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Stock Code: 148



2007
Interim Report



RESULTS

The board of directors (the "Board") of Kingboard Chemical Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 together with the comparative figures for the corresponding period in 2006 as follows:

Condensed Consolidated Income Statement

		Six months ended 30 June	
	Notes	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Revenue	2	9,021,859	7,464,958
Cost of sales		(6,812,893)	(5,475,385)
Gross profit		2,208,966	1,989,573
Other income		33,740	14,947
Investment income	4	178,917	14,205
Distribution costs		(261,480)	(215,039)
Administrative costs		(446,635)	(365,795)
Discount on acquisition of additional interest in a subsidiary		—	1,498
Finance costs		(121,881)	(149,639)
Share of results of associates		172,018	—
Share of results of jointly controlled entities		1,407	(2,503)
Profit before taxation		1,765,052	1,287,247
Income tax expense	5	(135,555)	(105,533)
Profit for the period		1,629,497	1,181,714
Attributable to:			
Equity holders of the Company		1,301,818	1,068,807
Minority interests		327,679	112,907
		1,629,497	1,181,714
Interim dividend	6	251,430	157,113
Earnings per share	7		
Basic		HK\$1.562	HK\$1.362
Diluted		HK\$1.513	HK\$1.304

Condensed Consolidated Balance Sheet

	Notes	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Non-current assets			
Investment properties		301,419	40,220
Properties, plant and equipment	8	11,572,181	10,254,325
Prepaid lease payments		588,045	471,727
Goodwill		1,717,720	1,717,519
Investment in associates		668,290	486,929
Available-for-sale investments		666,017	395,150
Interests in jointly controlled entities		16,762	15,354
Non-current deposits		675,351	265,430
Intangible assets		1,875	2,185
Deferred tax assets		20,303	19,499
		16,227,963	13,668,338
Current assets			
Inventories		2,462,321	2,498,354
Trade and other receivables and prepayments	9	6,087,501	5,805,993
Prepaid lease payments		12,775	9,513
Derivative financial instruments		30,985	39,183
Taxation recoverable		266	2,439
Bank balances and cash		4,420,311	6,097,231
		13,014,159	14,452,713
Current liabilities			
Trade and other payables	10	2,900,491	2,751,777
Bills payable	10	644,141	653,608
Derivative financial instruments		286	195
Taxation payable		324,829	283,583
Bank borrowings – amount due within one year		1,256,027	1,296,421
		5,125,774	4,985,584
Net current assets		7,888,385	9,467,129
Total assets less current liabilities		24,116,348	23,135,467
Non-current liabilities			
Deferred tax liabilities		32,397	36,323
Bank borrowings – amount due after one year		3,907,012	4,086,223
		3,939,409	4,122,546
		20,176,939	19,012,921
Capital and reserves			
Share capital		83,810	83,280
Reserves		16,639,702	15,875,645
Equity attributable to equity holders of the Company		16,723,512	15,958,925
Equity component of share option reserve of a subsidiary		11,304	9,764
Minority interests		3,442,123	3,044,232
Total equity		20,176,939	19,012,921

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company									Share option reserve of a subsidiary	Minority interests	Total equity	
	Share capital	Share premium	Capital redemption reserve	Goodwill reserve	Special surplus account	Statutory reserve	Investment revaluation reserve	Translation reserve	Retained profits				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000				
Balance at 1 January 2007	83,280	4,486,536	897	(791)	10,594	9,651	10,331	390,840	10,967,587	15,958,925	9,764	3,044,232	19,012,921
Increase in fair value changes of available-for-sale investments	-	-	-	-	-	-	22,101	-	-	22,101	-	-	22,101
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	254,235	-	254,235	-	77,018	331,253
Net income recognised directly in equity	-	-	-	-	-	-	22,101	254,235	-	276,336	-	77,018	353,354
Investment revaluation reserve d10178													



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Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Net cash from operating activities	1,902,367	1,388,412
Net cash used in investing activities	(2,421,084)	(1,042,117)
Net cash used in financing activities	(1,177,614)	(40,887)
Net (decrease) increase in cash and cash equivalents	(1,696,331)	305,408
Cash and cash equivalents at the beginning of the period	6,094,405	1,226,928
Cash and cash equivalents at the end of the period	4,398,074	1,532,336
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	4,420,311	1,617,224
Bank overdrafts	(22,237)	(84,888)
	4,398,074	1,532,336

Notes:

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and on a basis consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial period beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC)-INT 8	Scope of HKFRS 2 ³
HK(IFRIC)-INT 9	Reassessment of embedded derivatives ⁴
HK(IFRIC)-INT 10	Interim financial reporting and impairment ⁵

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

⁵ Effective for annual periods beginning on or after 1 November 2006.

