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KINGBOARD CHEMICAL HOLDINGS LIMITED

2001
Interim Report

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 September, 2001 together with the comparative figures for the corresponding period in 2000 as follows:-

Consolidated Income Statement

	Notes	Six months ended 30 September, (Unaudited)	
		2001 HK\$'000	2000 HK\$'000
Turnover	2	1,206,881	1,205,355
Cost of sales		(891,637)	(832,968)
Gross profit		315,244	372,387
Other revenue		10,794	8,031
Distribution costs		(19,402)	(23,365)
Administrative costs		(61,580)	(71,708)
Profit from operations		245,056	285,345
Finance costs		(19,699)	(21,434)
Profit before taxation		225,357	263,911
Taxation	4	(13,503)	(23,086)
Profit before minority interests		211,854	240,825
Minority interests		(27,486)	(34,983)
Net profit attributable to shareholders		<u>184,368</u>	<u>205,842</u>
Interim dividend	5	<u>(16,526)</u>	<u>(18,883)</u>
Earnings per share	6		
Basic		<u>39.0 cents</u>	<u>43.6 cents</u>
Diluted		<u>38.9 cents</u>	<u>43.5 cents</u>

There were no recognised gain or loss other than the net profit for the period ended 30 September 2001 and 2000.

Consolidated Balance Sheet

	<i>Notes</i>	30 September, 2001 HK\$'000 (Unaudited)	31 March, 2001 HK\$'000 (Audited and restated)
Non-current assets			
Investment properties		30,620	30,620
Other properties, plant and equipment	7	1,916,860	1,767,948
Investment securities		158,502	147,094
Non-current deposits		30,556	38,424
		<u>2,136,538</u>	<u>1,984,086</u>
Current assets			
Inventories		606,780	515,057
Trade and other receivables and prepayments	8	863,701	727,864
Bank balances and cash		392,274	520,187
		<u>1,862,755</u>	<u>1,763,108</u>
Current liabilities			
Trade and other payables	9	210,757	258,364
Bills payable		276,266	270,928
Taxation		60,025	46,783
Obligations under finance leases and hire purchase contracts – amount due within one year		19,406	30,821
Bank borrowings – amount due within one year		581,940	616,253
		<u>1,148,394</u>	<u>1,223,149</u>
Net current assets		<u>714,361</u>	<u>539,959</u>
Total assets less current liabilities		<u>2,850,899</u>	<u>2,524,045</u>
Capital and reserves			
Share capital	10	47,218	47,218
Reserves	12	1,715,421	1,547,579
Proposed dividend		16,526	33,052
		<u>1,779,165</u>	<u>1,627,849</u>
Minority interests		<u>434,801</u>	<u>416,803</u>
Non-current liabilities			
Deferred taxation		27,080	27,080
Obligations under finance leases and hire purchase contracts – amount due after one year		1,380	13,224
Bank borrowings – amount due after one year		608,473	439,089
		<u>636,933</u>	<u>479,393</u>
		<u>2,850,899</u>	<u>2,524,045</u>

Condensed Consolidated Cash Flow Statement

	Six months ended	
	30 September	
	2001	2000
	HK\$'000	HK\$'000
Net cash inflow from operating activities	62,911	267,622
Net cash outflow from returns on investments and servicing of finance	(59,793)	(42,007)
Net taxation paid	(261)	(2,424)
Net cash outflow from investing activities	(243,583)	(424,272)
Net cash outflow before financing	(240,726)	(201,081)
Net cash inflow from financing	73,313	54,878
Decrease in cash and cash equivalents	(167,413)	(146,203)
Cash and cash equivalents at 1 April	498,629	474,425
Cash and cash equivalents at 30 September	<u>331,216</u>	<u>328,222</u>
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	392,274	400,632
Trust receipt loans	(61,058)	(72,410)
	<u>331,216</u>	<u>328,222</u>

Notes:

1. Basis of Preparation and Principal Accounting Policies

The unaudited interim results of the Group have been prepared in compliance with Statements of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA"), and on a basis consistent with the accounting policies adopted in the report and accounts for the year ended 31 March 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the HKSA which are effective for the accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 30:	Business combinations

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

(a) *SSAP 9 (revised): Events after the balance sheet date*

In accordance with SSAP 9 (revised) "Events after the balance sheet date", it specifies that dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, and should be disclosed as a separate component of equity. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. The effect of this change is to result in an increase in shareholders' equity of HK\$28,325,000 at 31 March 2000 and HK\$33,052,000 at 31 March 2001.

