



建滔化工集團

Kingboard Chemical Holdings Limited

2003

Interim Report

For the six months ended
30 June 2003

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 2003 as follows:

Following the change of the financial year end date of the Company from 31 March to 31 December as announced by the Company on 28 June 2002, the results for the current period cover a period of six months from 1 January 2003 to 30 June 2003. The comparative amounts shown for the condensed consolidated income statement and related notes cover a period of six months from 1 April 2002 to 30 September 2002 and therefore may not be comparable with the amounts shown for the current period.

Condensed Consolidated Income Statement

	Notes	1.1.2003 to 30.6.2003 HK\$'000 (Unaudited)	1.4.2002 to 30.9.2002 HK\$'000 (Unaudited)
Turnover	2	1,853,813	1,706,118
Cost of sales		(1,476,331)	(1,294,090)
Gross profit		377,482	412,028
Other operating income	3	8,071	34,433
Distribution costs		(46,313)	(54,275)
Administrative costs		(92,127)	(86,304)
Amortisation of goodwill		(7,238)	(7,204)
Release of negative goodwill to income		5,708	–
Profit from operations		245,583	298,678
Finance costs		(27,927)	(26,165)
Loss on deemed disposal of partial interest in a subsidiary		–	(21,187)
Profit before taxation		217,656	251,326
Taxation	5	(10,286)	(16,499)
Profit before minority interests		207,370	234,827
Minority interests		(20,727)	(33,825)
Net profit for the period attributable to shareholders		<u>186,643</u>	<u>201,002</u>
Interim dividend	6	<u>30,611</u>	<u>21,546</u>
Earnings per share	7		
Basic		<u>33.9 cents</u>	<u>37.4 cents</u>
Diluted		<u>32.4 cents</u>	<u>36.8 cents</u>

Condensed Consolidated Balance Sheet

	Notes	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited)
Non-current assets			
Investment properties		30,485	30,485
Other properties, plant and equipment	8	3,137,314	2,845,630
Goodwill		122,970	130,208
Negative goodwill		(8,618)	(14,189)
Other non-current assets		491,268	370,038
		<u>3,773,419</u>	<u>3,362,172</u>
Current assets			
Inventories		729,095	621,750
Trade and other receivables and prepayments	9	1,360,325	1,243,307
Taxation recoverable		777	156
Bank balances and cash		523,213	442,281
		<u>2,613,410</u>	<u>2,307,494</u>
Current liabilities			
Trade and other payables	10	634,077	543,724
Bills payable		301,431	235,618
Dividend payable		–	21,546
Taxation payable		50,931	58,544
Bank borrowings – amount due within one year		417,108	507,433
		<u>1,403,547</u>	<u>1,366,865</u>
Net current assets		<u>1,209,863</u>	<u>940,629</u>
Total assets less current liabilities		<u>4,983,282</u>	<u>4,302,801</u>
Capital and reserves			
Share capital		61,223	53,865
Reserves		3,034,420	2,440,148
		<u>3,095,643</u>	<u>2,494,013</u>
Minority interests		<u>635,248</u>	<u>629,353</u>
Non-current liabilities			
Deferred taxation		31,606	31,606
Bank borrowings – amount due after one year		1,220,785	1,147,829
		<u>1,252,391</u>	<u>1,179,435</u>
		<u>4,983,282</u>	<u>4,302,801</u>

Condensed Consolidated Statement of Changes in Equity

	Share capital	Share redemption premium	Capital reserve	Goodwill reserve	Special surplus account	Translation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2002	53,670	706,388	897	(791)	10,594	(1,484)	1,470,380	2,239,654
Issue of new shares on exercise of warrants	195	11,150	-	-	-	-	-	11,345
Exchange differences on translation of overseas operations not recognized in the consolidated income statement	-	-	-	-	-	6,364	-	6,364
Profit for the period	-	-	-	-	-	-	301,288	301,288
Final dividend for the year ended 31 March 2002	-	-	-	-	-	-	(43,092)	(43,092)
Interim dividend for the period ended 31 December 2002	-	-	-	-	-	-	(21,546)	(21,546)
Balance at 31 December 2002	53,865	717,538	897	(791)	10,594	4,880	1,707,030	2,494,013
Balance at 1 January 2003	53,865	717,538	897	(791)	10,594	4,880	1,707,030	2,494,013
Issue of new shares								
– from share subscription	6,000	384,000	-	-	-	-	-	390,000
– on exercise of warrants	828	47,169	-	-	-	-	-	47,997
– on exercise of share options	530	19,292	-	-	-	-	-	19,822
Expenses incurred in connection with issue of new shares	-	(10,187)	-	-	-	-	-	(10,187)
Exchange differences on translation of overseas operations not recognized in the consolidated income statement	-	-	-	-	-	80	-	80
Profit for the period	-	-	-	-	-	-	186,643	186,643
Final dividend for the period ended 31 December 2002	-	-	-	-	-	-	(32,725)	(32,725)
Balance at 30 June 2003	61,223	1,157,812	897	(791)	10,594	4,960	1,860,948	3,095,643

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.