The adoption of these new HKFRSs has had no material effect on the results or the financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing costs ¹
HKFRS 8	Operating segments ¹
HK(IFRIC)-INT 11	HKFRS 2 – Group and treasury share transactions ²
HK(IFRIC)-INT 12	Service concession arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 March 2007.

³ Effective for annual periods beginning on or after 1 January 2008.

The directors of the Company ("Directors") anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of the Group.

2. Segment information

For management purposes, the Group is currently organised into four operating divisions – laminates, printed circuit boards, chemicals and others. These divisions are the basis on which the Group reports its primary segment information.

	Laminates HK\$'000	Printed circuit boards HK\$'000	Chemicals HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2007						
Segment revenue						
External sales	3,518,675	3,449,592	1,574,865	478,727	–	9,021,859
Inter-segment sales	1,153,518	–	744,175	40,582	(1,938,275)	–
Total	<u>4,672,193</u>	<u>3,449,592</u>	<u>2,319,040</u>	<u>519,309</u>	<u>(1,938,275)</u>	<u>9,021,859</u>
Result						
Segment result	1,044,222	244,798	264,258	38,969	–	1,592,247
Unallocated corporate income						133,043
Unallocated corporate expenses						(11,782)
Finance costs						(121,881)
Share of results of associates						172,018
Share of results of jointly controlled entities						1,407
Profit before taxation						1,765,052
Income tax expense						(135,555)
Profit for the period						<u>1,629,497</u>

Inter-segment sales are charged by reference to market prices.

	Laminates HK\$'000	Printed circuit boards HK\$'000	Chemicals HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2006						
Segment revenue						
External sales	2,867,235	2,899,184	1,183,282	515,257	–	7,464,958
Inter-segment sales	848,644	–	669,962	8,836	(1,527,442)	–
Total	<u>3,715,879</u>	<u>2,899,184</u>	<u>1,853,244</u>	<u>524,093</u>	<u>(1,527,442)</u>	<u>7,464,958</u>
Result						
Segment result	925,361	327,971	140,917	40,511	–	1,434,760
Discount on acquisition of additional interest in a subsidiary	1,498	–	–	–	–	1,498
Unallocated corporate income						8,926
Unallocated corporate expenses						(5,795)
Finance costs						(149,639)
Share of results of jointly controlled entities						(2,503)
Profit before taxation						1,287,247
Income tax expense						(105,533)
Profit for the period						<u>1,181,714</u>

Inter-segment sales are charged by reference to market prices.

The analysis of the Group's revenue by geographical market is as follows:

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
The People's Republic of China	6,828,644	5,775,416
Other Asian countries	1,337,887	865,483
Europe	631,518	623,407
America	223,810	200,652
	<u>9,021,859</u>	<u>7,464,958</u>

3. Depreciation

During the period, depreciation of approximately HK\$599.8 million (1 January 2006 to 30 June 2006: HK\$471.4 million) was charged in respect of the Group's properties, plant and equipment.

4. Investment Income

Investment income comprises:

Dividends from available-for-sale investments
Gain on disposal of available-for-sale investments
Interest income
Gain on fair value changes of investment properties

Six months ended 30 June

2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
10,488	1,109
85,960	–
80,949	6,323
1,520	6,773
178,917	14,205

5. Income tax expense

The amount comprises:

Hong Kong Profits Tax
Charge for the period
Overprovision in previous periods

Taxation arising in other jurisdictions

Deferred taxation

Credit for the period

Six months ended 30 June

2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
5,226	1,156
(3,032)	–
2,194	1,156
138,091	116,384
140,285	117,540
(4,730)	(12,007)
135,555	105,533

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. Interim dividend

The Directors have resolved to declare an interim dividend for the six months ended 30 June 2007 of HK30 cents (2006: HK20 cents) per share to the shareholders whose names appear on the register of members of the Company on Wednesday, 19 September 2007. The dividend warrants will be dispatched on or around Friday, 28 September 2007.

