

CDW HOLDING LIMITED

PROPOSED CORPORATE RESTRUCTURING OF CDW HOLDING LIMITED AND ITS SUBSIDIARIES (THE “GROUP”) FOR THE PURPOSE OF TAX REFUND ON REINVESTMENT

The Board of Directors of CDW Holding Limited (“**CDW**”) would like to announce that the Group intends to undertake a corporate restructuring exercise (“**Corporate Restructuring**”) for the purposes of achieving greater tax efficiency and to benefit from substantial tax savings in the PRC.

A. Introduction

In view of the Group’s plans to expand their operations in the PRC, CDW engaged Baker Tilly Hong Kong Business Services Limited (“**Baker Tilly**”) to issue a tax opinion (“**Tax Opinion**”) on the Group’s tax position in relation to their business expansion plans.

Baker Tilly is a leading international accounting and business advisory firm in Hong Kong. Baker Tilly has a specialist PRC tax team operating out of their Hong Kong and PRC offices that is able to advise on issues involving PRC corporate, indirect and personal taxes.

Pursuant to the advice obtained from Baker Tilly, the Group intends to undertake the Corporate Restructuring for the purpose of organising the Group in order to be able to claim reinvestment tax refunds in the PRC.

B. Details of the Corporate Restructuring and the Proposed Group Structure

The existing Group structure (“**Existing Group Structure**”) prior to the Corporate Restructuring is as set out in Appendix A hereto.

In the Existing Group Structure, Crystal Display (Hong Kong) Holding Limited (“**CD Hong Kong BVI**”), Crystal Display (Shanghai) Holding Limited (“**CD Shanghai BVI**”), Tomoike Electronics (Shanghai) Holding Limited (“**TM Pudong BVI**”) and Tomoike Precision Machinery (Shanghai) Holding Limited (“**TM Shanghai BVI**”), which are companies incorporated in the British Virgin Islands (“**BVI**”), together hold the shares in the Group’s PRC subsidiaries (the “**PRC Subsidiaries**” and each, a “**PRC Subsidiary**”).

In connection with the Corporate Restructuring, each of CD Hong Kong BVI, CD Shanghai BVI, TM Pudong BVI and TM Shanghai BVI (collectively, the “**BVI Subsidiaries**”) intends to sell the entire issued and paid-up share capital of the PRC Subsidiaries held by it to Tomoike Industrial (H.K.) Limited (“**TM Hong Kong**”). The consideration for the transfer of each of the PRC Subsidiaries will be valued at the Net Asset Value of the PRC Subsidiary concerned, resulting in no gain or loss on

transfer to the BVI Subsidiaries. The transfer consideration for each of the PRC Subsidiaries will be financed by intercompany loans (“**Intercompany Loans**”) from the BVI Subsidiaries to TM Hong Kong.

Pursuant to the above, the consideration amounts payable by TM Hong Kong for the entire issued and paid-up share capital of each of the PRC Subsidiaries are as follows:

<u>Name of PRC Subsidiary</u>	<u>Consideration</u>	<u>Payable to</u>
Crystal Display Components (Suzhou) Co., Limited	US\$8,097,737	CD Hong Kong BVI
Crystal Display Components (Shanghai) Co., Limited	US\$2,509,912	CD Shanghai BVI
Tomoike Precision Machinery (Dongguan) Co., Limited	US\$3,000,000	CD Shanghai BVI
Tomoike Electronics (Shanghai) Co., Limited	US\$2,729,308	TM Pudong BVI
Tomoike Precision Machinery (Shanghai) Co., Limited	US\$2,279,136	TM Shanghai BVI

The Intercompany Loans will subsequently be settled in one of the following two methods:

- (i) the Intercompany Loans will be waived in favour of TM Hong Kong upon completion of the Corporate Restructuring and applications will be lodged with the BVI Companies Registry to have the BVI Subsidiaries struck off; or
- (ii) the BVI Subsidiaries will be liquidated and all tangible assets (including the Intercompany Loans due from TM Hong Kong) will be assigned to TM Hong Kong as distribution in specie.

Upon completion of the Corporate Restructuring, each of the PRC Subsidiaries will become a wholly-owned subsidiary of TM Hong Kong and the eventual Group structure will be as set out in Appendix B hereto.

