THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt

If you have sold or otherwise transferred C

KB

KINGBOARD CHEMICAL HOLDINGS LIMITED

建滔化工集團*

(Incorporated in the Cayman Islands with limited liability)

(stock code: 148)

CONTINUING CONNECTED TRANSACTIONS

Independent Financial Adviser to the
Independent Board Committee and the Independent Shareholders

C t t

A B 4 11 A
B C 12

A A C
B C
B C 13 28

A C
B 5 C 2-12 A
8 2006 9:30 35 36

C
26 C 28
48
C

* *For identification purpose only*

21 2006

CONTENTS

DEFINITIONS

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

A [illegible] –	A [illegible] 4 ([illegible]), [illegible] 6 ([illegible]) [illegible] 9 ([illegible]) [illegible] B [illegible] C [illegible];
A [illegible] C [illegible] –	[illegible] A [illegible] A [illegible] 31 [illegible] 2009, [illegible] 8 [illegible] 9 [illegible];
[illegible] –	[illegible];
B [illegible] –	[illegible];
C [illegible] –	[illegible] C [illegible] C [illegible];
C [illegible] C [illegible] –	[illegible] CB [illegible] A [illegible] A [illegible] C [illegible];
[illegible] ( ) –	[illegible] ( ) [illegible] C [illegible];
[illegible] –	[illegible] 8 [illegible] 2006 [illegible] C [illegible] A [illegible] A [illegible] A [illegible] C [illegible];
[illegible] –	[illegible] C [illegible];
[illegible] $ –	[illegible] A [illegible];
[illegible] B [illegible] C [illegible] –	[illegible];

DEFINITIONS

–	C ( ) C ;
–	C C ;
–	C 70% 30% ;
–	17 2006, ;
–	;
A –	3 2004 CB, 31 2004 31 2006;
A –	3 2004 CB 31 2004 31 2006;
CB–	;
–	(C 571);
( )–	( ) $0.10 C C ;
( )–	( ) C ;
–	C ; 30% , ;

DEFINITIONS

–	;
A –	27 2006 CB 1 2007 31 2009;
A –	27 2006 CB 1 2007 31 2009;
–	;
–	C C 32, – ;
–	C C 90% C 10% (B) C ; (B) C 40%, C C 35% 25%; , (B) C ;
–	;
( )–	( ) 2006 C 7 2004;
2006 ( )–	( ) ( ) C 7 2004.

KB

KINGBOARD CHEMICAL HOLDINGS LIMITED

建滔化工集團*

(Incorporated in the Cayman Islands with limited liability)

(stock code: 148)

Executive Directors :
C *(Chairman)*
C
C
C
C
C
C
C, C

Independent non-executive Directors :
C

Registered Office :
C
B 1043
C
C
B

Head Office and Principal Place of Business :
5 B
C
2 12 A

21 2006

To the Shareholders, and for information only, the Warrantholders

CONTINUING CONNECTED TRANSACTION

1. INTRODUCTION

B 27 2006, C A A 27 2006.

3 2004, 57% 90% C A A 30% 70% C.

* *For identification purpose only*

LETTER FROM THE BOARD

2. RENEWAL OF AGREEMENTS

A :

: 27 2006

:

: CB

:

: 1 2007 31 2009,

A :

: 27 2006

:

: (.) CB, ( ), ( )

3. BUSINESS OF THE GROUP AND THE SHIRAI GROUP

4. REASONS FOR THE SHIRAI SUPPLY AGREEMENT AND THE SHIRAI PURCHASE AGREEMENT

5. ANNUAL CAPS

[illegible] A [illegible]
[illegible] A [illegible]:

