

KB

KINGBOARD CHEMICAL HOLDINGS LIMITED

建滔化工集團*

(Incorporated in the Cayman Islands with limited liability)

(stock code: 148)

**DISCLOSEABLE TRANSACTION IN RELATION
TO THE SEPARATE LISTING OF
KINGBOARD LAMINATES HOLDINGS LIMITED
ON THE MAIN BOARD OF THE STOCK EXCHANGE
OF HONG KONG LIMITED**



Sole Sponsor to Kingboard Laminates

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In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Announcements”	the announcements of the Company dated 21 July 2006, 2 November 2006, 17 November 2006 and 20 November 2006, respectively
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

DEFINITIONS

“International Purchasers”	the group of underwriters led by Goldman Sachs (Asia) L.L.C. of the International Placing and the Preferential Offer
“Jamplan (BVI)” or “Selling Shareholder”	Jamplan (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company. Jamplan (BVI) will be the sole shareholder of Kingboard Laminates during the period following completion of the Restructuring and before completion of the Global Offering
“Kingboard Copper Foil”	Kingboard Copper Foil Holdings Limited, a company incorporated in Bermuda and whose shares are listed on the SGX. As at the Latest Practicable Date, the Group was interested in approximately 62.15% of the issued share capital of Kingboard Copper Foil. The core business of Kingboard Copper Foil is the manufacture and sale of copper foil
“Kingboard Laminates”	Kingboard Laminates Holdings Limited, a company incorporated in the Cayman Islands and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Kingboard Laminates Group”	Kingboard Laminates and its subsidiaries
“Kingboard Laminates Shares”	the ordinary shares of HK\$0.10 each in the share capital of Kingboard Laminates
“Latest Practicable Date”	17 November 2006, the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date on which the Kingboard Laminates Shares are listed on the main board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offer Price”	the final price per Kingboard Laminates Share fixed at a HK\$ amount (exclusive of brokerage fee, SFC transaction levy and the Stock Exchange trading fee) at which the Kingboard Laminates Shares are to be offered pursuant to the Global Offering, as described in the Prospectus
“Over-allocation Option”	the option to the granted by the Selling Shareholder to the International Purchasers, exercisable by the Global Coordinator on behalf of the International Purchasers, pursuant to which the Selling Shareholder may be required to sell certain additional Kingboard Laminates Shares at the Offer Price to cover over-allocations in connection with the International Placing
“PCB”	printed circuit board
“PRC”	The People’s Republic of China
“Preferential Offer”	the preferential offer of the Kingboard Laminates Shares to the Qualifying Shareholders which constitutes part of the International Placing

“Proposed Spin-off”	the proposed spin-off of the interests in the laminate and laminate-related operations currently held by the Group (excluding EEIC) for a separate listing on the main board of the Stock Exchange
“Prospectus”	the prospectus proposed to be issued by Kingboard Laminates in relation to the Global Offering
“Qualifying Shareholders”	Shareholders whose names appear on the register of members of the Company as at 5:00 p.m. on the Record Date (excluding certain overseas shareholders, if any, subject to compliance with rule 13.36(2)(a) of the Listing Rules)
“Record Date”	the record date determined by the Company, Monday, 20 November 2006, for ascertaining the Qualifying Shareholders who shall be entitled to assured entitlements under the Preferential Offer
“Registrar”	the branch share registrar of Company, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“Reserved Shares”	37,500,000 Kingboard Laminates Shares, representing approximately 1.25% of the enlarged share capital of Kingboard Laminates upon completion of the Global Offering, being offered pursuant to the Preferential Offer
“Restructuring”	the restructuring that has been undertaken in contemplation of the Proposed Spin-off pursuant to which Kingboard Laminates has become the holding company of the laminate and laminate-related businesses of the Group (excluding EEIC)
“Retained Group”	the Group, excluding the Kingboard Laminates Group
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGX”	Singapore Exchange Securities Trading Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Warrant(s)”	the warrant(s) entitling its holder(s) to subscribe at any time during a specified subscription period for fully paid Shares at an initial subscription price of HK\$20 per Share (subject to adjustment), the details of which are set out in the Company’s circu

KB
KINGBOARD CHEMICAL HOLDINGS LIMITED
建滔化工集團*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 148)

Executive Directors

Mr. Cheung Kwok Wing (*Chairman*)
Mr. Chan Wing Kwan (*Managing Director*)
Mr. Lam Ka Po
Mr. Cheung Kwong Kwan
Mr. Cheung Kwok Wa
Mr. Cheung Kwok Ping
Mr. Cheung Kwok Keung
Mr. Chang Wing Yiu
Mr. Mok Cham Hung, Chadwick

Independent non-executive Directors

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

Registered Office

Ground Floor
Caledonian House
P.O. Box 1043
George Town
Grand Cayman
Cayman Islands
British West Indies