Condensed Consolidated Cash Flow Statement

	1.1.2003 to 30.6.2003 HK\$'000 (Unaudited)	1.4.2002 to 30.9.2002 HK\$'000 (Unaudited)
Net cash inflow from operating activities	309,679	309,870
Net cash outflow from investing activities	(562,349)	(365,234)
Net cash inflow from financing	333,602	109,479
Increase in cash and cash equivalents	80,932	54,115
Cash and cash equivalents at beginning of the period	442,281	455,934
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u>523,213</u>	<u>510,049</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 nine months period ended 31 December 2002 except that the Group has changed its accounting policies following its adoption of the revised SSAP No. 12 (revised) "Income Taxes" ("SSAP 12 (Revised)") issued by the HKSA which is effective for the accounting period commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods.

2. Segmental information

For management purposes, the Group is organised into four operating divisions – laminates, printed circuit boards, chemicals and others.

	Laminates	Printed circuit boards	Chemicals	Others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 June 2003						
Segment revenue						
External sales	1,072,472	412,087	308,103	61,151	-	1,853,813
Inter-segment sales	82,062	-	177,156	-	(259,218)	-
Total	1,154,534	412,087	485,259	61,151	(259,218)	1,853,813
Result						
Segment result	163,906	32,518	39,061	7,070	-	242,555
Amortisation of goodwill	-	(7,238)	-	-	-	(7,238)
Release of negative goodwill to income	5,708	-	-	-	-	5,708
Unallocated corporate income						6,080
Unallocated corporate expenses						(1,522)
Profit from operations						245,583
Finance costs						(27,927)
Profit before taxation						217,656
Taxation						(10,286)
Profit before minority interests						207,370
Minority interests						(20,727)
Profit for the period						186,643

Inter-segment sales are charged by reference to market prices.

	Laminates HK\$'000	Printed circuit boards HK\$'000	Chemicals HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Six months ended 30 September 2002						
Segment revenue						
External sales	1,031,348	433,943	215,453	25,374	-	1,706,118
Inter-segment sales	60,243	-	142,728	-	(202,971)	-
Total	<u>1,091,591</u>	<u>433,943</u>	<u>358,181</u>	<u>25,374</u>	<u>(202,971)</u>	<u>1,706,118</u>
Result						
Segment result	172,449	60,609	44,479	2,018	-	279,555
Amortisation of goodwill	-	(7,204)	-	-	-	(7,204)
Unallocated corporate income						28,346
Unallocated corporate expenses						(2,019)
Profit from operations						298,678
Finance costs						(26,165)
Loss on deemed disposal of partial interest in a subsidiary						(21,187)
Profit before taxation						251,326
Taxation						(16,499)
Profit before minority interests						234,827
Minority interests						(33,825)
Profit for the period						<u>201,002</u>

Inter-segment sales are charged by reference to market prices.

The analysis of the Group's turnover and profit from operations by geographical market is as follows:

	Turnover		Profit from operations	
	1.1.2003 to 30.6.2003 HK\$'000 (Unaudited)	1.4.2002 to 30.9.2002 HK\$'000 (Unaudited)	1.1.2003 to 30.6.2003 HK\$'000 (Unaudited)	1.4.2002 to 30.9.2002 HK\$'000 (Unaudited)
The People's Republic of China	1,548,982	1,292,807	215,519	242,501
Other Asian countries	204,436	309,829	19,458	41,689
America	24,822	32,123	2,957	4,896
Europe	75,573	71,359	7,649	9,592
	<u>1,853,813</u>	<u>1,706,118</u>	<u>245,583</u>	<u>298,678</u>

3. Other operating income

For the six months ended 30 September 2002, other operating income mainly comprised gain on disposal of investment securities of HK\$25,045,000.

4. Depreciation

During the period, depreciation and amortisation of HK\$154.9 million (1.4.2002 to 30.9.2002: HK\$129.8 million) was charged in respect of the Group's other properties, plant and equipment.