Transactions	Annual caps for 2004, 2005 and 2006 under the Original Shirai Supply Agreement/the Original Shirai Purchase Agreement	Actual transaction amounts in 2004, 2005 and the nine months ended 30 September 2006	Annual caps for 2007, 2008 and 2009 under the Shirai Supply Agreement/ the Shirai Purchase Agreement
[illegible] CB [illegible]	$405,000,000 [illegible] 2004 *(note 1)* $445,000,000 [illegible] 2005 *(note 1)* $489,000,000 [illegible] 2006 *(note 1)*	$383,465,000 [illegible] 2004 $416,149,000 [illegible] 2005 $344,867,000 [illegible] 30 [illegible] 2006 *(note 5)*	$562,350,000 [illegible] 2007 $646,703,000 [illegible] 2008 $743,708,000 [illegible] 2009
[illegible]	$50,000,000 [illegible] 2004 *(note 2)* $85,000,000 [illegible] 2005 *(note 3)* $115,000,000 [illegible] 2006 *(note 4)*	$46,323,000 [illegible] 2004 $72,598,000 [illegible] 2005 $79,111,000 [illegible] 30 [illegible] 2006 *(note 5)*	$161,000,000 [illegible] 2007 $225,400,000 [illegible] 2008 $315,560,000 [illegible] 2009
[illegible]	$8,000,000 [illegible] 2004 *(note 2)* $13,000,000 [illegible] 2005 *(note 3)* $19,000,000 [illegible] 2006 *(note 4)*	$7,824,000 [illegible] 2004 $12,704,000 [illegible] 2005 $12,818,000 [illegible] 30 [illegible] 2006 *(note 5)*	$26,600,000 [illegible] 2007 $37,240,000 [illegible] 2008 $52,136,000 [illegible] 2009

Notes:

1. A [illegible] C [illegible] 12 [illegible] 2004 [illegible] 22 [illegible] 2004.
2. A [illegible] C [illegible] 12 [illegible] 2004.
3. A [illegible] C [illegible] 19 [illegible] 2005.
4. A [illegible] C [illegible] 27 [illegible] 2006.
5. B [illegible] 30 [illegible] 2006.

B [illegible] 30 [illegible] 2006, [illegible] A [illegible] A [illegible]:

Transactions	Amount of transactions for the nine months ended 30 September 2006 (based on the unaudited management accounts of the Techwise Group)
[illegible] CB [illegible] A [illegible]	$344,867,000
[illegible] A [illegible]	$79,111,000
[illegible] A [illegible]	$12,818,000
[illegible] A [illegible]	$91,929,000

A [illegible] C [illegible] 2006 [illegible] A [illegible] A [illegible] 15%, 40% [illegible] 40% [illegible] ( ) [illegible] CB [illegible] A [illegible]; ( ) [illegible] A [illegible]; ( ) [illegible] A [illegible] 2007, 2008 [illegible] 2009.

6. REASONS AND BENEFITS FOR THE INCREASING DEMAND OF PCB FROM, PURCHASE OF LAMINATES FROM, AND SUBCONTRACTING TRANSACTIONS WITH THE SHIRAI GROUP

[illegible] CB [illegible] ( ) [illegible] ([illegible]); [illegible] / ( ) [illegible]. A [illegible] CB [illegible]. B [illegible] CB [illegible].

[illegible] CB [illegible] A [illegible]

[illegible]

7. LISTING RULES IMPLICATIONS

[illegible]

8. EGM

[illegible]

9. RECOMMENDATION

10. ADDITIONAL INFORMATION

Cheung Kwok Wing
Chairman

LETTER FROM AMS

The following is the full text of the letter of advice prepared by AMS for the purpose of inclusion in this circular.

博

LETTER FROM AMS

PRINCIPAL FACTORS CONSIDERED

1. Background information

(a) Review of the operating results of the Group

( ) 31 2003 (2003–)

2003,
57.4%
CB
22.7% 15.9%,
$450
75.7%
CB
11.6% 10.4%,
$985.5 $522.4 ,

( ) 31 2004 (2004–)

2004,
$7,082.4 ,
59.7% $4,435.5
2003.
52.8% 78.6%,
CB
25.9% 17.1%,
CB
10.5% 8.5%,
2004.
2004 $1,956.1 $1,196.3 ,

( ) 31 2005 (2005–)