Head Office and Principal Place of Business

5th Floor, Block K
Valiant Industrial Centre
2–12 Au Pui Wan Street
Fo Tan, Shatin
New Territories
Hong Kong

24 November 2006

*To the Shareholders, and for
information only, the Warrantholders*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION IN RELATION
TO THE SEPARATE LISTING OF
KINGBOARD LAMINATES HOLDINGS LIMITED
ON THE MAIN BOARD OF THE STOCK EXCHANGE
OF HONG KONG LIMITED**

1. PROPOSED SPIN-OFF

Introduction

Reference is made to the Announcements in relation to, among other things, the Proposed Spin-off. The Company announced on 21 July 2006 that Kingboard Laminates had made a formal application on that day to the Stock Exchange for the listing of, and permission to deal in, the

* For identification purpose only

LETTER FROM THE BOARD

Kingboard Laminates Shares in issue and to be issued pursuant to the Global Offering. On 2 November 2006, the Company made an announcement disclosing, among other things, further details of the Proposed Spin-off pursuant to Chapter 14 of the Listing Rules.

The Proposed Spin-off is expected to be effected by way of the Global Offering, which will comprise the Hong Kong Public Offer, the International Placing and the Preferential Offer. Goldman Sachs (Asia) L.L.C. has been appointed as the sole global coordinator, sole bookrunner, sole sponsor and lead manager of the Global Offering.

The listing of the Kingboard Laminates Shares on the main board of the Stock Exchange is conditional upon the fulfilment or waiver of the conditions as set out in the paragraph headed “Conditions precedent” below. Immediately after completion of the Proposed Spin-off, Kingboard Laminates will have a public float of 25% (assuming the Over-allocation Option is not exercised) of its enlarged issued share capital.

Subject to the granting of approval for the listing of, and permission to deal in, the Kingboard Laminates Shares on the main board of the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Kingboard Laminates Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of listing of the Kingboard Laminates Shares or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Proposed Spin-off, if it proceeds, will not constitute a material dilution of the Company’s interest in Kingboard Laminates, and Kingboard Laminates will continue to be a major subsidiary of the Company. The Proposed Spin-off will constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules. As such, the Proposed Spin-off is subject to the disclosure requirements under Chapter 14 of the Listing Rules. The purpose of this circular is to provide you with further information in relation to, among other things, the Proposed Spin-off and the Global Offering.

Shareholders and potential investors should note that the Proposed Spin-off and the Global Offering, which are subject to a number of conditions, may or may not proceed. In particular, there is no assurance that approval from the Stock Exchange will be granted or that the underwriters’ obligations under the underwriting agreements will become unconditional or that the underwriting agreements will not be terminated. Accordingly, Shareholders and potential investors are urged to exercise extreme caution when dealing in the securities of the Company.

Business of the Group, the Kingboard Laminates Group and the Retained Group

The Group is principally engaged in the production and sale of PCBs, laminates, certain upstream component materials used in the production of laminates and chemicals.

Upon completion of the Restructuring, the Kingboard Laminates Group is principally engaged in the production and sale of laminates and the upstream component materials used in the production of laminates, while the Retained Group is principally engaged in the production and sale of PCBs and chemicals. As part of the Restructuring, the Group has transferred its entire interests in Kingboard Copper Foil, which is principally engaged in the production and sale of copper foil (an upstream component material), to the Kingboard Laminates Group. As at the Latest Practicable Date, Kingboard Copper Foil was a 62.15% subsidiary of the Company and the shares of which are listed on the SGX.

LETTER FROM THE BOARD

EEIC, which produces some laminates (primarily as part of its production of PCBs), will continue to be a member of the Retained Group upon completion of the Restructuring. As at the Latest Practicable Date, EEIC is a 70.89% subsidiary of the Company. Its shares are listed on the SGX.

Directorship of the Kingboard Laminates Group

The Board currently comprises a total of 12 Directors. The board of Kingboard Laminates is expected to comprise 13 directors. Save for Mr. Lo Ka Leong, a non-executive director of Kingboard Laminates and the company secretary of the Company, who will remain in such positions following the listing of Kingboard Laminates, none of the directors or senior management of the Kingboard Laminates Group will assume any employment, role or function in any company that will form part of the Retained Group. Mr. Cheung Kwok Wa, Mr. Cheung Kwok Keung, Mr. Cheung Kwok Ping and Mr. Lam Ka Po, who are currently executive Directors, will cease their directorships in the Company with effect from the Listing Date and will focus on their roles as executive directors of Kingboard Laminates upon the listing of Kingboard Laminates. Please refer to the section headed “Directorships” below for further details.

Structure of the Proposed Spin-off

The Company intends to effect the Proposed Spin-off by way of the Global Offering.