(b) *SSAP 30: Business combinations*

Goodwill represents the excess of the purchase consideration over the fair value of the Group's share of the net assets of the acquired subsidiary / associated company at the date of acquisition. The Group has adopted SSAP 30 and has elected not to restate goodwill or negative goodwill previously written off or credited directly to reserves. Goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary / associated company, or at such time as impairment losses are identified. Negative goodwill arising on acquisitions prior to 1 April 2001 will be credited to income statement at the time of disposal of the relevant subsidiary / associated company.

Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1 April 2001 is presented as a deduction from assets and will be released to income statement based on an analysis of the circumstances from which the balance resulted.

2. Segmental Information

Over 90% of the Group's turnover and profit from operations are derived from the People's Republic of China, including Hong Kong. An analysis of the Group's turnover and profit from operations by activity for the period ended 30 September, 2001 is as follows:

	Turnover		Profit from Operations	
	Six months ended 30 September, (Unaudited)		Six months ended 30 September, (Unaudited)	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Sales of laminates	968,855	973,027	221,347	233,375
Sales of specialty chemicals	155,476	128,752	11,695	19,764
Others	82,550	103,576	12,014	32,206
	<u>1,206,881</u>	<u>1,205,355</u>	<u>245,056</u>	<u>285,345</u>

3. Depreciation

During the period, depreciation and amortisation of HK\$90.2 million (2000 : HK\$63.9 million) was charged in respect of the Group's other properties, plant and equipment.

4. Taxation

	Six months ended 30 September, (Unaudited)	
	2001 HK\$'000	2000 HK\$'000
The taxation charges comprise:		
Hong Kong Profits Tax	9,291	17,963
Overseas taxation	4,212	5,123
	<u>13,503</u>	<u>23,086</u>

Hong Kong Profits Tax is calculated at 16% (2000: 16%) on the estimated assessable profits of the Group for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdiction.

5. Interim Dividend

The Directors have resolved to declare an interim dividend for the six months ended 30 September, 2001 of HK3.5 cents (2000: HK4.0 cents) per share to the shareholders whose names appear on the register of members of the Company on 18 January 2002. The dividend warrants will be despatched on 30 January 2002.

6. Earnings Per Share

The calculation of basic and diluted earnings per share is based on the following data:

	2001 HK\$'000	2000 HK\$'000
Earnings for the purposes of calculating basic and diluted earnings per share	<u>184,368</u>	<u>205,842</u>
	Number of shares 2001	2000
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	472,177,448	472,077,448
Effect of dilutive potential ordinary shares from share options	<u>1,935,545</u>	<u>1,530,230</u>
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>474,112,993</u>	<u>473,607,678</u>

The computation of diluted earnings per share for the six months ended 30 September 2001 does not assume the exercise of the Company's outstanding warrants as the exercise price was higher than the fair value per share for that period.

7. Additions to Other Properties, Plant and Equipment

During the period, the Group spent approximately HK\$240.3 million (2000 : HK\$385.3 million) on acquisition of other properties, plant and equipment.

8. Trade and Other Receivables and Prepayments

Included in trade and other receivables and prepayments is a trade receivables balance of HK\$785,294,000 (31 March 2001:HK\$660,502,000). The Group allows credit periods of up to 120 days, depending on the product sold, to its trade customers. The ageing analysis of trade receivables is as follows:

	0-90 days HK\$'000	91-180 days HK\$'000	Over 180 days HK\$'000	Total HK\$'000
Balance at 30 September 2001 (Unaudited)	<u>564,806</u>	<u>200,703</u>	<u>19,785</u>	<u>785,294</u>
Balance at 31 March 2001 (Audited)	<u>496,545</u>	<u>152,406</u>	<u>11,551</u>	<u>660,502</u>

9. Trade and Other Payables

Included in trade and other payables is a trade payables balance of HK\$140,903,000 (31 March 2001: HK\$140,857,000). The ageing analysis of trade payables is as follows:

	0-90 days HK\$'000	91-180 days HK\$'000	Over 180 days HK\$'000	Total HK\$'000
Balance at 30 September 2001 (Unaudited)	<u>105,967</u>	<u>18,238</u>	<u>16,698</u>	<u>140,903</u>
Balance at 31 March 2001 (Audited)	<u>111,574</u>	<u>11,514</u>	<u>17,769</u>	<u>140,857</u>

10. Share Capital

	Number of Shares (thousands)	Share Capital HK\$'000	Share Premium HK\$'000	Total HK\$'000
Balance at 30 September 2001	<u>472,177</u>	<u>47,218</u>	<u>390,400</u>	<u>437,618</u>
Balance at 31 March 2001	<u>472,177</u>	<u>47,218</u>	<u>390,400</u>	<u>437,618</u>

11. Share Options

Under the Company's amended share option scheme, the terms of which are set out in the circular dated 24 April 1998 issued by the Company, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company at a price equal to the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the Company's shares quoted on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the options. The options are exercisable over a period of ten years commencing six months after the date on which they have been accepted. Details of share options granted by the Company pursuant to the share option scheme of the Company and the share options outstanding at 30 September 2001 are as follows:

Date of grant	Subscription price per share	At 1 April 2001 and 30 September 2001
20 January 2000	HK\$2.256	4,338,000

12. Movement of Reserves

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Goodwill reserve HK\$'000	Special surplus account HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2000 as previously reported	390,363	897	(137)	10,594	(1,484)	791,220	1,191,453
Effect of adopting SSAP 9 (Revised)	-	-	-	-	-	28,325	28,325
At 1 April 2000 as restated	390,363	897	(137)	10,594	(1,484)	819,545	1,219,778
2000 final dividend paid	-	-	-	-	-	(28,325)	(28,325)
Premium arising on exercise of a share option	37	-	-	-	-	-	37
Goodwill arising on acquisition of additional interest in a subsidiary	-	-	(654)	-	-	-	(654)
Profit for the year	-	-	-	-	-	408,682	408,682
2001 interim dividend paid	-	-	-	-	-	(18,887)	(18,887)
Reserves	390,400	897	(791)	10,594	(1,484)	1,147,963	1,547,579
Proposed dividend	-	-	-	-	-	33,052	33,052
At 31 March 2001	<u>390,400</u>	<u>897</u>	<u>(791)</u>	<u>10,594</u>	<u>(1,484)</u>	<u>1,181,015</u>	<u>1,580,631</u>
At 1 April 2001 as previously reported	390,400	897	(791)	10,594	(1,484)	1,147,963	1,547,579
Effect of adopting SSAP 9 (Revised)	-	-	-	-	-	33,052	33,052
At 1 April 2001 as restated	390,400	897	(791)	10,594	(1,484)	1,181,015	1,580,631
2001 final dividend paid	-	-	-	-	-	(33,052)	(33,052)
Profit for the period	-	-	-	-	-	184,368	184,368
Reserves	390,400	897	(791)	10,594	(1,484)	1,315,805	1,715,421
Proposed dividend	-	-	-	-	-	16,526	16,526
At 30 September 2001	<u>390,400</u>	<u>897</u>	<u>(791)</u>	<u>10,594</u>	<u>(1,484)</u>	<u>1,332,331</u>	<u>1,731,947</u>

The special surplus account of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate of the nominal amount of the issued share capital of the subsidiaries which were acquired by the Company under the group reorganisation in 1993 and the nominal amount of the deferred shares of a subsidiary, Kingboard Laminates Limited.

13. Capital Commitments

	30 September 2001	31 March 2001
	HK\$'000	HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment		
Contracted but not provided for	<u>92,639</u>	<u>304,105</u>

14. Contingent Liabilities

During the period under review, the Group continued to take legal action against customers to recover overdue trade receivables. With regard to the three customers which were particularly referred to in previous year's financial statements, and which collectively owe approximately HK\$12 million to the Group, it is the intention of the directors that the Group will continue vigorously to pursue the recovery of the outstanding trade receivables and to defend against the counter-claims, amounting to approximately HK\$9 million, which have been lodged by the delinquent customers.