2005,
84.9% $13,098.4
CB
$1,832.4 $5,284.2
A C
2005, CB
&
(& –),
C
2005.
28.1% $4,788.4

67.5% $2,023.4 .
CB
2005 28.0%
60.1% 8.3%,

2005,
$3,179.9 $1,648.8 ,

( ) 30 2006

2006,
$7,465.0
25.4% $5,954.0
CB 38% ,
15.9%.
64.5%
CB
22.9% 9.8%,

2006,
$1,989.6 $1,181.7

(b) *Information on the Techwis 18.ofi Informaio1 Tf2 .38 1 ec0 T. I(of appr)1HK$ech,ofit mema* *(c) Reasons for the Shirai Supply Agreement and the Shirai Purchase Agreement*

[illegible]

[illegible]

[illegible]

[illegible]

2. The Shirai Supply Agreement

(a) Principal terms of the Shirai Supply Agreement

LETTER FROM AMS

(b) Rationale for determining the annual caps

( ) CB 31 2004 2005 30 2006; ( ) 2004, 2005 31 2006; ( ) 31 2007, 2008 2009:

Total transaction **Increase from the**

$344.9 83%

LETTER FROM AMS

(b) Rationale for determining the annual caps

( ) 31 2004 2005 30 2006; ( ) 2004, 2005 31 2006; ( ) 31 2007, 2008 2009:

	Total transaction amounts (HK$'000)	Increase from the preceding year (%)
Purchase of laminates		
Actual transaction amounts:		
2004	46,323	/A
2005	72,598	56.7
30 2006	79,111	45.3 (on annualized basis)
Approved annual caps:		
2004	50,000	/A
2005	85,000	70.0
2006	115,000	35.3
Proposed annual caps:		
2007	161,000	40.0
2008	225,400	40.0
2009	315,560	40.0

	Total transaction amounts *(HK$'000)*	Increase from the preceding year *(%)*
Procurement of subcontracting services		
Actual transaction amounts:		
2004	7,824	/A
2005	12,704	62.4
30 2006	12,818	34.5 *(on annualized basis)*
Approved annual caps:		
2004	8,000	/A
2005	13,000	62.5
2006	19,000	46.2
Proposed annual caps:		
2007	26,600	40.0
2008	37,240	40.0
2009	52,136	40.0

A B CB ( ) / CB B A 2006 A 40%

A 2004 $46.3 92.6% $50 2004. 2005, 56.7%.

2004 2005 98% 30 2006 2005.

2004 2005 2004 2005 C 27 2006 31 2006

A 2003 2005 51.0%, 48.5%.

( ) ( ) 51.0% 48.5%, 40% ( ) A $161,000,000, $225,400,000 $315,560,000 31 2007, 2008 2009 ; ( ) A $26,600,000, $37,240,000 $52,136,000 31 2007, 2008 2009

4. Annual review of the terms of the Continuing Connected Transactions and the Annual Caps

C C A C 31 2007, 2008 2009, C C C A C,

RECOMMENDATION

( )

( )

( )

( )

LETTER FROM AMS

AMS Corporate Finance Limited
Jinny Mok
Director

1. RESPONSIBILITY STATEMENTS

[illegible]

2. MATERIAL ADVERSE CHANGE

A [illegible] 31 [illegible] 2005 [illegible].

3. DISCLOSURE OF INTERESTS

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

A [illegible] C [illegible] ([illegible]) [illegible] ( ) [illegible] C [illegible] 7 [illegible] 8 [illegible] ([illegible]); ( ) [illegible] 352 [illegible]; ( ) [illegible] C [illegible] C [illegible]:

(i) Interest (long positions) in the Company

Name of Director	Interest in underlying Shares pursuant to share options *(note)*	Interest in underlying Shares pursuant to the 2006 Warrants	Interest in the Shares	% of the issued share capital of the Company
C [illegible]	1,145,000	116,816	3,282,150	0.40
C [illegible]	3,026,000	48,100	1,399,540	0.17
[illegible]	3,559,000	70,052	750,000	0.09
C [illegible]	3,559,000		917,370	0.11
C [illegible]	3,308,000	194,920	1,582,800	0.19
C [illegible]	3,419,000	102,662	573,200	0.07
C [illegible]	3,363,000	201,526	1,900,500	0.23
C [illegible]	3,643,000	248,750	2,428,500	0.29
C [illegible], C [illegible]			660,000	0.08
C [illegible]			50,000	0.01

Note: C 11 2002, $3.74 15 2002 2 2012.

