of which this letter forms a part. Capitalized terms used in this letter shall have the same meaning as those defined in the Circular unless the context otherwise requires.

On 31 October 2023, the Company has entered into the New Supply Framework Agreement with KBH for the three years ending 31 December 2026, pursuant to which the Group would supply laminates and related upstream materials to the KBH Group from 1 January 2024 to 31 December 2026, both days inclusive.

KBH, being the controlling shareholder of the Company, owns, directly and indirectly, approximately 73.76% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, KBH is a connected person of the Company as defined under the Listing Rules. Any transactions between the Group and the KBH Group, as a result, will constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios (under Chapter 14A of the Listing Rules) of the Proposed Annual Caps under the New Supply Framework Agreement for each of the three years ending 31 December 2024, 2025 and 2026 exceeds 5% and the annual consideration is more than HK\$10,000,000, the transactions contemplated under the New Supply Framework Agreement constitute non-exempt continuing connected transactions of the Company under Rules 14A.36 of the Listing Rules, and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listings Rules.

KBH and their respective associates will be required to abstain from voting at the EGM. Mr. Cheung Kwok Wa, Mr. Cheung Kwok Keung, Mr. Cheung Kwok Ping, Mr. Lam Ka Po, Mr. Cheung Ka Ho being the Executive Directors will abstain from voting at the EGM approving the New Supply Framework Agreement and the Proposed Annual Caps.

An independent board committee has been established to advise Independent Shareholders as to (i) whether the terms of the New Supply Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the New Supply Framework Agreement are in the interests of the Company and the Shareholders as a whole; (iii) whether the New Supply Framework Agreement are in the ordinary and usual course of business of the Group and (iv) how the Independent Shareholders should vote in respect of the resolution(s) to approve the New Supply Framework Agreement and the transactions contemplated thereunder at the EGM. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders of the Company in this regard.

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have not acted as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of the Company. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent of the Company for the purposes of Rule 13.84 of the Listing Rules.

In formulating our opinion and advice, we have relied upon accuracy of the information and representations contained in the Circular, relevant market data and information available from public sources and the website of the Stock Exchange and information provided to us by the Company, the Directors and the management of the Company. We have assumed that all statements and representations made or referred to in the Circular are true at the time they are made and continue to be true up to the date of the EGM. We have also assumed that all statements of belief, opinion and intention made by the Company, the Directors and the management of the Company in the Circular are reasonable made after due enquiry. We consider that we have been provided with sufficient information to form a reasonable basis for issuing our opinion. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, the Directors and management of the

Company and have no reason to doubt that any relevant material facts have been withheld or omitted. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, nor have we carried out any independent verification of the information supplied.

BACKGROUND INFORMATION

(i) Information on the Company

The Group is principally engaged in the production and sale of laminates and related upstream materials. The following table set out (i) audited financial information of the Group for the two financial years ended 31 December 2021 and 31 December 2022 (“FY2021” and “FY2022” respectively) as extracted from the annual report of the Company for the year ended 31 December 2022 (the “FY2022 Annual Report”) and (ii) the unaudited financial information of the Group for the six months ended 30 June 2022 and 30 June 2023 (“1H2022” and “1H2023”, respectively) as extracted from the interim report of the Company for the six months ended 30 June 2023 (the “2023 Interim Report”):

	FY2021 HK\$'000 (audited)	FY2022 HK\$'000 (audited)	1H2022 HK\$'000 (unaudited)	1H2023 HK\$'000 (unaudited)
Revenue	28,799,810	22,363,680	13,175,953	8,109,913
Profit for the period	6,783,479	1,909,384	1,826,075	422,575
		As at 30 June 2023 HK\$'000 (unaudited)	As at 31 December 2022 HK\$'000 (audited)	2021 HK\$'000 (audited)
Total assets		24,331,445	24,299,812	29,821,785
Total liabilities		10,296,260	9,227,821	10,756,661

During the year ended 31 December 2022, the Group recorded revenue of approximately HK\$22,363,680,000 representing a decrease of approximate 22.35% when compared with the revenue of approximately HK\$28,799,810,000 recorded in 2021. As disclosed in the FY2022 Annual Report, the decrease in revenue was mainly due to demand drop in the electronics industry during the period.