7. Earnings per share

The calculation of the basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Earnings for the purpose of calculating basic and diluted earnings per share	<u>1,301,818</u>	<u>1,068,807</u>
	Number of shares	
	30 June 2007	30 June 2006
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	833,287,204	784,978,763
Effect of dilutive potential ordinary shares relating to:		
– outstanding share options	27,349,146	30,431,573
– outstanding warrants	–	4,403,675
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>860,636,350</u>	<u>819,814,011</u>

8. Additions to properties, plant and equipment

During the period, the Group spent approximately HK\$1,657 million (1 January 2006 to 30 June 2006: HK\$844 million) on acquisition of properties, plant and equipment.

9. Trade and other receivables and prepayments

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Trade receivables	4,579,851	4,456,464
Bills receivables	772,625	466,178
Other receivables and prepayments	735,025	883,351
	<u>6,087,501</u>	<u>5,805,993</u>

The Group allows credit periods of up to 120 days, depending on the product sold, to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
0 – 90 days	3,949,472	3,664,990
91 – 180 days	587,372	750,160
Over 180 days	43,007	41,314
	<u>4,579,851</u>	<u>4,456,464</u>

All bills receivables are aged within 90 days at the balance sheet date. The fair value of the Group's trade and other receivables at the balance sheet date approximate their corresponding carrying amounts.

10. Trade and other payables and bills payable

The following is an aged analysis of the trade payables at the balance sheet date:

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
0 – 90 days	1,476,043	1,468,344
91 – 180 days	390,801	303,117
Over 180 days	82,707	94,413
	<u>1,949,551</u>	<u>1,865,874</u>

The fair value of the Group's trade and other payables and bills payable at the balance sheet date approximate their corresponding carrying amounts.

11. Share options

(a) Employees' share option scheme of the Company

Under the Company's share option scheme (the "Scheme") adopted on 2 July 2002, which is valid for a period of ten years, the Directors may, at its discretion, grant options to subscribe for shares in the Company to eligible participants ("Eligible Participants") who contributes to the long-term growth and profitability of the Company. Eligible Participants includes (i) any employee (whether full time or part time) of the Company, any of its subsidiaries or any entity in which the Group holds any equity interests ("Invested Entity"), including any executive director of the Company, its subsidiaries or any Invested Entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of the Group or any Invested Entity; (v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and (vi) any person or entity who from time to time determined by the Board as having contributed or may contribute to the development and growth of the Group based on his or its performance and/or years of service, or is regarded as valuable resources of the Group based on his/its working experience, knowledge in the industry

and other relevant factors. The subscription price for the Company's shares shall be a price at least equal to the highest of the nominal value of the Company's shares, the average of the closing prices of the Company's shares quoted on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of an offer of the grant of the options and the closing price of the Company's shares quoted on the Stock Exchange on the date of an offer of the grant of the options. The options must be taken up within 28 days from the date of grant upon payment of HK\$1 and are exercisable over a period to be determined and notified by the Directors to each grantee, which period may commence from the date of acceptance of the offer of the grant of the options but shall end in any event not later than ten years from the date of adoption of the Scheme.

The total number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group (excluding options lapsed in accordance with the terms of the Scheme and any other schemes of the Group) must not in aggregate exceed 10% of the Company's shares in issue as at the date of adoption of the Scheme. The limit on the number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Group must not exceed 30% of the Company's shares in issue from time to time. The total number of the Company's shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) under the Scheme or other schemes of the Group in any 12-month period up to the date of grant must not exceed 1% of the Company's shares in issue at the date of grant unless approved by the Company's shareholders in general meeting.

In accordance with the terms of the Scheme, share options of the Company issued vest at the date of grant.

At 30 June 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 25,922,000, representing 3.1% of the shares of the Company in issue on that date.

A summary of the movements of the share options under the Scheme for the period is as follows:

	Granted to Directors	Granted to employees	Total
Balance at 31 December 2006 and 1 January 2007	11,233,000	19,989,000	31,222,000
Reclassification (<i>Note a</i>)	3,588,000	(3,588,000)	–
Exercised during the period (<i>Note b</i>)	(2,803,200)	(2,496,800)	(5,300,000)
	<u>12,017,800</u>	<u>13,904,200</u>	<u>25,922,000</u>
Balance at 30 June 2007	12,017,800	13,904,200	25,922,000

Notes:

- The 3,588,000 share options were held by Mr. Ho Yin Sang, who was appointed as an executive Director on 11 January 2007.
- The share options were granted on 11 October 2002 at an exercise price of HK\$3.74 per share. These options are exercisable during the period from 15 October 2002 to 2 July 2012.