The Global Offering will comprise an offering of Kingboard Laminates Shares to the public in Hong Kong for subscription as well as a placing of Kingboard Laminates Shares with certain professional, institutional and other investors. The Global Offering will also include an offer of assured entitlements to the Qualifying Shareholders to subscribe for Kingboard Laminates Shares by way of preferred application under the Preferential Offer.

On the assumption that the Over-allocation Option will not be exercised, it is currently expected that: (i) 25% of the enlarged issued share capital of Kingboard Laminates will be offered pursuant to the Global Offering and 75% of the enlarged issued share capital of Kingboard Laminates will be retained by Jamplan (BVI); and (ii) of the Kingboard Laminates Shares to be offered under the Global Offering, 20% will be new Kingboard Laminates Shares to be issued and allotted by Kingboard Laminates and 80% will be existing Kingboard Laminates Shares to be offered for sale by Jamplan (BVI).

Further, 37,500,000 Reserved Shares will be available for subscription by the Qualifying Shareholders at the Offer Price under the Preferential Offer (please refer to the section headed “Preferential Offer” below for further details).

The Kingboard Laminates Shares to be offered pursuant to the Global Offering will rank *pari passu* in all respects with the other Kingboard Laminates Shares then in issue.

The Shares will continue to be listed on the main board of the Stock Exchange after the implementation of the Proposed Spin-off.

Conditions precedent

It is currently expected that the Proposed Spin-off will be conditional on, among other things, the following:

- (i) the Listing Committee granting approval for the listing of, and permission to deal in, all the Kingboard Laminates Shares in issue and to be issued pursuant to the Global Offering; and
- (ii) the obligations of the underwriters under the underwriting agreements to be entered into among Kingboard Laminates, the Company and the underwriters in respect of the Global Offering becoming unconditional and the underwriting agreements not being terminated in accordance with their respective terms, on or before the dates and times to be specified therein.

If any of these and other applicable conditions are not fulfilled or, save for condition precedent (i) above, waived prior to the dates and times to be specified, the Proposed Spin-off will lapse, and the Stock Exchange will be notified immediately and an announcement will be published by the Company and/or Kingboard Laminates as soon as practicable following such lapse.