The profit for the year was also decreased from HK\$6,783,479,000 to HK\$1,909,384,000. Owing to a surge in commodity, energy and transportation cost in FY2022. Cost increases, along with falling unit prices of goods, which caused a drop in the Group’s profit margins. In light of lower stock turnover rates and falling unit prices of laminates and upstream materials of the Group in the first two months of the year of 2023, a provision was made for inventory impairment which also contribute to the decrease in profit for the year.

The FY2022 Annual Report revealed that despite a demand drop in the electronics industry, the Group has achieved with active market development and progress in terms of product portfolio enhancement. There was a significant proportionate expansion in the sales of high-end and high-value-added products, including thin laminates used in portable devices, lead-free and halogen-free laminates meeting high environmental standards, fire-retardant laminates with broad compatibility, and high-frequency and high-speed laminates with low loss and high transmission speed.

(ii) Information on the KBH Group

KBH is an investment holding company, the subsidiaries of which are principally engaged in manufacture and sale of, among other things, printed circuit boards (PCBs), chemicals, magnetic products, property development and investment. Against this background, the KBH Group has been providing and will continue to provide chemicals including methanol, formalin, phenol, acetone, bisphenol A and caustic soda to the Group. Such chemicals are essential for the production of laminates and related upstream materials by the Group. In return, the Group has been providing and will continue to provide the laminates products and related upstream materials to the KBH Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

To formulate our opinion regarding the Continuing Connected Transactions and the Proposed Annual Caps, we have taken into account the following principal factors and reasons:

I. Reasons and benefit of entering into the New Supply Framework Agreement

The Group is principally engaged in the production and sale of laminates and related upstream materials. Laminates are used in the production of PCBs which in turn are used in the production of a wide variety of electronic products. KBH is the controlling shareholder of the Company. KBH Group is principally engaged in the business of production and sale of PCBs and chemicals, property development and investment.

In its ordinary course of business, KBH Group has been from time to time purchasing the laminates products and related upstream materials from different suppliers (including but not limited to the Group). Indeed, KBH Group has been carrying on transactions with the Group since 2006. According to the FY2022 Annual Report, the Group's largest customer was KBH Group, being subsidiaries of KBH other than the Company or its subsidiaries, and the percentage of sales attributable to the KBH Group was approximately 18% during the year. Due to the long-standing and close working relationship between the Group and the KBH Group, the Group has been familiar with the product specifications or demands of the KBH Group, and accordingly can supply laminates products and related upstream materials to the KBH Group in a cost-effective manner. Given such close working relationship with the KBH Group, transactions under the New Supply Framework Agreement will enable the KBH Group to obtain reliable and stable source of laminates products and related upstream materials from the Group, and at the same time it will enhance the revenue of the Group through increased sales and thus benefit the Company and the Shareholders as a whole.

Having considered the facts that (i) the Existing Supply Framework Agreement will expire shortly on 31 December 2023; (ii) it is expected that KBH Group will continue to enter into transactions of similar nature with the Group from time to time thereafter; and (iii) the purpose of entering into the New Supply Framework Agreement is solely for the renewal of terms and the annual caps of the transactions contemplated under the Existing Supply Framework Agreement for a term up to 31 December 2026, in order to facilitate transactions on a continuing basis in the ordinary and usual course of business of the Group. Having considered the above, we concur with the view of the Directors that the entering into of the New Supply Framework Agreement are in the interests of the Group and the Shareholders as a whole.

II. Terms of the New Supply Framework Agreement

Key terms of the New Supply Framework Agreement are summarized as below:

Date:	31 October 2023
Parties:	(1) KBH (2) the Company
Product to be supplied:	supply of laminates and related upstream materials by the Group to the KBH Group, without any limitation on the maximum and minimum quantity but is to be determined and agreed between the parties from time to time.
Pricing:	The materials will be supplied at the then prevailing market prices, but in no event will the terms be less favourable to the Group than the terms available to independent third parties having regard to the quantity and other conditions of the sale. To facilitate the Group in determining the prevailing market price, the Group will consider the prices offered to independent third party customers of similar products (based on similar amount and similar specifications). In particular, where appropriate, the relevant sales department of the Group will compare the selling price offered to different customers (both the KBH Group and the independent third party customers) (based on similar amount and similar specifications) and will also monitor the movement of market price from time to time. The Group will grant a credit period of 90 days to the KBH Group. The consideration will be settled in cash.
Term:	From 1 January 2024 to 31 December 2026, both days inclusive.

