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**KINGBOARD CHEMICAL**



\* For identification purpose only

## 1. EXTENSION OF THE LICENCE AGREEMENT

- 1.1 **Extension of Licence Agreement.** The Board wishes to update shareholders of the Company that the Licence Agreement is due to expire on 31 August 2013. As stated in the Company's financial statement and dividend announcement for the period ended 30 June 2013, the management of the Company (the "Management") has been considering a number of possible options on the expiry of the existing Licence Agreement, including, but not limited to, the extension of the Licence Agreement with an independent third party.

The Board is of the view that (i) it will be difficult for the Company to be able to obtain a new mandate from shareholders of the Company ("Shareholders") to enable the Company and its subsidiaries (the "Group") to enter into interested person transactions ("IPT") with Kingboard Chemical Holdings Limited ("KCHL"), the ultimate holding company of the Company, and its associates (as defined in the listing manual of the Singapore Exchange Securities Trading Limited (the "Listing Manual")) (collectively, the "Interested Parties"), in light of the on-going litigation with Annuity & Re Life and (ii) an extension of the Licence Agreement either with Harvest Resource or the entry into a similar licensing arrangement with a new independent third party would be the most appropriate interim measure for the Company to ensure that a steady stream of income is received by the Group (the "Proposed Licensing Arrangement").

In addition to the Proposed Licensing Arrangement, the Board will continue to actively consider the appropriate actions that need to be taken in order to address the non-approval of the renewal of the IPT mandate, including opportunities to diversify the Company's business. In this regard, the Board is considering expanding the production capacity of the Company's polyvinyl butyral resin manufacturing business.

- 1.2 **Proposed Tender Process.** In anticipation of the expiry of the Licence Agreement, the Company initiated a tender process to invite potential licensees to submit bid documents for the licence to use the factory premises (the "Premises"), inventory and machinery (collectively, the "Assets") of Fogang Kingboard Industry Ltd. and Kingboard (Lianzhou) Copper Foil Ltd. for the period from 1 September 2013 to 31 August 2015.

Mr. Lam Ka Po, who is the Chairman of the Company, identified five potential licensees, including Harvest Resource, based on his extensive business network and industry knowledge, having been in the electronics industry for over 20 years; and entered into preliminary discussions with these potential licensees regarding, inter alia, their interest in entering into the Proposed Licensing Arrangement with the Company. Pursuant to these discussions, the Company received bid documents (issued by the Licensor) from the five potential licensees.



2.2 **Deposit**. The deposit of HKD20,000,000 (the “**Deposit**”) which was paid previously by the Licensee at the entry of the Licence Agreement will continue to be retained by the Licensor for the duration of the Licence Period, free of any interest to the Licensee, to ensure the Licensee’s due performance and observance of the extended Licence Agreement.

In the event of any breach or non-observance or non-performance by the Licensee of any of the agreements, stipulations or conditions mentioned in the Licence Agreement, the Licensor shall be entitled to terminate the Licence Agreement in which event the Deposit may be forfeited by the Licensor.

Unless the Deposit is forfeited as described in the paragraph above or as described in paragraph 2.3 below in accordance with the terms of the Licence Agreement, the Licensor will repay the Licensee the Deposit (or the balance thereafter after deduction which the Licensor is entitled to make) without any interest thereon.

2.3 **Termination**. Within the first 12 months of the Licence Period, either the Licensor or the Licensee may terminate the Licence Agreement at its sole discretion, by serving on the other party not less than one month prior notice in writing and paying the other party HKD1,000,000 or such other amount as may be mutually agreed in writing between the parties. After the expiration of the first 12 months of the Licence Period, the Licensor may terminate the Licence Agreement, at its sole discretion, by serving on the Licensee not less than one month prior notice in writing.

Both the Licensor and the Licensee agree that, at any point in time, if:

- (i) the Licence Fee or any part thereof is not paid for 14 days after becoming due (whether it has been formally demanded or not);
- (ii) there shall be a material breach of the agreements by the Licensee in the Licence Agreement;
- (iii) the Licensee shall become bankrupt or go into liquidation, as the case may

2.4 **Secondment of Employees.** The Company will continue to second all employees of the Company (excluding key members of the Management) (the “Employees”) to Harvest Resource to reduce the operational costs of the Company as the wages of the Employees would then be paid by Harvest Resource. In terms of payment arrangements, Harvest Resource will first transfer an amount equivalent to the salaries otherwise payable to the Employees to the Company on a monthly basis by a specified date, after which, the Company will then pay the Employees.

2.5 **Reserve Deposit.** In the event Harvest Resource defaults on its monthly payments to the Company, the Company is entitled to terminate the Licence Agreement under the Licence Agreement and forfeit the Deposit.

### 3. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN THE LICENCE AGREEMENT

3.1 **Directors and Controlling Shareholders’ Interest.** None of the directors and controlling shareholders of the Company have any interest, direct or indirect, in the Licence Agreement.

3.2 **Relationship with Harvest Resource.** The directors and controlling shareholders of the Company do not have, directly or indirectly, any relationship with Harvest Resource, its directors and/or its shareholders.

By Order of the Board

L. K. P.  
Chairman

30 August 2013”

By Order of the board of directors  
K. C. H. L.  
L. K. L.  
Company Secretary

By Order of the board of directors  
K. L. H. L.  
K. L.  
Company Secretary

Hong Kong, 30 August 2013

*As at the date of this announcement, the board of directors of Kingboard Chemical Holdings Limited consists of Messrs. Cheung Kwok Wing, Chang Wing Yiu, Cheung Kwong Kwan, Ho Yin Sang, Cheung Wai Lin, Stephanie, Mok Cham Hung, Chadwick and Chen Maosheng, being the executive directors, Mr. Chan Wing Kwan, being the non-executive director and Messrs. Lai Chung Wing, Robert, Cheng Wai Chee, Christopher, Tse Kam Hung and Tang King Shing, being the independent non-executive directors.*

*As at the date of this announcement, the board of directors of Kingboard Laminates Holdings Limited consists of Messrs. Cheung Kwok Wa, Cheung Kwok Keung, Cheung Kwok Ping, Lam Ka Po, Cheung Ka Ho, Liu Min and Zhou Pei Feng, being the executive directors, Mr. Lo Ka Leong, being the non-executive director, and Messrs. Chan Yue Kwong, Michael, Leung Tai Chiu, Mok Yiu Keung, Peter and Ip Shu Kwan, Stephen, being the independent non-executive directors.*