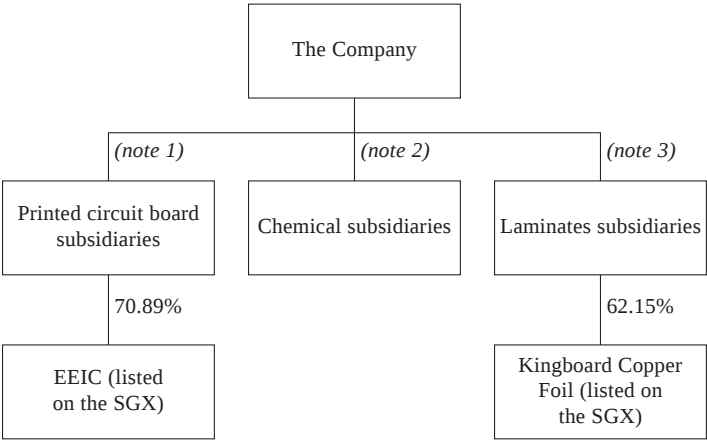
The Restructuring

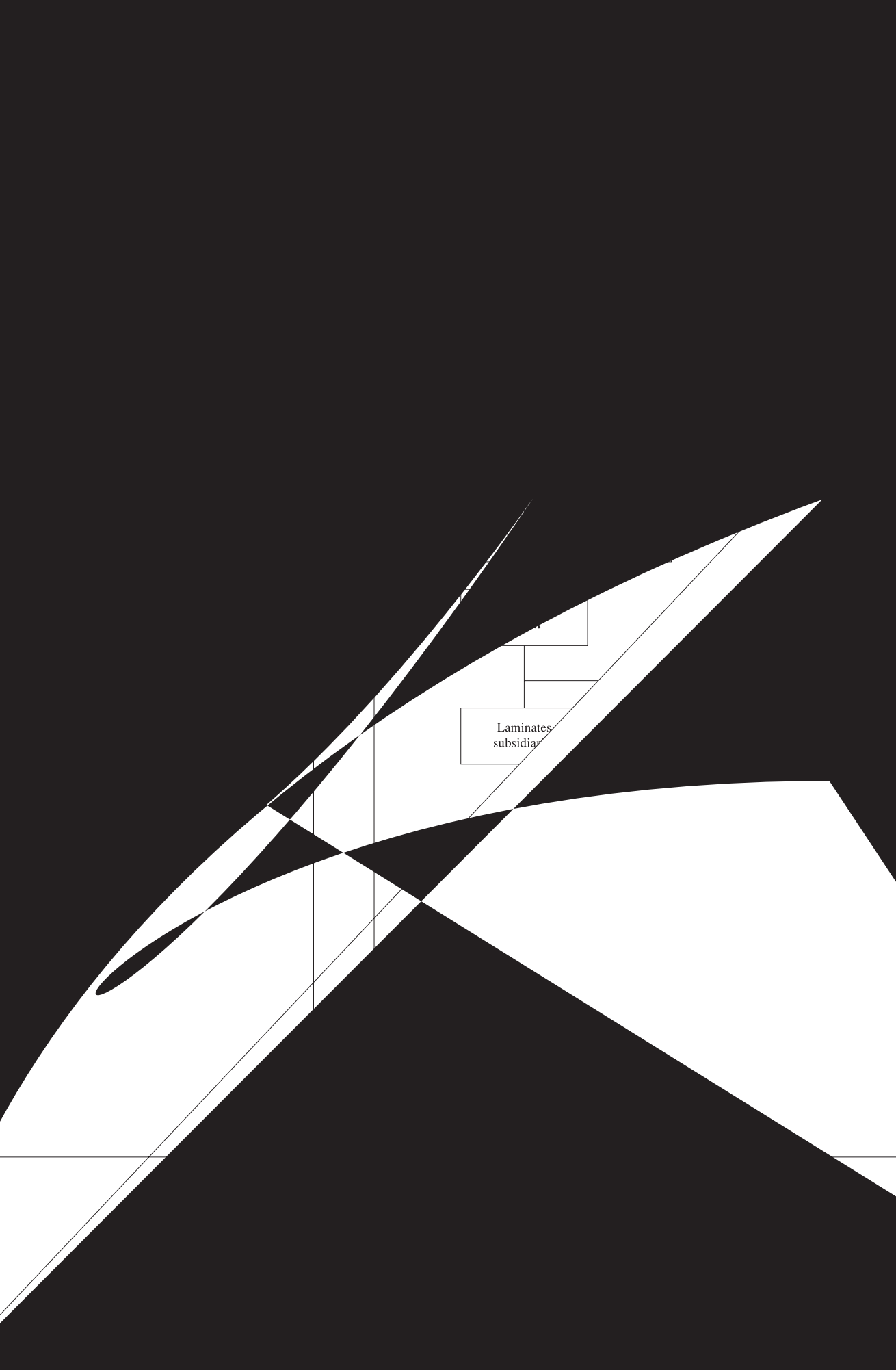
Background

Prior to the Global Offering, a number of restructuring steps were undertaken with a view to transferring certain companies within the Group to the Kingboard Laminates Group in preparation for the Proposed Spin-off. The objective of the Restructuring is to establish Kingboard Laminates as the holding company for the laminate and laminate-related operations of the Group (save and except for the laminate operations of EEIC, as more particularly set forth in the sub-paragraph headed “Non-compete undertaking and indemnity” below) for the purpose of the Proposed Spin-off.

Structure chart

Set forth below is the simplified shareholding structure of the Group immediately before the Proposed Spin-off:





Laminates
subsidiar

interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of the Group or its associated companies), partner, agent or otherwise, in the manufacture and sale of laminates, or in any other business that may compete, directly or indirectly, with any business carried on from time to time by any member of the Kingboard Laminates Group (“**Restricted Activity**”).

The restrictions which the Company agreed to undertake in the above do not apply to:

- (1) Restricted Activity conducted by EEIC and its subsidiaries; and
- (2) the Company or its associates holding or being interested in shares or other securities in any company which conducts or is engaged in any Restricted Activity (“**Subject Company**”); provided that (i) such shares or securities are listed on a recognized stock exchange, (ii) the aggregate number of shares held by the Company and its associates do not exceed 30% of the issued shares of the Subject Company, and (iii) the Company and its associates do not have board or management control of the Subject Company.

The Company has undertaken to Kingboard Laminates to provide to Kingboard Laminates all information necessary for Kingboard Laminates to enforce the Non-compete Undertaking and

LETTER FROM THE BOARD

Regarding the guarantees provided by the Kingboard Laminates Group to secure the Retained Group's payment obligations under the Syndicated Loans, the Company currently expects to fully repay the amount then outstanding under the Syndicated Loans on the Listing Date through the following sources of funds:

- (a) a special dividend in the amount of HK\$2,000 million to be received from the Kingboard Laminates Group (as more particularly described in the sub-paragraph headed "Special dividend" below);
- (b) payment to be received from the Kingboard Laminates Group (in settlement of the net amounts then owed by the Kingboard Laminates Group to the Retained Group which amounted to HK\$535.1 million as of 30 June 2006 as mentioned above); and
- (c) a portion of the proceeds from the sale of existing Kingboard Laminates Shares by the Retained Group under the Global Offering.