Pursuant to the terms of the New Supply Framework Agreement, there is no limitation on the quantity of laminates and related upstream materials to be supplied by the Group to the KBH Group. The actual quantity, specification and price of laminates and related upstream materials to be supplied will be determined and agreed between the parties from time to time. The Group will not be obligated to supply a minimum amount of laminates and related upstream materials to the KBH Group and the KBH Group will not be obligated to purchase any set quantity of laminates and related upstream materials under the term of the New Supply Framework Agreement.

Regarding the pricing mechanism, the price at which the materials to be sold in each transaction under the New Supply Framework Agreement is agreed to be at or no less than the then prevailing market prices, but in no event will the terms be less favourable to the Group than the terms available to independent third parties having regard to the quantity and other conditions of the sale. In determining the prevailing market price, the Group will obtain prevailing market prices and benchmark price information through the market or third party customers. The sales department would consider at least one comparable transaction with an independent third party customer during the same period where applicable, and report to the senior management accordingly. In the absence of any comparable transaction, the Group will conduct market research on the open market where applicable.

III. Internal control and historical transaction records

During discussion with the management of the Group, we are advised that the Group has implemented as set of internal control procedures to ensure the pricing mechanism is fully applied.

Prior to accepting a purchase order from the KBH Group, the sale department of the Company will obtain prevailing market prices and benchmark price information through the market or third parties customers. In the previous sales transactions, the Group would consider at least one comparable transaction with an independent third party customer during the same period. In case of absence of comparable transaction or price quotation, the Group will conduct market price research on the open market. The historical price of such comparable transaction will be taken into account. As such, the terms offered to KBH Group in respect of the supply of laminates and related upstream materials under the New Supply Framework Agreement will be comparable to market terms, or not more favourable to, the KBH Group. Besides, the sales procedures to the KBH Group are identical to that of independent third party customers, which include the steps of order enquiry, price negotiation, order confirmation, product delivery and payment.

To review the internal control procedure in relation to carrying out of the transactions contemplated under the Existing Supply Framework Agreement, we have obtained and reviewed the documents including, but no limited to, an exhaustive pricing research report and sample invoices in respect of sales of laminates and related upstream materials under the Existing Supply Framework Agreement. The sales department has reviewed the prices by obtaining the independent market data and summarized in the pricing research reports to ensure the prices of good are sold at the prevailing market prices.

Regarding our investigation on the historical transactions contemplated under Existing Supply Framework Agreement, we have requested the Company to provide us a master list of all transactions conducted between the Group and the KBH Group during the period between June 2021 and June 2023 (the “Period under Review”) and sample invoices for our review. Each set of sample invoice shall include the invoice for historical sales transactions between the Group and the KBH Group and at least one quotations/invoices for those similar transactions between the Group and the independent third party customers.

In view of the numerous transactions conducted during the Period under Review, we have randomly selected one sample for every two months of each financial year and therefore has reviewed 12 sets of sample invoices during the Period under Review for historical sales transactions between the Group and the KBH Group against those of similar transactions between the Group and other independent third party customers. Based on the invoices provided to us, we noted that the sale department of the Company has considered at least one similar transactions with the independent third party customers purchasing similar goods in determining the price and payment terms offered to the KBH Group. Besides, we also noted that the price and payment terms offered to the KBH Group were in fact no more favourable than those offered to the independent third party customers. We are of the view that the pricing policy and mechanism in respect of the sales of laminates and related upstream materials has been well implemented, and the interests of the Company and the Shareholders are properly safeguarded.

Having considered that (i) the terms of the New Supply Framework Agreement were negotiated based on normal commercial terms and the materials will be supplied will be provided at the then prevailing market prices, but in no event will the terms be less favourable to the Group than the terms available to independent third parties having regard to the quantity and other conditions of the sale; and (ii) the documents including, but no limited to, sample quotations, invoices and pricing research reports reviewed by us are consistent with the relevant internal control measures as aforementioned; we are of the view that there are sufficient internal control procedures in place to ensure transactions contemplated under the New Supply Framework Agreement will be conducted on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

IV. Analysis on the Proposed Annual Caps under the New Supply Framework Agreement

Proposed Annual Caps

The table below sets out the Proposed Annual Caps of the New Supply Framework Agreement for the financial years ending 31 December 2024, 2025 and 2026 (“FY2024”, “FY2025” and “FY2026”) respectively:

	For the year ending 31 December		
	2024	2025	2026
	HK\$'000	HK\$'000	HK\$'000
Proposed Annual Caps	4,491,000	4,626,000	4,765,000
Annual growth rate (%)	–	3.00%	3.00%

In determining the proposed annual cap for the New Supply Framework Agreement for each of the three years ending 31 December 2026, the management of the Company has taken into account:

- i. the historical transaction amount of sales of laminates and related upstream materials by the Group the KBH Group;
- ii. the anticipated demand for the laminates and related upstream materials by the KBH group for the three financial years ending 31 December 2026;
- iii. the anticipated increase in market price of such materials;
- iv. the expected increase in the production capacity of PCBs of KBH Group; and
- v. inflation

We have discussed with the management of the Company the underlying principal assumptions and bases considered in the determination of the Proposed Annual Cap. In assessing the reasonableness and fairness of the basis of determination of the Proposed Annual Caps, we have considered and examined (i) the historical transaction amount of the sales under the Existing Supply Framework Agreement; (ii) the anticipated demand for the laminates and related upstream materials by the KBH group; and (iii) price volatility of the goods.

Historical amount of sale and the Existing Annual Caps

The following table sets out (i) the historical transaction amount of the sales of laminates and related upstream materials for FY2021, FY2022 and the nine months period ended 30 September 2023 (“9M2023”) under the Existing Supply Framework Agreement (“**Historical Amount of Sales**”); (ii) the Existing Annual Caps under the Existing Supply Framework Agreement; and (iii) the utilization rate for FY2021, FY2022 and 9M2023 of the Existing Annual Caps and the estimated sale for FY2023 by straight-line multiplication from the actual transactions during the nine months ended 30 September 2023:

	For the year ended		For the nine	For the year
	31 December		months	ending
	2021	2022	ended	31 December
	HK\$'000	HK\$'000	30 September	2023
			2023	HK\$'000
			HK\$'000	
Historical Amount of Sales	4,856,648	4,096,187	2,640,823 (note 1)	3,521,097 (note 2)
Existing Annual Caps	4,900,000	5,243,000	5,610,000	5,610,000
% of utilization	99.12	78.13	47.07	62.76

Notes:

1. This is the actual amount for the nine months ended 30 September 2023.
2. This is an estimated figure by proportionate adjusted multiplication from the actual sale amount during nine months ended 30 September 2023.

As illustrated in the table above, the Historical Amount of Sales for FY2021, FY2022 and 9M2023 were approximately HK\$4.86 billion, HK\$4.10 billion and HK\$2.64 billion respectively. In addition, we noted that the utilization rates of the Existing Annual Caps for the FY2021, FY2022 and 9M2023 ranged from approximately 47.07% to 99.12%. Both of the Historical Amount of Sales and utilization rates are in the decreasing trend. As advised by the management of the Company, the decrease in the Historical Amount of Sales and low utilization rates for FY2022 and 9M2023 are mainly attributable to the reasons explained as follow.

Amid an under-supply of laminates and upstream materials in 2021, a large number of industry peers have successively conducted varying degrees of expansion of production thereby significantly increasing market supply and at the same time, this supply expansion coincided with a demand shrinkage in the electronics industry during FY2022, and thus the laminate sales of the Group and unit prices both went down during the year.

Apart from that, the impact of multiple headwinds during FY2022, including the Russia-Ukraine war and other geopolitical clashes, as well as global inflation, have brought some negative impact on the electronics industry. The demand for laminates and upstream materials has significantly decreased due to sluggish sentiment of the electronics market in the PRC. Accordingly, the Historical Amount of Sales and the utilization rate in FY2022 both decreased as compared to that of FY2021.

Anticipated demand for the laminates and related upstream materials by the KBH group

The Group has worked closely with KBH Group to determine the Proposed Annual Caps for each of the three financial years ending 31 December 2026. We have reviewed the expansion plan on the PCBs of the KBH Group provided by the Group.

