

Interim Report 2006

KB 建滔化工集團

KINGBOARD CHEMICAL HOLDINGS LIMITED

Stock Code: 148

RESULTS

The Board of Directors 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 2006 together with the comparative figures for the corresponding period in 2005 as follows:

Condensed Consolidated Income Statement

		Six months ended 30 June	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	*(Unaudited)*
Revenue	*2*	**7,464,958**	5,954,028
Cost of sales		**(5,475,385)**	(4,515,982)
Gross profit		**1,989,573**	1,438,046
Other operating income		**29,152**	29,316
Distribution costs		**(215,039)**	(154,793)
Administrative costs		**(365,795)**	(337,555)
Release of discount on acquisition of additional interest in a subsidiary		**1,498**	–
Finance costs		**(149,639)**	(129,009)
Share of results of jointly controlled entities		**(2,503)**	(4,065)
Profit before tax		**1,287,247**	841,940
Income tax expense	*4*	**(105,533)**	(55,899)
Profit for the period		**1,181,714**	786,041
Attributable to:			
Equity holders of the parent		**1,068,807**	688,299
Minority interests		**112,907**	97,742
		1,181,714	786,041
Interim dividend	*5*	**157,113**	94,149
Earo24.24	4		

Kingboard

Condensed Consolidated Balance Sheet

	Notes	30 June 2006 HK$'000 (Unaudited)	31 December 2005 HK$'000 (Audited)
Non-current assets			
Investment properties		**39,830**	33,057
Other properties, plant and equipment	7	**9,077,315**	8,690,274
Prepaid lease payments		**372,868**	351,374
Goodwill		**1,708,975**	1,659,354
Investment in an associate		**188,137**	188,137
Available-for-sale investments		**181,184**	121,281
Derivative financial instruments		**24,606**	60,697
Interests in jointly controlled entities		**14,606**	17,109
Non-current deposits		**418,256**	250,978
Intangible assets		**2,490**	1,778
Deferred tax assets		**10,235**	11,606
		12,038,502	11,385,645
Current assets			
Inventories		**2,169,460**	1,785,809
Trade and other receivables and prepayments	8	**5,306,308**	4,894,221
Prepaid lease payments		**9,320**	7,669
Derivative financial instruments		**93,019**	56,496
Taxation recoverable		**3,083**	4,054
Bank balances and cash		**1,617,224**	1,226,928
		9,198,414	7,975,177
Current liabilities			
Trade and other payables	9	**2,692,052**	2,355,179
Bills payable		**358,622**	409,311
Taxation payable		**200,893**	121,656
Bank borrowings		**2,337,444**	2,231,728

Consolidated Statement of Changes in Equity

Balance at 31 December 2004	71,948	2,324,661	-	897	(791)	10,594	3,466	-	-	3,168	3,091,121	5,505,064	1,638,440	7,143,504
Net loss for the year	-	-	-	-	-	-	-	(89,795)	(41,465)	-	-	(131,260)	-	(131,260)
Balance at 1 January 2005	71,948	2,324,661	-	897	(791)	10,594	3,466	(89,795)	(41,465)	3,168	3,091,121	5,373,804	1,638,440	7,012,244
Exchange differences arising on translation of foreign operations not recognised in the income statement	-	-	-	-	-	-	-	206,988	-	-	-	206,988	-	206,988
Exchange differences arising on translation of foreign operations recognised in the income statement	-	-	-	-	-	-	-	-	16,602	-	-	16,602	-	16,602
Cash flow hedges: effective portion of changes in fair value	-	-	-	-	-	-	-	-	14,531	-	-	14,531	-	14,531
Net income recognised directly in equity	-	-	-	-	-	-	-	-	-	124,211	-	124,211	24,016	148,227
Issue of shares	4,000	886,000	-	-	-	-	-	-	-	-	-	890,000	-	890,000
Issue of shares upon exercise of warrants	1,999	397,817	-	-	-	-	-	-	-	-	-	399,816	-	399,816
Issue of shares upon exercise of share options	530	19,292	-	-	-	-	-	-	-	-	-	19,822	-	19,822
Share issue expenses	-	(10,891)	-	-	-	-	-	-	-	-	-	(10,891)	-	(10,891)
Equity settled share-based transactions	-	-	3,047	-	-	-	-	-	-	-	-	3,047	-	3,047
Profit for the year	-	-	-	-	-	-	-	-	-	-	1,435,809	1,435,809	213,023	1,648,832
Dividends paid in respect of 31 December 2004	-	-	-	-	-	-	-	-	-	-	(144,376)	(144,376)	-	(144,376)
Dividends paid in respect of 31 December 2005	-	-	-	-	-	-	-	-	-	-	(94,149)	(94,149)	-	(94,149)
Acquisition of minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(407,127)	(407,127)
Capital contribution from minority interests	-	-	-	-	-	-	-	-	-	-	-	-	30,266	30,266
Dividends paid to minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(87,089)	(87,089)
Balance at 31 December 2005	78,477	3,616,879	3,047	897	(791)	10,594	3,466	117,193	(10,332)	127,379	4,288,405	8,235,214	1,411,529	9,646,743