C. Rationale for the Corporate Restructuring

According to the Tax Opinion, under PRC Foreign Enterprise Income Tax (“**FEIT**”) law, if a foreign investor directly reinvests its share of profits derived from a Foreign Investment Enterprise (“**FIE**”), the foreign investor may obtain a refund of 40% of the tax paid on the reinvested amount. The tax refund may be extended to 100% of the tax paid on the reinvested amount if the profits are reinvested by the foreign investor in the establishment or expansion of an export-oriented or technologically advanced enterprise.

In view of the Group’s intention to reinvest the profits derived from one or more of its PRC Subsidiaries to the other PRC Subsidiaries, CDW had enquired with local

authorities in Jiading and Dongguan, PRC, on the eligibility of the Group for reinvestment tax refunds. CDW was informed by the local tax authorities that such tax refunds are only available when the investor (i.e. the immediate holding company) of the PRC Subsidiaries is the same entity.

According to the Tax Opinion, under FEIT law, there is no official definition of a “foreign investor” of an FIE for reinvestment tax refund purposes. Such a “foreign investor” could be interpreted as either the **immediate** holding company or the **ultimate** holding company of the FIE, depending on the interpretation of the relevant local tax official. As such, this is a grey area in the law. Baker Tilly further advises that “foreign investor” is however generally interpreted as the **immediate** holding company (or individual) of the FIE.

In the present case, save for Crystal Display Components (Shanghai) Co., Limited and Tomoike Precision Machinery (Dongguan) Co., Limited which are both wholly-owned by CD Shanghai BVI, the immediate holding companies of the PRC Subsidiaries are different companies. This could pose a potential problem as the Group intends to reinvest the profits of one or more of the PRC Subsidiaries into its other PRC Subsidiaries. Should the PRC tax officials take the view that the relevant PRC Subsidiaries’ holding company has to be the same company in order for reinvestment tax refund to be available, the Group would not be entitled to any tax refund on reinvestment. Substantial tax savings could be lost in such event.

In order to avoid protracted negotiations with the relevant PRC tax officials and the potential time and costs involved in possible appeals, the Group intends to undertake the Corporate Restructuring to achieve a Group structure where all the PRC Subsidiaries are held by a single holding company, TM Hong Kong. This would facilitate the Group’s claiming of tax refunds on reinvestment thereby resulting in substantial tax savings for the Group.

The current structure where the PRC Subsidiaries are each held by an intermediate BVI Subsidiary (“**Current Structure**”) was decided upon by the management of the Group prior to the initial public offering of CDW’s shares. The Current Structure was chosen at the time as it facilitated the future disposal of each PRC Subsidiary via the disposal of its intermediate BVI holding company. According to the Tax Opinion, such disposal of the relevant BVI Subsidiary does not require approval from the Ministry of Commerce in the PRC and should not trigger PRC withholding tax. Further, the Current Structure also facilitated third parties entering into joint venture arrangements with the Group as the BVI Subsidiaries could operate as joint venture vehicles.

The Directors of CDW are now of the view that the Corporate Restructuring will result in a more tax efficient Group structure and will result in considerable tax savings for the Group. After careful consideration, the Directors of CDW are of the opinion that the benefits that will accrue to the Group in terms of tax savings outweigh the benefits detailed in the preceding paragraph and are in the best interests of the Group.

D. Effect of the Corporate Restructuring

The Corporate Restructuring is an internal corporate restructuring exercise which does not involve a disposal of any business, asset or Group company by the Group, or an acquisition of any new business, asset or company. None of the Group’s directors or controlling shareholders has any interests in the transfers to be undertaken pursuant to the Corporate Restructuring (the “**Transfers**”).

At the Group level, the Corporate Restructuring has no impact on the net tangible asset value per share and earnings per share of CDW.

Upon completion of the Transfers, the issued and paid-up share capital of each PRC Subsidiary remains unchanged.

Baker Tilly has advised the Group that based on current tax laws and practices, the Corporate Restructuring will not result in any PRC withholding income tax. Only a minimal amount of stamp duty, levied at 0.05% of the value of the Transfers, is payable.

In respect of the settlement of the Intercompany Loans, Baker Tilly has advised the Group that based on current tax laws and practices, there is no Hong Kong tax exposure to TM Hong Kong on the waiver of loans by the BVI Subsidiaries in favour of TM Hong Kong or the distribution of residual value of the BVI Subsidiaries to TM Hong Kong after their liquidation.