BUSINESS REVIEW

It is my pleasure to report that the Group, despite the tough business environment in the global electronics industry, was able to achieve steady performance in the last six months. This period remained very busy for us; we were strengthening operations on all fronts and pursuing new opportunities within our core business. Relative to the laminate industry, our results clearly stood out and fell in line with my previous chairman's report.

Financial Summary

- Turnover advanced marginally to HK\$1,206 million
- Pre-tax profit margins dropped but were still managed at a pleasant 18.7%
- Both net profit and basic earnings per share decreased by approximately 10% to HK\$184 million and HK39.0 cents
- Gearing ratio in terms of interest bearing borrowings net of cash to shareholders' funds edged upwards to 46% as at 30 September 2001

Sales

The majority of seasoned participants have described the current downturn in the electronics industry as unprecedented, severe and unforgettable. Our hands-on management promptly and rightly responded to the change at the outset by staying in close touch with customers, ensuring finished goods turning out quickly and tightening cost control. All these coupled with our competitive pricing has enabled us to expand the sales volume of both paper and glass epoxy laminates by around 15% from the corresponding period last year. Hence, although the unit prices of laminates, owing to the prevailing deflationary environment in the electronics industry, declined 15-20%, turnover for the first half was able to hold well.

Profitability

The price declines of major raw materials and increased vertical integration mainly through running the new paper mill plant at full capacity helped reduce the production costs. Meanwhile, in response to the price pressure we quickly adopted a few cost control measures. They included scaling down the compensation of our senior management, actively re-constructing the borrowings profile to reduce interest expenses, effectively increasing production volume with similar headcount, and closely scrutinizing all operating expenses. As a result pre-tax profit margins contracted only three percentage points against the background of the significant decline in selling prices, depreciation charges up 41% and rigidity in certain fixed costs such as electricity charges.

Markets

The markets performed differently in the first half. Overseas sales expressed as a percentage of total turnover were only 9% compared with 15% in the second half of FY2001. All overseas countries except Korea, Thailand and India showed weakened orders. However, our overseas marketing team continued to work closely with local distributors to enhance customer service, participate in the industry's major exhibitions and cultivate new customers. These commitments and hard work, we are convinced, will bear fruits once these markets recover. On the other hand, demand in China was relatively firm. Foreign manufacturers continued to set up new printed circuit board (PCB) production facilities in the country. Domestic consumption for basic consumer electronics such as television sets was growing. Being the largest, lowest cost laminate manufacturer with fully fledged marketing teams located in Beijing, Shanghai, Fujian, Shenzhen, Jiangmen and Hong Kong, the Group was able to increase our share in China, at present the most promising market in the globe, and hence to bring about double-digit sales volume growth.

Capacity Expansion

As discussed in my previous chairman's report, the Group believes sensible investments amidst a downturn normally provide the best returns. In the last six months a glass epoxy laminate production line each in Kunshan and Jiangmen was set up. The former started trial production in June and the latter in September. Each line has the initial capacity of 200k sheets per month with the flexibility to reach 300k sheets. Also the second and third stages of Phase III at the copper foil plant were completed, increasing the Group's copper foil production capacity by 33% to 1,600 tones. In addition the glass fabric plant was equipped with more weaving machines, capable of producing 8 million meters per month. With all these new facilities the Group is now in an excellent position to capture any rebound in the industry.

Chemicals

The chemical division posed steady performance. Both formalin and hydrogen peroxide plants had been operated at full speed in the last six months. Sales of chemical products were up 20% from the corresponding period last year. However profit contributions decreased as selling prices dropped more than the costs of feedstock.

Forbes Best 200

We are delighted that for the second consecutive year the Group was selected one of the world's best 200 small enterprises by Forbes in October.

PROSPECTS

No one argues that the application of electronics will increase in the 21st century. The question on the recovery of demand for PCBs, in turn laminates, is not whether but when it will happen. In addition, China's entry into the World Trade Organization will attract more investments in PCB production facilities, facilitating the country to have the world's highest growth of demand for laminates. We believe the progress we have made in the last six months and will continue to do so is hardly rivaled in the industry. We are adding capacity in China to serve more customers, shifting product mix to multi-layer applications to reach untapped segments, and increasing vertical integration to expand margins. In addition the Group has an all rounded, seasoned management team. We have adequate resources and are prudently looking for the opportunities of acquisition to enhance the Group's growth.