	Attributable to equity holders of the parent													
	Share capital *HK$'000*	Share premium *HK$'000*	Share option reserve *HK$'000*	Capital redemption reserve *HK$'000*	Goodwill reserve *HK$'000*	Special surplus account *HK$'000*	Statutory reserve *HK$'000*	Hedging reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
Decrease in fair value changes of derivatives under cash flow hedge	–	–	–	–	–	–	–	(5,660)	–	–	–	(5,660)	–	(5,660)
Increase in fair value changes of available-for-sale investments	–	–	–	–	–	–	–	–	18,588	–	–	18,588	–	18,588
Investment revaluation reserve released on disposal of available-for-sale investments	–	–	–	–	–	–	–	–	(3,014)	–	–	(3,014)	–	(3,014)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	–	99,927	–	99,927	38,855	138,782
Issue of new shares from exercise of warrants	69	13,721	–	–	–	–	–	–	–	–	–	13,790	–	13,790
Recognition of equity-settled share based payments	–	–	3,431	–	–	–	–	–	–	–	–	3,431	–	3,431
Profit for the period	–	–	–	–	–	–	–	–	–	–	1,068,807	1,068,807	112,907	1,181,714
Final dividend for the year														

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Net cash generated from operating activities	**1,388,412**	820,942
Net cash used in investing activities	**(1,042,117)**	(1,546,334)
Net cash (used in)/generated from financing activities	**(40,887)**	796,856
Net increase in cash and cash equivalents	**305,408**	71,464
Cash and cash equivalents at beginning of the period	**1,226,928**	839,790
Cash and cash equivalents at end of the period	**1,532,336**	911,254
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,617,224**	1,049,495
Bank overdrafts	**(84,888)**	(138,241)
	1,532,336	911,254

Notes:

1. Basis of preparation and principal accounting policies

The unaudited interim results of the Group have been prepared in compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA and on a basis consistent with the principal accounting policies adopted in the report and accounts for the year ended 31 December 2005, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs (collectively referred to as the "New HKFRSs"), which have become effective for accounting periods beginning on or after 1 January 2006. The applicable New HKFRSs adopted in this interim financial report are set out below.

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendment)	Financial guarantee contracts
HKFRS-Int 4	Determining whether an arrangement contains a lease

The adoption of the above New HKFRSs did not result in substantial changes to the Group's consolidated balance sheet and consolidated income statement.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Group has commenced considering the potential impact of these new HKFRSs. The management anticipates the application of these new HKFRSs will have no material impact on how its results of operations and financial position are prepared and presented.

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 Economics[2]
HK(IFRIC)-INT 8	Scope of HKFRS 2[3]
HK(IFRIC)-INT 9	Reassessment of embedded derivatives[4]

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 June5y4F3 SegReas(Finafecmyperine5y4FD)Tj/1.8286d. 4

4. Income tax expense

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
The amount comprises:		
Hong Kong Profits Tax	**1,156**	28,029
Taxation in other jurisdictions	**116,384**	35,725
	117,540	63,754
Deferred taxation		
Credit for the period	**(12,007)**	(7,855)
	105,533	55,899

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

5. Interim dividend

The Directors have resolved to declare an interim dividend for the six months ended 30 June 2006 of HK20.0 cents (2005: HK12.0 cents) per share to the shareholders whose names appear on the register of members of the Company on Friday, 20 October 2006. The dividend warrants will be dispatched on Friday, 27 October 2006.