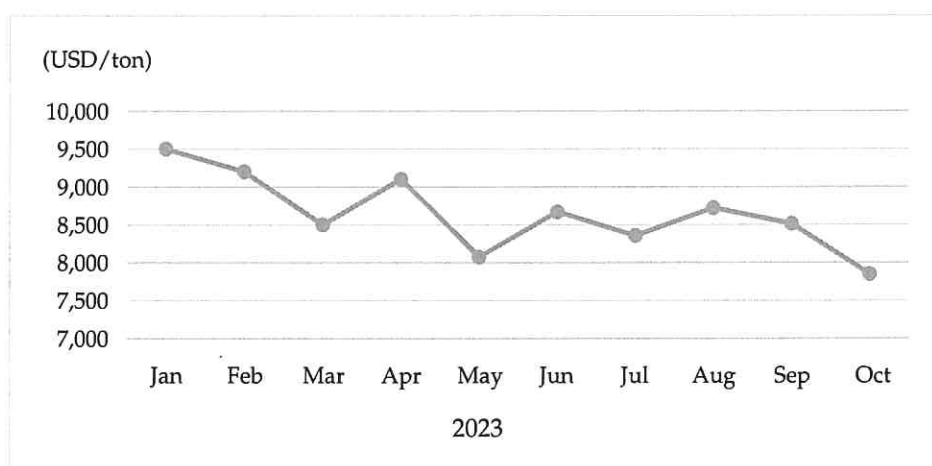
Based on the information provided by the management of the Group, the current total production capacity of PCBs of the KBH Group as at 30 June 2023 is 18.5 million square feet per month. With an aim of increasing the market penetration of PCBs, the KBH Group has brought in 500,000 square feet per month of additional capacity for multi-layered PCBs in Qingyuan, China starting from the third quarter of FY2023. With the new capacity, it is expected that the production capacity for PCBs of the KBH Group will be increased by around 3% from FY2024.

The Chinese market, benefiting from the downstream growth of 5G communication, consumer electronics and automotive electronics, the overall PCBs market in China grow steadily. According to the data published by the National Bureau of Statistics of China, from FY2017 to FY2022, the consumption of information products and services in the PRC showed a gradual upward trend, reaching approximately RMB1.73 trillion in FY 2022, representing a year-on-year increase of 9.48%.

Looking forward, in view of greater potential in autopilot and high-speed internet sectors, and leveraging on the accumulated expertise in 6G mobile telecommunications and high-speed servers, the demand on precise and advanced multi-layered PCBs continuously increased. Led by such market trend and aiming to fulfil ardent demand, the KBH Group is actively diversifying its product portfolio into a higher-value-added product portfolio by progressively expanding its capacities for advanced multi-layered PCBs and thus the demand on goods from the Group is expected to be in stable growth.

Price volatility of the goods

Laminates and related upstream materials is mainly produced from copper. The price fluctuations in copper would have significant impact on the selling price of the goods, which in turn affect the Proposed Annual Caps. In view of this, we have conducted a review on the recent trend of the copper price. The diagram shown below is a graph of copper metal price quoted on the London Metal Exchange (www.lme.com) in US Dollar (“USD”) per ton from January 2023 up to October 2023.



In the first half of the year of 2023, the price of copper decreased from USD9,500 per ton to USD8,000 per ton. Subsequently, the price of copper rebounded to around USD8,700 per ton as at 1 August 2023, which represents an increase of approximately 8%. Meanwhile, the price of copper decreased to USD7,800 per ton, which represents a decline of approximately 18%, during the period between January 2023 and October 2023.

Assessment of the Proposed Annual Cap for FY2024

As advised by the management of Group, the calculation of proposed annual cap for FY2024 of HK\$4,491,000,000 is based on the average amount of the actual transaction amount under the Existing Supply Framework Agreement for the years ended 31 December 2021 and 2022 and the estimated transaction amount for the year ending 31 December 2023 plus 8% (taking into account the increase in the production capacity of PCBs of KBH Group and the general buffer of 5%).

From the table above, we noted that the Historical Amount of Sales between the Group and the KBH Group have been quite volatile. It becomes more difficult for the management of the Company to carry out a precise estimation on sales in the coming years. Therefore, the calculation of proposed annual cap for FY2024 is based on the average amount of sale of FY2021, FY2022 and the estimated transaction amount for FY2023.

According to the production plan of the KBH group as discussed above, it is anticipated that the demand for laminates and related upstream materials from the KBH Group would be driven by the increase in the production capacity of PCBs starting from the third quarter of FY2023, provided that a new PCBs production line of production factory located in Qingyuan, China will be starting up. Starting from FY2024, the production capacity of PCBs will be expanded with the addition of 500,000 square feet per month and thus the current production capacity of PCBs will be increased from 18,500,000 square feet to 19,000,000 square feet per month in FY2024, representing an annual growth of approximately 3%.