(ii) Interest (long positions) in the associated corporations of the Company

Name of Director	Interest in the non-voting deferred shares *(note 1)*	Interest in the shares *(note 2)* No. of shares	Interest in the shares *(note 2)* % of shareholding	Interest in the underlying shares pursuant to the share options *(note 3)*
C	1,904,400	177,600	0.10%	973,200
C	1,481,200		%	973,200
	581,900		%	
C	529,000		%	
C	1,058,000	278,400	0.16%	973,200
C	846,400		%	
C	952,200		%	
C	423,200		%	973,200
C , C		74,000	0.04%	973,200

Notes:

(1) $1.00 C

(2) $0.80 & C (**EEIC**), C

(3) C $2.033 C 26 2006, 26 2007, 26 2008, 26 2009 26 2010 24 2010.

C C ( ) ( ). C 7 8 ( ); ( ) 352 ; ( ) C C .

(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

A [illegible] C [illegible] 2 [illegible] 3 [illegible] ([illegible] C [illegible]), [illegible] 10% [illegible]:

Name of shareholder	Name of the company	Interest in underlying shares	Nature of interests	Number of shares held	Approximate percentage of shareholding *(%)*
[illegible] *(note 1)*	[illegible]	2,406,340 *(note 2)*	[illegible]	248,574,640	30.10
[illegible]	[illegible]	409,740 *(note 2)*	[illegible]	39,308,908	4.76
[illegible] *(note 3)*	[illegible]		[illegible]	79,651,400	9.64
[illegible] *(note 4)*	[illegible]		[illegible]	40,000	25.00
[illegible]	[illegible]		[illegible]	40,000	25.00

Notes:

(1) [illegible]

(2) [illegible] 2006 [illegible]

(3) [illegible] 100% [illegible]

(4) [illegible]

[illegible]

4. COMPETING INTEREST

[illegible]

5. DIRECTORS' INTEREST IN SERVICE CONTRACTS

[illegible]

6. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF SIGNIFICANCE

[illegible]

[illegible]

7. EXPERT'S QUALIFICATION AND CONSENT

( ) [illegible]

( ) [illegible]

( ) C [illegible] 26 [illegible] C [illegible], 28 [illegible]

( ) [illegible] C [illegible]

10. DOCUMENTS AVAILABLE FOR INSPECTION

C [illegible]

KB

KINGBOARD CHEMICAL HOLDINGS LIMITED

建滔化工集團*

(Incorporated in the Cayman Islands with limited liability)

(stock code: 148)

NOTICE IS HEREBY GIVEN
C (C) 5 , B
C , 2-12 A
8 2006 9:30
:

THAT A
A A C (
C 21 2006)
THAT C

B B
Kingboard Chemical Holdings Limited
Lo Ka Leong
Company Secretary

, 21 2006

* *For identification purpose only*

Head Office and
Principal Place of Business in Hong Kong
5 [illegible], B [illegible]
[illegible] C [illegible]
2 12 A [illegible]

Notes:

1. A [illegible] C [illegible] A [illegible] C [illegible]

2. [illegible] C [illegible] ([illegible] –), [illegible] / / [illegible] C [illegible]

3. [illegible] ([illegible]) [illegible] C [illegible] 26 [illegible] C [illegible], 28 [illegible] 48 [illegible] 24 [illegible]

4. [illegible]

5. A [illegible] C [illegible]. C [illegible], C [illegible], C [illegible], C [illegible], C [illegible], C [illegible]