6. Earnings per share

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

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Earnings for the purposes of calculating basic and diluted earnings per share	**1,068,807**	688,299

	Number of shares	
	30 June 2006	30 June 2005
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**784,978,763**	720,140,294
Effect of dilutive potential ordinary shares relating to:		
– outstanding share options	**30,431,573**	34,677,353
– outstanding warrants	**4,403,675**	5,008,568
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**819,814,011**	759,826,215

10. 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 board of directors of the Company 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, any of such 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 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 of Hong Kong Limited (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.

At 30 June 2006, the number of the Company's shares in respect of which options had been granted and remained outstanding under the Scheme was 36,522,000, representing approximately 4.6% 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 the Company's directors	Granted to the Company's employees	Total
Balance at 31 December 2005 and at 30 June 2006	29,280,800	7,241,200	36,522,000

Fair value of share options

The fair value of services received in return for share options granted under 2002 Scheme are measured by reference to the fair value of share options granted under the 2002 Scheme. The estimate of the fair value of the services received is measured based on a trinomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used for the share options granted on 24 June 2005 and 29 September 2005 respectively (the "24 June 2005 Grant" and "29 September 2005 Grant", respectively):

	24 June 2005 Grant	29 September 2005 Grant
Expected dividend yield (%)	7.5	7.5
Expected volatility (%)	25.40	21.15
Risk-free interest rate (%)	3.69	4.24
Expected life of options (years)	5	5
Subscription price (US$)	2.033*	2.375*
Share price at date of grant (US$)	2.53	2.95

* *The subscription prices reflected here are after adjustment made to effect the bonus issue of shares on the basis of one (1) bonus share for every five (5) ordinary shares held in the capital of EEIC on 13 October 2005.*

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The estimated fair value of the options granted on 24 June 2005 and 29 September 2005 are HK$16,896,000 and HK$291,000 respectively of which HK$3,431,000 was charged to the consolidated income statement for the six months ended 30 June 2006.

11. Warrants

At an extraordinary general meeting of the Company held on 30 September 2004, a bonus issue of warrants to the shareholders of the Company ("Warrants"), in the proportion of one Warrant for every ten shares held in the share capital of the Company, was proposed and approved. Consequently, 65,447,638 Warrants were issued, conferring rights to the holders of the Warrants until 31 December 2006 to subscribe for up to an aggregate of 65,447,638 Shares at an initial subscription price of HK$20 per Company's share, representing an aggregate subscription price of HK$1,308,952,760.

During the period, 689,436 new shares of the Company were issued on exercise of the Warrants. Exercise in full of the remaining outstanding Warrants would, under the present capital structure, result in receipt by the Company of HK$895,348,440 in subscription monies and the issue of 44,767,422 new shares of the Company.

12. Commitments

	30 June 2006 *HK$'000*	31 December 2005 *HK$'000*
Capital expenditure contracted for but not provided in the financial statements for the acquisition of properties, plant and equipment	**387,277**	193,479
Capital expenditure authorised but not contracted for	**–**	3,327
	387,277	196,806

13. Post balance sheet event

As disclosed by the Company in its announcement dated 21 July 2006 (the "Spin-off Announcement"), an application for the separate listing of the laminates and laminates related business of the Group (including

Financial highlights

- Turnover posted strong growth of 25% to HK$7,465 million
- Pre-tax profit margin increased to 17.2%
- Profit attributable to equity holders of the parent rose 55% to HK$1,069 million
- Return on equity stood at 24.5% (annualized)
- Interim dividend per share up 67% to HK20.0 cents

The Group has capitalized fully on the market upcycle. We marked the debut in the reporting period with increased turnover and net profit, higher shipment volume, and a larger customer base. The Group recorded 25% increase in turnover to HK$7,465 million and profit attributable to equity holders of the parent also grew by 55% to HK$1,069 million.