During the period, options to subscribe for 5,300,000 shares in the Company at HK\$3.74 per share were exercised. The average closing price of the Company's shares quoted on the Stock Exchange for the five trading days immediately before the exercise date of such options, being 18 May 2007, was HK\$33.50.

These fair values were calculated using the Trinomial Lattice Model. The inputs into the model are as follows:

	Share option grant date		
	12 December 2006	29 September 2005	24 June 2005
Share price at grant date	US\$2.74	US\$2.92	US\$2.53
Subscription price	US\$2.40	US\$2.85*	US\$2.44*
Expected volatility	36.6%	21.2%	25.4%
Expected life	5 years	5 years	5 years
Risk-free rate	3.7%	4.2%	3.7%
Expected dividend yield	7.5%	7.5%	7.5%

* The original subscription price of share options granted on 29 September 2005 and 24 June 2005 were adjusted to US\$2.375 and US\$2.033 respectively as a result of the bonus issue of shares on the basis of one bonus share for every five ordinary shares held in the capital of EEIC on 13 October 2005.

Expected volatility was determined by using the historical volatility of EEIC's share price over the previous five years. The expected life used in the model has been adjusted, based on the best estimate of the management, for the effects of non transferability, exercise restrictions and behavioural considerations.

A summary of the movements of the share options under the 2002 Scheme for the period is as follows:

	Granted to Directors	Granted to employees	Total
Balance at 31 December 2006 and 1 January 2007	3,892,800	8,013,600	11,906,400
Exercised during the period	—	(780,600)	(780,600)
Lapsed during the period	—	(172,800)	(172,800)
Balance at 30 June 2007	<u>3,892,800</u>	<u>7,060,200</u>	<u>10,953,000</u>

The average of the closing prices of EEIC's shares quoted on the Singapore Exchange Securities Trading Limited for the five trading days immediately before the various exercise dates during the period under review was as follows:

Date of allotment of EEIC's shares pursuant to the exercise of options granted under the 2002 Scheme	No. of EEIC's shares allotted	Average closing price of EEIC's shares for the last 5 market days preceding the day of allotment of EEIC's shares (US\$)
4 January 2007	15,600	2.79
15 January 2007	206,400	2.78
16 January 2007	249,600	2.78
31 January 2007	6,000	2.77
19 March 2007	96,000	2.54
26 March 2007	67,200	2.60
2 April 2007	24,000	2.59
9 April 2007	115,800	2.60

The weighted average of the closing prices of EEIC's shares quoted on the Singapore Exchange Securities Trading Limited for the five market days immediately before the above various exercise dates during the period under review was US\$2.68.

The Group recognised the total expense of approximately HK\$1,540,000 for the six months ended 30 June 2007 (1 January 2006 to 30 June 2006: HK\$3,431,000) in relation to the share options granted by EEIC.

(c) *Employees' share option scheme of Kingboard Laminates Holdings Limited ("KLHL")*

The adoption of a share option scheme for KLHL (the "**KBL Scheme**") was approved by the shareholders of KLHL and the shareholders of the Company on 18 May 2007 and 25 June 2007 respectively. The KBL Scheme would take effect subject to the Listing Committee of the Stock Exchange granting approval to the listing of, and permission to deal in, the shares of KLHL which may fall to be issued pursuant to the exercise of the options which may be granted under the KBL Scheme ("**Listing Approval**"). The Listing Approval was granted by the Stock Exchange on 6 July 2007.

As set out in KLHL's circular dated 23 April 2007, the KBL Scheme would be valid for a period of ten years. The board of KLHL may, at its discretion, grant options to subscribe for shares in KLHL to eligible participants who contribute to the long-term growth and profitability of KLHL and include (i) any employee or proposed employee (whether full-time or part-time and including any executive director), consultants or advisers of or to KLHL, any of its subsidiaries (together, the "**KBL Group**") or any entity ("**KBL Invested Entity**") in which the KBL Group holds an equity interest; (ii) any non-executive directors (including independent non-executive directors) of KLHL, any of its subsidiaries or any KBL Invested Entity; (iii) any supplier of goods or services to any member of KLHL or any KBL Invested Entity; (iv) any customer of the KBL Group or any KBL Invested Entity; (v) any person or entity that provides research, development or other technological support to the KBL Group or any KBL Invested Entity; and (vi) any shareholder of any member of the KBL Group or any KBL Invested Entity or any holder of any securities issued by any member of the KBL Group or any KBL Invested Entity.