Special dividend

During the period following completion of the Restructuring and before completion of the Global Offering, Jamplan (BVI) will be the sole shareholder of Kingboard Laminates. During such period, the board of directors of Kingboard Laminates has declared a special dividend in the amount of HK\$2,000 million to Jamplan (BVI). Consequently, investors (including the Qualifying Shareholders) who purchase or subscribe for the Kingboard Laminates Shares under the Global Offering will not be entitled to the special dividend.

Intended use of proceeds

Indicative price range per Kingboard Laminates Share

By the Company's announcement dated 17 November 2006, it was announced that the preliminary indicative price range per Kingboard Laminates Share under the Global Offering is HK\$5.97 to HK\$7.73 (excluding brokerage fee, SFC transaction levy and the Stock Exchange trading fee). The indicative price range will also be disclosed in the Prospectus.

Based on the preliminary indicative price range stated above and on the assumption that the Over-allocation Option is not exercised, it is estimated that the aggregate net proceeds from the Global Offering (after deduction of underwriting commission and estimated expenses) will be in the range of approximately HK\$4,268.2 million to HK\$5,542.8 million. As disclosed in this circular, of the Kingboard Laminates Shares to be offered under the Global Offering, 20% will be new Kingboard Laminates Shares to be issued and allotted by Kingboard Laminates, while 80% will be existing Kingboard Laminates Shares to be offered for sale by the Selling Shareholder. On the basis of the aforesaid, approximately HK\$809.3 million to HK\$1,064.3 million of the proceeds from the Global Offering will be received by Kingboard Laminates and HK\$3,458.9 million to HK\$4,478.5 million of the proceeds from the Global Offering will be received by the Selling Shareholder.

- (c) The Proposed Spin-off will give a clearer operational focus to the Group.

The laminate business of the Group has grown to a size sufficient to command a separate listing and the Board considers that such listing will also be beneficial to the Kingboard Laminates Group for the following reasons:

- (a) It will provide flexibility to the Kingboard Laminates Group to raise future funds from the capital markets to support its growth through continuing organic expansion as well as acquisitions.
- (b) It will enable the Kingboard Laminates Group to take advantage of the significant growth potential both globally and within the PRC by:

- (g) **Operational focus on laminate industry:** Among the major laminate manufacturers in the world, Kingboard Laminates is one of the few companies that is predominantly focused on the manufacture and sale of laminate and laminate-related products.

3. PREFERENTIAL OFFER

Subject to the Stock Exchange granting the approval for the listing of, and permission to deal in, the Kingboard Laminates Shares on the Stock Exchange, 37,500,000 Reserved Shares will be available for subscription by Qualifying Shareholders at the Offer Price under the Preferential Offer. The Reserved Shares form part of the shares to be offered under the International Placing. As disclosed in the announcement of the Company dated 2 November 2006, with a view to maintaining at least the minimum prescribed percentage of Kingboard Laminates Shares in the hands of the public in compliance with the Listing Rules immediately after the Global Offering and to maximizing the opportunity of the public Shareholders to participate in the Global Offering, no Reserved Shares will be offered to connected persons of Kingboard Laminates to the extent that they are Qualifying Shareholders. It was further disclosed in the announcement of the Company dated 20 November 2006 that the Qualifying Shareholders are entitled to subscribe at the Offer Price for one Reserved Share for every whole multiple of 22 existing Shares held by them as at 5:00 p.m. on the Record Date. Qualifying Shareholders holding less than 22 Shares will not be entitled to subscribe for any Reserved Shares on an assured basis.

A blue application form and a copy of the Prospectus will be despatched to each Qualifying Shareholder who is entitled to apply for the Reserved Shares. Qualifying Shareholders will be permitted to apply for a number of Reserved Shares which is less than, or equal to, their assured entitlements under the Preferential Offer. Where a Qualifying Shareholder applies for a number of Reserved Shares which is greater than his or her assured entitlement, his or her assured entitlement will be satisfied in full, subject as mentioned above, but the excess portion of such application will only be met to the extent that there are sufficient available Reserved Shares resulting from other Qualifying Shareholders declining to take up some or all of their assured entitlements. Qualifying Shareholders may, in addition to applying for Reserved Shares, also apply for Kingboard Laminates Shares under the Hong Kong Public Offer. Any assured entitlements not taken up by the Qualifying Shareholders will first be allocated to satisfy the excess applications for the Reserved Shares from Qualifying Shareholders on a fair and reasonable basis, and thereafter, at the discretion of the Global Coordinator, to the international placing under the International Placing.

Shareholders should note that assured entitlements to Reserved Shares may not represent a multiple of a full board lot of 500 Kingboard Laminates Shares. Further, the Reserved Shares allocated to the Qualifying Shareholders will be rounded down to the closest whole number if required, and that dealings in odd lots of the Kingboard Laminates Shares may be at a price below the prevailing market price for full board lots.