In the chemical division, our recently completed epoxy resin plant in Nansha of Guangzhou with an annual capacity of 25,000 tones has started to serve the Group's internal demand with profits since October. Epoxy resin is not only a key material for producing glass epoxy laminates, it also has wide applications in the semiconductor packaging, cohesive materials, coating, insulation and construction industries. With an expansion plan in the pipeline, we target to start selling epoxy resin to third parties near term. Adjacent to the plant will be a 50,000 tone-petrochemical port, one of the largest of its kind in Southern China. The port is under construction and will be used mainly for handling the transportation of the Group's chemical materials. In addition we are in the process of taking over a couple of formalin plants in Guangdong. Once completed we will be able to double the share of the formalin market to around 70% in the local province.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2001, net current assets and current ratio of the Group were approximately HK\$714 million and 1.62:1 (March 2001 - 1.44:1) respectively. Inventories rose 18% to HK\$606 million, as we increased the carrying levels of raw materials including copper and glass yarn. Finished goods, accounting for 33% of inventories, were equivalent to less than one month sales and remained at the level as of March 31, 2001.

Trade receivables, in terms of debtors turnover days, were 118 days compared with 100 days six months ago. We have been closely monitoring and controlling the receivables level. The granting of longer credit periods was to enhance our competitiveness and reduce the price pressure. The quality of trade debtors remained sound.

Trade and bills payables, in terms of creditors turnover day, were down marginally to 85 days from 90 days six months ago. We are currently working hard to negotiate with our suppliers for extending the credit period.

Although the ratio of interest bearing borrowings net of cash to shareholders funds was 46.0% (March 2001 - 35.6%), the balance between short term and long term borrowings significantly improved to 49:51 (March 2001 - 59:41). The Group continues to adopt prudent financial management practice and, in the prevailing low interest rate environment, actively employs interest rate hedging instruments for long-term bank borrowings. The increase in borrowings was mainly to finance increased inventories and trade receivables. Hence the reduction of raw material inventories and extension of suppliers' credit period should readily provide room for the adjustment of the Group's borrowings.

APPRECIATION

On behalf of the board of directors, I would like to take this opportunity to express gratitude to our shareholders, customers, banks and hardworking workforce for their support in this challenging business environment.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 14 January 2002 to 18 January 2002 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, 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, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration not later than 4:00 p.m. on 11 January 2002.

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 September, 2001, the interests of the directors in the share capital of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 or Part I of Schedule of the SDI Ordinance), or which are required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies established by the Hong Kong Stock Exchange, to be notified to the Company and the Hong Kong Stock Exchange, are as follows:

Name of Director	Number of shares held	
	Personal interest	Other interest
Mr. Cheung Kwok Wing	10,063,000	see note
Mr. Chan Wing Kwan	4,824,000	see note
Mr. Lam Ka Po	647,500	see note
Mr. Lum Gum Wun	1,662,000	see note
Mr. Cheung Kwong Kwan	611,000	see note
Mr. Cheung Kwok Wa	5,978,000	see note
Mr. Cheung Kwok Ping	2,636,000	see note
Mr. Cheung Kwok Keung	529,000	see note
Mr. Chang Wing Yiu	305,000	see note
Mr. Lau Tai Chim	150,000	–

Note: 206,784,000 Shares were registered in the name of Hallgain Management Limited, a company owned as to 22% by Mr. Cheung Kwok Wing, 15% by Mr. Chan Wing Kwan, 5.5% by Mr. Lam Ka Po, 10% by Mr. Lum Gum Wun, 8% by Mr. Cheung Kwong Kwan, 10% by Mr. Cheung Kwok Wa, 9% by Mr. Cheung Kwok Ping, 5.5% by Mr. Cheung Kwok Keung and 5% by Mr. Chang Wing Yiu.

Save as disclosed above and other than certain nominee shares in subsidiaries held in trust for the Group, none of the directors, chief executives, and their associates had any other interests in the securities of the Company or any other associated corporations as defined in the SDI Ordinance as at 30 September, 2001.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of directors, the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at 30 September, 2001.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the six months ended 30 September, 2001, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities on The Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financials.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not or was not for any part of the accounting period in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board
Cheung Kwok Wing
Chairman

Hong Kong, 6 December, 2001