The subscription price of KLHL's share in respect of any option granted under the KBL Scheme must be at least the highest of (i) the closing price of the shares of KLHL as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average closing price of the shares of KLHL as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the shares of KLHL.

The option may be accepted by a participant within 28 days from the date of the offer of grant of the option upon the payment of a consideration of HK\$1. An option may be exercised at any time during a period to be determined and notified by the directors of KLHL to each grantee, and in the absence of such determination, from the date upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. The directors of KLHL may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

The total number of shares of KLHL which may be issued upon exercise of all options to be granted under the KBL Scheme and any other share option scheme of KLHL (excluding, for this purpose, options lapsed in accordance with the terms of the KBL Scheme and any other share option scheme of the Company) must not in aggregate exceed 10% of the total number of shares of KLHL in issue as at the date of approval of the KBL Scheme.

The maximum number of shares of KLHL which may be issued upon exercise of all outstanding options granted and yet to be exercised under the KBL Scheme and any other share option scheme of KLHL must not exceed 30% of the issued share capital of KLHL from time to time.

The total number of shares of KLHL issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the share capital of KLHL then in issue unless approved by the shareholders of KLHL and the Company in general meetings.

During the period under review and as at 30 June 2007, no share option was granted pursuant to the KBL Scheme.

12. Commitments

Capital expenditure contracted for but not provided in the condensed consolidated financial statements for the acquisition of properties, plant and equipment
Capital expenditure authorised but not contracted for

30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
680,989	382,439
—	44,413
680,989	426,852

13. Post balance sheet event

On 1 August 2007, a wholly-owned subsidiary of the Company, Fame Ascent Investments Limited ("**Fame Ascent**") entered into an agreement ("**Acquisition Agreement**") with, among others, Grade Crystal Investments Limited ("**Grade Crystal**"), a wholly-owned subsidiary of G-Prop (Holdings) Limited ("**G-Prop**") (a company listed on the Main Board of the Stock Exchange, stock code: 286), under which Grade Crystal agreed to acquire 100% of the interests in a PRC company that is in the development stage of setting up a plant in Erdos () in Inner Mongolia of the PRC for manufacturing methanol products using coal as raw material ("**Acquisition**"). However, if Grade Crystal decides not to, or fails to, complete the Acquisition for whatever reason, Fame Ascent will take up the obligations of Grade Crystal and complete the Acquisition. The consideration for the Acquisition is RMB59,962,900 (equivalent to approximately HK\$61,761,787). The Acquisition is conditional upon obtaining the approval of the independent shareholders of G-Prop and is subject to obtaining G-Prop's independent shareholders' approval of the Subscription and the Whitewash Waiver (both as defined below).

In addition, on 1 August 2007, Fame Ascent also entered into a subscription agreement with, among others, G-Prop, under which Fame Ascent agreed to subscribe for:

- (a) 740,518,325 ordinary shares of G-Prop at an issue price of HK\$0.162 per share; and
 - (b) zero-coupon convertible bonds issued by G-Prop with a principal amount of HK\$108,000,000,
- (together, the "

BUSINESS REVIEW

Building upon our strengths and leveraging on our ever-expanding business network of more than 50 plants in China and overseas sales offices, it is my great pleasure to report to our shareholders that Kingboard Chemical Holdings Limited (the “Group”) has set another period of strong business growth for the six-month ended 30 June 2007.

Underpinned by healthy economic conditions in the region and the strategic investments we have made over the past years to improve our capabilities and competitiveness, all major divisions of the Group experienced robust revenue growth in the financial period under review and our net profit soared 22% to HK\$1.3 billion in spite of brief softness of printed circuit board (“PCB”) market at the start of the financial year.

According to the latest report of Japan Marketing Survey Co., Ltd, our laminate division continued to maintain its No.1 position to reach 11.5% of the global market share in 2006 up from 9.9% a year ago. Our PCB division, despite the adverse impact of the inventory adjustments by computer related customers in first quarter of year 2007, attained 19% revenue growth and continued to advance its market share. Riding on the strong growth momentum in the PRC market, the Group’s chemical division achieved a highest ever 208% growth in earnings contribution over the corresponding period of last financial year, after accounting for the share of associate profit of our Hainan joint venture. This very well reflects the inherent value of the Group’s balanced business portfolio in the three core business segments and our effort in sharpening the Group’s competitive edge so as to withstand business challenges.