Entitlements to the Reserved Shares will not be transferable and there will be no trading in nil paid entitlements on the Stock Exchange. Any Kingboard Laminates Shares issued pursuant to the Preferential Offer will be deemed fully paid, ranking *pari passu* in all respects with other Kingboard Laminates Shares then in issue.

4. TENTATIVE TIMETABLE

Set out below is the tentative timetable of the Proposed Spin-off:

Hong Kong Public Offer opens from Friday, 24 November 2006 to

LETTER FROM THE BOARD

6. FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF

The Group, the Kingboard Laminates Group and the Retained Group

The selected financial information of the Group, the Kingboard Laminates Group and the Retained Group for each of the three years ended 31 December 2005 and the six months ended 30 June 2006 are as follows:

	The Group				The Kingboard Laminates Group				The Retained Group			
	Year ended			Six months ended	Year ended			Six months ended	Year ended			Six months ended
	31 December (note 3)			30 June 2006	31 December (note 1)			30 June 2006	31 December (note 2)			30 June 2006
	2003	2004	2005	(note 4)	2003	2004	2005	(note 1)	2003	2004	2005	(note 2)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	4,435,503	7,082,390	13,098,354	7,464,958	2,972,959	4,660,178	6,131,169	3,838,680	1,763,754	2,878,060	8,014,726	4,464,962
Profit before tax	559,994	1,257,497	1,788,802	1,287,247	459,857	1,140,257	1,233,100	913,283	109,243	127,651	570,249	388,673
Profit attributable to equity holders for the year/period	472,366	1,103,845	1,435,809	1,068,807	388,364	1,036,737	1,078,235	803,936	93,108	77,519	372,121	279,580
	As at 31 December (note 3)			As at 30 June 2006	As at 31 December (note 1)			As at 30 June 2006	As at 31 December (note 2)			As at 30 June 2006
	2003	2004	2005	(note 4)	2003	2004	2005	(note 1)	2003	2004	2005	(note 2)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	2003	2004	2005	(note 4)	2003	2004	2005	(note 1)	2003	2004	2005	(note 2)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Consolidated total assets	7,625,277	16,489,146	19,360,822	21,236,916	6,889,840	11,096,383	13,241,970	13,602,061	3,481,173	10,755,482	12,916,138	13,935,241
Consolidated total liabilities	3,421,807	9,345,642	9,714,079	10,520,906	3,969,974	7,035,600	8,193,749	7,886,300	1,161,839	6,088,740	6,467,472	7,273,023
Consolidated net asset value	4,203,470	7,143,504	9,646,743	10,716,010	2,919,866	4,060,783	5,048,221	5,715,761	2,319,334	4,666,742	6,448,666	6,662,218

Notes

1. Extracted from the figures shown in the preliminary draft of the accountants' report of Kingboard Laminates Group which, subject to finalisation, will be included in the Prospectus.
2. Derived from the unaudited management accounts of the Group.
3. Extracted from the audited consolidated accounts of the Group for the three years ended 31 December 2005.
4. Extracted from the unaudited management accounts of the Group for the six months ended 30 June 2006.

Net tangible asset value

Based on the Company's audited consolidated accounts for the year ended 31 December 2005, the audited consolidated net tangible asset value of the Group as at 31 December 2005 was HK\$7,985.6 million and the audited net tangible asset value per Share as at that date would be HK\$10.20 based on 784,767,161 Shares in issue as at 31 December 2005. The unaudited net tangible assets of Kingboard Laminates Group as at 31 December 2005 represented about 63.2% of the audited consolidated net tangible assets of the Group as at 31 December 2005. The historical consolidated net tangible assets of the Group and the Kingboard Laminates Group are not necessarily indicative of the likely consolidated net tangible assets of the Group and the Kingboard Laminates Group following the implementation of the Proposed Spin-Off and the Global Offering. In particular, the consolidated net tangible assets of the Group and Kingboard Laminates Group will be affected by, among other things, (i) the transactions described under the heading "Restructuring" above, including the payment of the special dividend, the debt restructuring and the incurrence of new debt; and (ii) the issue of new Kingboard Laminates Shares in the Global Offering.

The Board currently expects that the Company will recognise a gain resulting from the Proposed Spin-off. Based on the unaudited consolidated net assets of the Kingboard Laminates Group as at 30 June 2006, the estimated net proceeds from the Global Offering of approximately HK\$4,905.5 million (if the Over-allocation Option is not exercised), or approximately HK\$5,402.1 million (if the Over-allocation Option is exercised in full) (both calculated based on the mid-point of the indicative price range of HK\$5.97 to HK\$7.73 per Kingboard Laminates Share under the Global Offering) and the current proposed structure of the Global Offering, the amount of such gain is estimated to be approximately HK\$3,900.3 million (if the Over-allocation Option is not exercised), or approximately HK\$4,296.3 (if the Over-allocation Option is exercised in full), and represents the difference between the estimated amount of net assets of Kingboard Laminates to be diluted immediately following the completion of the Global Offering and the Company's interest in the net process receivable by the Selling Shareholder and Kingboard Laminates under the Global Offering. However, the actual amount of such gain may differ from the estimated figure as mentioned above depending on the actual pricing and structure of the Global Offering. Assuming that the Proposed Spin-off is completed by the end of December 2006, such gain will be recognised in the results of the Company for the year ending 31 December 2006. The consolidated net assets of the Group will therefore, among other things, be affected by the same amount of such gain.