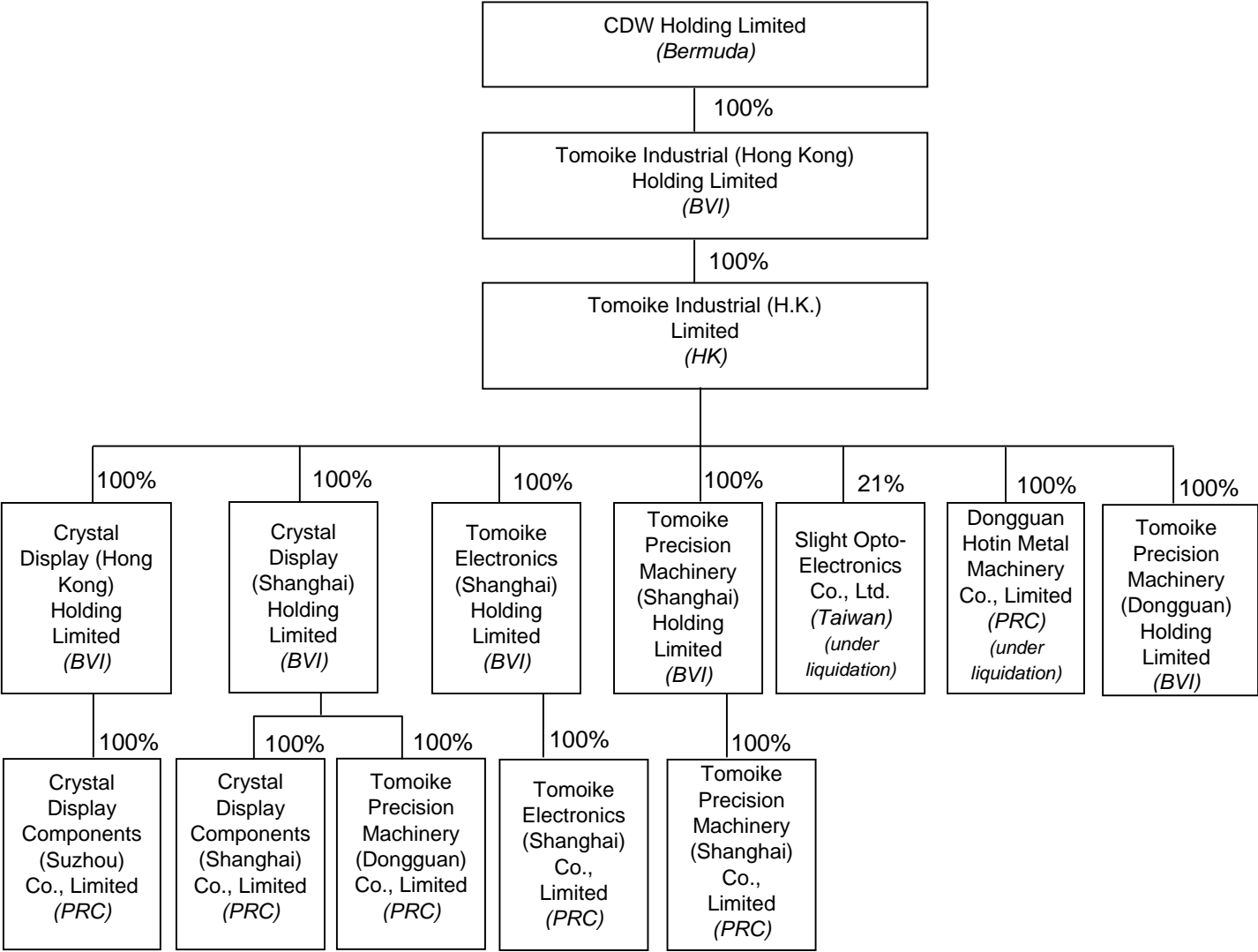
Messrs Deloitte & Touche have advised the Group that based on current tax laws and practices, the Corporate Restructuring should not give rise to any adverse Singapore tax implications for the Group.

Messrs Deloitte & Touche have also advised the Group that no Singapore stamp duty is payable on the Transfers.

E. Implementation of the Corporate Restructuring

The Group will proceed to undertake the Corporate Restructuring with immediate effect.

Existing Group Structure



Appendix B