Kingboard Chemical Holdings Limited was assigned investment grade ratings by Moody’s as well as Standard & Poor’s in May and July 2007 respectively. The ratings by major international rating agencies underscore the diversity of our businesses in high growth sectors complemented by satisfactory operating cashflows as well as the quality of our management team. The Group would continue to capitalize on the solid track records so as to pursuit long term business growth and further enhance our shareholders’ value.

Financial highlights

- Revenue posted strong growth to HK\$9 billion – up 21%
- Pre-tax profit margin advanced to 17.6%*
- Profit attributable to equity holders of the Company increased by 22% to HK\$1.3 billion
- Interim dividend per share up 50% to HK30 cents

* Excluding share of results of associates and jointly controlled entities

LIQUIDITY AND CAPITAL RESOURCES

The Group's financial position and liquidity remained strong. As at 30 June 2007, net current assets and current ratio of the Group were approximately HK\$7,888.4 million (31 December 2006 – HK\$9,467.1 million) and 2.54 (31 December 2006 – 2.90), respectively.

The net working capital cycle improved from 96 days as at 31 December 2006 to 90 days as at 30 June 2007 on the following key metrics:

- Inventories, in terms of stock turnover days, decreased to 66 days (31 December 2006 – 73 days)
- Trade receivables, in terms of debtors turnover days, improved to 93 days (31 December 2006 – 97 days)
- Trade and bills payable, in terms of creditors turnover days, reduced to 69 days (31 December 2006 – 74 days)

With the payment of final and special dividend for the year ended 31 December 2006 of HK\$832.8 million in May 2007 and the capital expenditure of approximately HK\$1,657 million in new production facilities in the first half of 2007, cash and cash equivalents as at 30 June 2007, including US Treasury Notes of HK\$546 million, was HK\$4,966.3 million (31 December 2006 – HK\$6,252.7 million) and the Group's net gearing ratio (ratio of interest bearing borrowings net of cash and cash equivalents to total equity) was approximately 1%. However, the retained group (excluding Kingboard Laminates Holdings Limited and Elec & Eltek International Company Limited) remained at a net cash position of HK\$2,118 million (including cash equivalent US Treasury Notes). The proportion of bank borrowings between short term and long term bank borrowings stood at 24%:76% (31 December 2006: 24%:76%). Approximately 3% of the bank borrowings was denominated in Renminbi and the rest in Hong Kong or US dollars.

The Group continued to adopt prudent financial management policy including the possible use of interest rate swap contract to minimize the exposure to fluctuation in interest rate movement. There is no material foreign exchange exposure to the Group during the period under review. The Group's revenue, mostly dominated in Hong Kong dollars, Renminbi and US dollars, was fairly matched with the currency requirement of operating expenses.

PROSPECTS

The Group's overall business for laminates started with positive momentum in the second half of 2007. There are also signs of industry consolidation as the surge in the prices of most commodities, copper, steel, and the crude oil prices have prohibited weaker competitors from aggressive expansion. In order to capture additional market share in China and gain new customers in emerging markets such as India and Vietnam, the Group is expanding its production capacities for glass epoxy laminate and upstream component materials such as copper foil and epoxy resin. We are also making headway to invest in high performance laminate products which can be used to manufacture more sophisticated electronic devices.

Since end of second quarter of 2007, the PCB division also experienced strong recovery in demand from the computer and peripherals sector including high-layered PCB for notebooks and servers while demand for consumer electronics and automotive sectors remained stable. Therefore, all PCB subsidiaries within the Group are currently operating at full capacities. Our multi-layered PCB production capacity shall increase by around 13% by the end of 2007. The industry migration to China from other high costs countries is expected to drive greater demand for higher technology and higher layer count PCB production. The Group's expansion plan for High Density Interconnect ("HDI") capacity in Kaiping South remains on schedule and the new facility is set to commence operation by the first half of 2008. With the appropriate strategy in place, the standard PCB business coupled with the strategic alliance with sister laminate division would provide a steady income stream while the high-layered and HDI PCB business would contribute extra positive momentum to the Group's financial performance in the years to come.