Profit Forecast

A profit forecast for Kingboard Laminates for the financial year ending 31 December 2006 (“**Profit Forecast**”) have been prepared solely for inclusion in the Prospectus. The directors of Kingboard Laminates estimate that, in the absence of unforeseen circumstances and based on the combined results of the Kingboard Laminates Group for the six months ended 30 June 2006 shown in the accountants' report of the Kingboard Laminates Group included in the Prospectus, the combined results shown in the unaudited combined accounts of the Kingboard Laminates Group for the three months ended 30 September 2006 and a forecast of the combined results for the three months ending 31 December 2006, the profit attributable to equity holders of Kingboard Laminates for the year ending 31 December 2006 will not be less than HK\$1,623.8 million.

7. DIRECTORSHIPS

As disclosed in “Proposed Spin-off — Directorship of the Kingboard Laminates Group” above, Mr. Cheung Kwok Wa, Mr. Cheung Kwok Keung, Mr. Cheung Kwok Ping and Mr. Lam Ka Po, who are currently executive Directors, will cease their directorships in the Company with effect from the Listing Date and will focus on their roles as executive directors of Kingboard Laminates upon the listing of Kingboard Laminates. Currently, they are primarily responsible for the business of Kingboard Laminates Group as part of the Group, and they will continue to do so upon the listing of Kingboard Laminates. Given that Kingboard Laminates will remain a subsidiary of the Company following completion of the Proposed Spin-off and the interests of Kingboard Laminates will be in alignment with those of the Retained Group (and the Group as a whole), the Directors are of the view that the resignation of these executive Directors will not result in any adverse effect on the Group as a whole. Save as disclosed above, the Board does not have any current intention to make any major changes to the Board composition. However, the Board may consider appointing additional Director(s) if suitable candidate(s) is/are identified. Any such appointment(s) of new Director(s) will be in full compliance with the requirements of the Listing Rules and the Company's articles of association and further announcement(s) will be made as and when necessary. It is the intention of the Board to maintain continued management independence of the Company and Kingboard Laminates.

LETTER FROM THE BOARD

8. LISTING RULES IMPLICATIONS

The Proposed Spin-off, if it proceeds, will not constitute a material dilution of the Company's interest in Kingboard Laminates and Kingboard Laminates will continue to be a major subsidiary of the Company. The Proposed Spin-off, if it proceeds, will constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules. As such, the Proposed Spin-off is subject to the disclosure requirements under Chapter 14 of the Listing Rules.

Shareholders and potential investors should note that the Proposed Spin-off and the Global Offering, which are subject to a number of conditions, may not proceed. In particular, there is no assurance that approval from the Stock Exchange will be granted or that the underwriters' obligations under the underwriting agreements will become unconditional or that the underwriting agreements will not be terminated in accordance with their respective terms. Accordingly, Shareholders and potential investors are urged to exercise extreme caution when dealing in the securities of the Company.

9. ADDITIONAL INFORMATION

Your attention is also drawn to the general information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Cheung Kwok Wing
Chairman

1. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors in the Company and its associated corporations

As at the Latest Practicable Date, the following Directors had interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company or the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange:

(i) *Interests in the Company (note 1)*

Name of Director	Interest in Shares Number of Shares	Interest in Shares Approximate percentage of shareholding	Interest in underlying Shares pursuant to share options (note 2)	Interest in underlying Shares pursuant to the Warrants
Cheung Kwok Wing	3,282,150	0.40	1,145,000	116,816
Chan Wing Kwan	1,399,540	0.17	3,026,000	48,100
Lam Ka Po	750,000	0.09	3,559,000	70,052
Cheung Kwok Keung	917,370	0.11	3,559,000	—
Cheung Kwok Wa	1,582,800	0.19	3,308,000	194,920
Cheung Kwong Kwan	573,200	0.07	3,419,000	102,662
Cheung Kwok Ping	1,900,500	0.23	3,363,000	201,526
Chang Wing Yiu	2,428,500	0.29	3,643,000	248,750
Mok Cham Hung, Chadwick	660,000	0.08	—	—
Cheng Ming Fun, Paul	50,000	0.01	—	—

Notes:

- (1) Denotes a long position.
- (2) The interests are by virtue of share options granted by the Company to the Directors on 11 October 2002, which entitle the relevant Directors to subscribe for the Shares at an exercise price of HK\$3.74 per Share during the period from 15 October 2002 to 2 July 2012.