We understand from the management that the general buffer of 5% is provided to cater for potential increase in the selling price of goods. Based on our review on the historical price of copper as discussed in the paragraph above, the copper price is considered to be relatively fluctuated and has dropped by approximately 18% during the period between January 2023 and October 2023. In view of the recent high inflation rate of the United States of America and Europe and geopolitical risks (in particular, the ongoing Russian-Ukrainian conflict), the management anticipated that the commodity price will go upwards. Therefore, we are of the view that certain buffer shall be made on the proposed annual cap for FY2024 in order to cater for the potential increase in global copper price.

In view of the foregoing, considering the anticipated increase in demand on laminates and related upstream materials from the KBH Group given its expansion plan in production capacity of PCBs starting from FY2024 and potential increase in global copper price, we consider that the calculation of the Proposed Annual Cap for FY2024 is justifiable.

Assessment of the Proposed Annual Cap for FY2025 and FY2026

We understand from the management that the proposed annual caps for FY2025 and FY2026 are estimated by the management of the Company with an expected annual growth of approximately 3% to provide a flexibility for the Group in dealing with any unforeseeable circumstances, in particular, for any unforeseeable increase of the sale amounts and unexpected fluctuation in selling price of the laminates and related upstream materials in FY2025 and FY2026.

As discussed above, the demand on advanced multi-layered PCBs from telecommunications and automobiles sector continuously increased, it is expected that the production capacity of PCBs of the KBH Group will keep expanding in order to cope with increasing market demand of advanced multi-layered PCBs. We considered that it is rational for the Company to take into account the unforeseeable increase of the sale amounts and unexpected fluctuation in selling price of goods in the coming years when determining of the proposed annual caps for FY2025 and FY2026. Given the year-on-year growth rate of the consumption of information products and services in China is 9.48%, when comparing with the market growth rate, the proposed annual growth rate is considered as a prudent estimation.

Having considered the factors and circumstances as stated above, we concur with the Directors that the Proposed Annual Caps under the New Supply Framework Agreement is fair, reasonable and justifiable, on normal commercial terms or better, in ordinary and usual course of business and in the interest of the Company and its Shareholders as a whole.

V. Reporting requirements and conditions of the Continuing Connected Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions 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 of the Company 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
 - (iii) in accordance with the New Supply Framework Agreement governing them on terms that are fair and reasonable and in the interests of the Company and 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 whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of the Group (if applicable);
 - (iii) were not entered into, in all material respects, in accordance with the New Supply Framework Agreement; and

- (iv) have exceeded the Proposed Annual Caps;
- (c) the Company must allow, and ensure that the relevant counterparties to the Continuing Connected Transactions 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 must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

The Company confirms that they will strictly comply with the aforementioned annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules in respect of the Continuing Connected Transactions under the New Supply Framework Agreement. In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the sale transactions by way of the proposed annual caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Continuing Connected Transactions and the proposed annual caps not being exceeded, we are of the view that appropriate measures have been in place to monitor the conduct of the Continuing Connected Transactions and assist in safeguarding the interests of the Independent Shareholders.

VI. Our recommendation

Having considered the abovementioned principal factors and reasons that, and in particular, the following:

1. the entering into of the New Supply Framework Agreement are conducted in the ordinary and usual course of business of the Group;
2. the purpose of entering into the New Supply Framework Agreement is for renewal of the Existing Annual Caps such that other terms and conditions of the Existing Supply Framework Agreement remain unchanged;
3. the size of the proposed annual caps under New Supply Framework Agreement are determined by the Directors under a prudent approach and are fair and reasonable; and
4. the Group has been continuously doing business with the KBH Group since 2006 and considers the Group as a reliable supplier and business cooperation partner, in which a prudent internal control and monitoring of all the transactions have been evidenced;

We conclude that the terms of the New Supply Framework Agreement and the size of corresponding Proposed Annual Caps are on normal commercial terms, in the ordinary an usual course of business, fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution be proposed at the EGM to approve the New Supply Framework Agreement and the corresponding Proposed Annual Caps.

Yours faithfully,
For and on behalf of
Karl Thomson Financial Advisory Limited



Cherrie Wong
Responsible Officer

Ms. Cherrie Wong is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Karl Thomson Financial Advisory Limited to carry out type 6 (advising on corporate finance) regulatory activity under the SFO and has over 10 years of experience in corporate finance industry.