Performance

In the last six months, the Group continued to gain market share in both paper and glass epoxy laminate businesses. The laminate division has chalked up commendable revenue and operating profit growth for the reporting period. Revenue for the laminate division grew by 42% to HK$3,716 million, while earnings before interest & tax ("EBIT") rose even higher by 62% to HK$925 million

LIQUIDITY AND CAPITAL RESOURCES

The financial position of the Group remained healthy. As at 30 June 2006, net current assets and current ratio of the Group were approximately HK$3,609.4 million (31 December 2005: HK$2,857.3 million) and 1.65 (31 December 2005: 1.56), respectively.

Net working capital cycle increased from 103 days as at 31 December 2005 to 107 days as at 30 June 2006 on the following key metrics:

– Inventories, in terms of stock turnover days, increased slightly to 72 days as a result of more feedstock in the pipeline to satisfy increasing customer demand (31 December 2005: 66 days). However, finished goods stayed low at 8 days

– Trade receivables, in terms of debtors turnover days, improved to 98 days (31 December 2005: 106 days)

– Trade and bills payables, in terms of creditors turnover days, decreased to 63 days (31 December 2005: 69 days)

The Group's ratio of interest bearing borrowings net of cash to total equity ("net gearing ratio") reduced by 6% to 52% (31 December 2005: 58%) and would further decrease to 46% excluding bank borrowings of EEIC on non-recourse basis. In the first half of 2006, the Group had invested approximately HK$1 billion in new production equipments to pave the way for future growth.

The proportion of bank borrowings between short term and long term bank borrowings stood at 32%: 68% (31 December 2005: 33%: 67%). Approximately 1% of the bank borrowings were denominated in Renminbi and the rest in Hong Kong or US dollars. The Group continued to adopt prudent financial management policies which included the possibility of using interest rate swap contracts to hedge against the rising interest rates. As at 30 June 2006, approximately 57% of the Group's borrowings were hedged with interest rate swap contracts for a weighted average duration of 1.2 years.

There is no material foreign exchange exposure to the Group during the six-month period. The Group's revenue, mostly dominated in Hong Kong dollars, Renminbi and US dollars, was fairly matched with the currency requirements of operating expenses.

To capitalize on the laminate industry upcycle, the Group will continue to add new manufacturing facilities in China. Our new glass epoxy laminate production line in Fogang, Guangdong province and paper laminate production line in Kunshan, Jiangsu province are expected to commence operation in the second half of 2006. The construction of a new glass epoxy laminate factory in Jiangyin, Jiangsu province is currently underway. All of these new investments will be translated into around 20% growth of production capacity by mid-2007.

Shipments as well as the prevailing order inflows for PCB continue to show strong momentum. The Group would undertake continued review of its operating landscape and essential rationalization in order to lay a solid foundation for sustainable future growth. The cooperation and alliance of different PCB shops of the Group, among others, will continue to be our primary focus. The Group strives to tap on the PCB market growth opportunities with new investments in the production of more quality PCB at competitive prices. Based on the current progress an additional monthly production capacity of 1.7 million square feet will become operational by mid-2007.

The Group is expanding and strengthening its chemical division. The construction of the methanol plant by our joint venture with CNOOC's chemical division in Hainan province is on schedule and trial production has commenced. Another new epoxy resin plant in Jiangyin, Jiangsu province will be set up by the end of 2006, while the methanol plant in Chongqing and the phenol and acetone plant in Huizhou, Guangdong province shall commence operation in year 2007. In addition with our experience in the coke-based methanol production in Hebei province, we have recently commenced a couple of joint venture projects of converting coke gas into methanol in Shanxi province. With all these new manufacturing facilities coming on stream, the Group is well poised to seize growth opportunities in the chemical division that will achieve greater value to the Group.

We have recently announced intention and certain initial information to seek a separate listing of our laminate business. While the proposed spin-off is still under a preliminary stage with no fixed timetable, we shall certainly conduct the exercise in the best interest of all our shareholders.

HUMAN RESOURCES

As at 30 June 2006, the Group had a global staff force of over 42,000 (31 December 2005: 37,600). The increase in the number of headcounts was in line with our ongoing expansion blueprint. Other than offering competitive salary package, share options and discretionary bonuses are also granted to eligible employees based on the Group's financial achievement and individual's performance.

APPRECIATION

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

Kingboard

SUBSTANTIAL SHAREHOLDERS

At 30 June 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of directors,

Kingboard