(ii) *Interests in associated corporations of the Company (note 1)*

Name of Director	Interest in the	Interest in the		
	non-voting	share		underlying
	deferred			shares pursuant
shares			option	to the shares
(note 2)	(note 3)		(note 4)	
	No. of	Percentage of		
	shares	shareholding		
Cheung Kwok Wing	1,904,400	177,600	0.10%	973,200
Chan Wing Kwan	1,481,200	—	—%	973,200
Lam Ka Po	581,900	—	—%	—
Cheung Kwok Keung	529,000	—	—%	—
Cheung Kwok Wa	1,058,000	278,400	0.16%	973,200
Cheung Kwong Kwan	846,400	—	—%	—
Cheung Kwok Ping	952,200	—	—%	—
Chang Wing Yiu	423,200	—	—%	973,200
Mok Cham Hung, Chadwick	—	74,000	0.04%	973,200

Notes:

- (1) Denotes a long position.
- (2) It refers to non-voting deferred shares of HK\$1.00 each in Kingboard Laminates Limited, a wholly-owned subsidiary of the Company.
- (3) It refers to the ordinary shares of S\$0.80 each (“EEIC Shares”) in EEIC, a non-wholly owned subsidiary of the Company.
- (4) The relevant Directors are entitled to subscribe for EEIC Shares at an exercise price of US\$2.033 per EEIC Share. The share options are exercisable in whole or in part at the staggered manner within five option periods, commencing on 26 November 2006, 26 November 2007, 26 November 2008, 26 November 2009, 26 November 2010 and 26 November 2011.

(b) Interest or short position of entities (other than a Director or chief executive of the Company) in the Shares which is discloseable under Divisions 2 and 3 of the SFO

As at the Latest Practicable Date, the following entities had, directly or indirectly, interests or short position in the Shares and the underlying Shares which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO (other than a Director or chief executive of the Company), or had, directly or indirectly, interests in 10% of more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of shareholder	Name of the company	Interest in underlying shares	Nature of interests	Number of shares held	Approximate percentage of shareholding (%)
Hallgain Management Limited (<i>note 1</i>)	the Company	2,406,340 (<i>note 2</i>)	Beneficial owner	248,574,640	30.10
Gryphon Investment Counsel, Inc.	the Company	409,740 (<i>note 2</i>)	Investment manager	39,308,908	4.76
The Capital Group Companies, Inc (<i>note 3</i>)	the Company	—	Investment manager	79,651,400	9.64
Great Ease Trading Limited (<i>note 4</i>)	Tat Ko Technology Limited	—	Beneficial owner	40,000	25.00
Lee Pui Tak, Stewart	Tat Ko Technology Limited	—	Interest of a controlled corporation	40,000	25.00

Notes:

- (1) Messrs. Cheung Kwok Wing, Chan Wing Kwan and Lam Ka Po, all of whom are Directors, are also directors of Hallgain Management Limited.
- (2) It refers to the Warrants.
- (3) The interests are indirectly held by The Capital Group Companies, Inc. through its 100% controlled corporations, namely Capital Research and Management Company, Capital Guardian Trust Company, Capital International, Inc, Capital International Limited and Capital International S.A..
- (4) Great Ease Trading limited is wholly-owned by Mr. Lee Pui Tak, Stewart.

Save as disclosed above, the Directors and chief executive of the Company were not aware of any persons who had, directly or indirectly, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or had directly or indirectly, interests in 10% of more of the nominal value of any class of Share Capital carrying rights to vote in all circumstances at general meetings of any other member of the Group as at the Latest Practicable Date.

4. COMPETING INTEREST

As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors and their respective associates had any interests in a business which competes with, or may compete with, either directly or indirectly, with the business of the Group, other than those business in which such Directors have been appointed to represent the interests of the Group.

5. DIRECTORS' INTEREST IN SERVICE CONTRACTS

As at the Last Practicable Date, none of the Directors had entered into or is proposing to enter into a service contract with any member of the Group which may not be terminated by the relevant member of the Group within one year without payment of any compensation (other than statutory compensation).

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claims of material importance involving any members of the Group or pending or threatened against any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, the date to which the latest published audited consolidated financial statements of the Group were made up.

8. GENERAL

- (a) The registered office of the Company is situated at Ground Floor, Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands, British West Indies.
- (b) The principal place of business of the Company in Hong Kong is 5th Floor, Block K, Valiant Industrial Centre, 2–12 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong.
- (c) The Company's branch share registrar and transfer office in Hong Kong is Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The company secretary and qualified accountant of the Company is Mr. Lo Ka Leong. Mr. Lo is a fellow member of Hong Kong Institute of Certified Public Accountants.
- (e) The English text of this circular shall prevail over the Chinese text.