Expansion in the chemical division is expected to be the strongest growth driver for the Group, and we are pursuing our capacity expansion rigorously so as to further expand our market share. The Chongqing methanol project and the Huizhou phenol/acetone project are on track to commence operation by the end of 2007. Two joint ventures for methanol projects in Shanxi province, phase two expansion of the coke/methanol plant in Hebei province and phase three expansion of Hengyang caustic soda plant, all of which are expected to commence production in 2008, will further broaden our existing earnings base. Recently we entered into a vertically integrated venture covering coal mining and coke/methanol facilities at Lvliang, Shanxi province. This venture not only has a sustained competitive cost structure generating attractive investment returns, it will also have close to zero gas emissions. Our ongoing commitment to the development of environmental friendly and clean production facilities are greatly welcomed and supported by the provincial government authorities.

We have recently announced the proposed subscription for shares and convertible bonds in G-Prop (Holdings) Limited ("G-Prop"), a company listed in Hong Kong, which in turn is proposing to acquire a PRC company operating a coal based methanol plant in Inner Mongolia. The PRC company is also in negotiation for the exploration rights to a coal mine reserve about 220 km from the plant. This transaction is subject to, among other things, G-Prop's independent shareholders' approval.

HUMAN RESOURCES

As at 30 June 2007, the Group employed approximately 47,300 (31 December 2006 – 42,900) employees globally. The increase in headcount was in line with our ongoing expansion plan. Other than offering competitive salary package, the Group grants share options and discretionary bonuses to eligible employees based on our financial achievement and individual's performance.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers, banks, the management and employees for their unreserved support in the last six months.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining entitlements to the interim dividend, the register of members of the Company will be closed from Monday, 17 September 2007 to Wednesday, 19 September 2007 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, the Company's shareholders are reminded to ensure that all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrars in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 14 September 2007.

(b) Ordinary shares of HK\$0.10 each ("KLHL Shares") in KLHL

Name of Director	Capacity	Number of issued KLHL Shares held	Approximate percentage of the issued share capital of KLHL
Mr. Cheung Kwok Wing	Beneficial owner	943,500	0.03
Mr. Chan Wing Kwan (note 1)	Beneficial owner	100,000	0.003
Mr. Ho Yin Sang (note 2)	Beneficial owner	540,000	0.02
Mr. Chang Wing Yiu (note 3)	Beneficial owner	100,000	0.003
Ms. Cheung Wai Lin, Stephanie	Beneficial owner	998,000	0.03

Notes:

1. The 100,000 KLHL Shares were held by the spouse of Mr. Chan Wing Kwan.
2. The 540,000 KLHL Shares were held by the spouse of Mr. Ho Yin Sang.
3. The 100,000 KLHL Shares were held by the spouse of Mr. Chang Wing Yiu.

(c) Non-voting deferred shares of HK\$1 each in the share capital of Kingboard Laminates Limited, a non wholly-owned subsidiary of the Company

Name of Director	Capacity	Number of non-voting deferred shares held
Mr. Cheung Kwok Wing	Beneficial owner	1,904,400
Mr. Chan Wing Kwan	Beneficial owner	1,481,200
Mr. Cheung Kwong Kwan	Beneficial owner	846,400
Mr. Chang Wing Yiu	Beneficial owner	423,200

- (d) Ordinary shares ("EEIC Shares") in the share capital of EEIC, a 70.58% owned subsidiary of the Company

Interest in underlying EEIC Shares	Number of issued	Approximate percentage of the issued
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SUBSTANTIAL SHAREHOLDERS

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) throughout the six months ended 30 June 2007, save for the deviation that the independent non-executive Directors are not appointed for specific terms pursuant to paragraph A.4.1 of the Code. Notwithstanding the aforesaid deviation, all the Directors (including the independent non-executive Directors) are subject to retirements by rotation and re-election at the Company’s annual general meeting in compliance with the Company’s Articles of Association.

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the “Model Code”). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

By Order of the Board
Kingboard Chemical Holdings Limited
Cheung Kwok Wing
Chairman

Hong Kong, 28 August 2007

Board of Directors:

Executive Directors

Mr. Cheung Kwok Wing (*Chairman*)
Mr. Chan Wing Kwan (*Managing Director*)
Mr. Cheung Kwong Kwan
Mr. Chang Wing Yiu
Mr. Ho Yin Sang
Ms. Cheung Wai Lin, Stephanie
Mr. Mok Cham Hung, Chadwick

Independent non-executive Directors

Mr. Cheng Ming Fun, Paul
Mr. Cheng Wai Chee, Christopher
Mr. Henry Tan
Mr. Tse Kam Hung