5. Taxation

	1.1.2003 to 30.6.2003 HK\$'000 (Unaudited)	1.4.2002 to 30.9.2002 HK\$'000 (Unaudited)
The taxation charges comprise:		
Hong Kong Profits Tax	5,707	11,208
Overseas taxation	4,579	5,291
	<u>10,286</u>	<u>16,499</u>

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profits of the Group for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

6. Interim dividend

The Directors have resolved to declare an interim dividend for the six months ended 30 June 2003 of HK5.0 cents (1.4.2002 to 30.9.2002: HK4.0 cents) per share to the shareholders whose names appear on the register of members of the Company on 8 October 2003. The dividend warrants will be despatched on 15 October 2003.

7. Earnings per share

The calculations of basic and diluted earnings per share are based on the following data:

	1.1.2003 to 30.6.2003	1.4.2002 to 30.9.2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings for the purposes of calculating basic and diluted earnings per share	<u>186,643</u>	<u>201,002</u>
	Number of shares	
	30.6.2003	30.9.2002
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	549,858,838	537,929,719
Effect of dilutive potential ordinary shares relating to:		
– outstanding share options	22,475,330	–
– outstanding warrants	<u>3,929,416</u>	<u>7,646,104</u>
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>576,263,584</u>	<u>545,575,823</u>

In computing the diluted earnings per share, the effect of dilutive potential ordinary shares relating to the put options granted by the Group to certain minority shareholders of a subsidiary has been disregarded as it would not be dilutive.

8. Additions to other properties, plant and equipment

During the period, the Group spent approximately HK\$451.1 million (1.4.2002 to 31.12.2002: HK\$685.2 million) on acquisition of other properties, plant and equipment.

9. Trade and other receivables and prepayments

Included in trade and other receivables and prepayments is a trade receivables balance of HK\$1,217,272,000 (31 December 2002: HK\$1,116,149,000). 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	91-180 days	Over 180 days	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 30 June 2003 (Unaudited)	<u>856,744</u>	<u>310,773</u>	<u>49,755</u>	<u>1,217,272</u>
Balance at 31 December 2002 (Audited)	<u>807,250</u>	<u>262,427</u>	<u>46,472</u>	<u>1,116,149</u>

10. Trade and other payables

Included in trade and other payables is a trade payables balance of HK\$383,803,000 (31 December 2002: HK\$304,126,000). The ageing analysis of trade payables is as follows:

	0-90 days <i>HK\$'000</i>	91-180 days <i>HK\$'000</i>	Over 180 days <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 30 June 2003 (Unaudited)	<u>314,671</u>	<u>44,919</u>	<u>24,213</u>	<u>383,803</u>
Balance at 31 December 2002 (Audited)	<u>253,236</u>	<u>39,787</u>	<u>11,103</u>	<u>304,126</u>

11. Share options

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 grant options as an incentive 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, the average of the closing prices of the Company's shares quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of grant of the options and the closing price of the Company's shares quoted on the Stock Exchange immediately preceding the date of 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 for 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 maximum number of shares in respect of which options may be granted under the Scheme together with shares previously issued pursuant to options exercised under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 30% of the maximum number of shares in respect of which options may be granted under the Scheme.

A summary of the movements of the share options for the period is as follows:

	Granted to directors	Granted to employees	Total
Balance at 31 December 2002 (<i>note (a)</i>)	42,400,000	10,600,000	53,000,000
Exercised during the period (<i>note (b)</i>)	<u>(4,490,000)</u>	<u>(810,000)</u>	<u>(5,300,000)</u>
Balance at 30 June 2003	<u>37,910,000</u>	<u>9,790,000</u>	<u>47,700,000</u>

Notes:

- (a) On 11 October 2002, options to subscribe for 53,000,000 shares in the Company at HK\$3.74 per share were granted to eligible employees. These options are exercisable over a period from 15 October 2002 to 2 July 2012.
- (b) On 12 June 2003, options to subscribe for 5,300,000 shares in the Company at HK\$3.74 per share were exercised. The average of the closing price of the Company's shares quoted on the Stock Exchange on the five trading days immediately before 12 June 2003 was HK\$6.65.

12. Commitments

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements for the acquisition of property, plant and equipment	201,572	122,403
Capital expenditure authorised but not contracted for the acquisition of property, plant and equipment	659,693	659,693
	<u>861,265</u>	<u>782,096</u>

In connection with the Group's acquisition of a majority equity stake in Techwise Circuits Company Limited ("Techwise"), the Group has granted put options to two of the minority shareholders. Under the put options, the Group can be required to purchase all (but not part only) of the remaining 33% shareholding held by these two minority shareholders. If such options were exercised, the Group's holding in Techwise would increase from 57% to 90%. The options are exercisable at any time during a period of one year commencing on 10 January 2004. The consideration payable by the Group upon exercise of the put options will be determined with reference to the higher of the price/earning ratio of Techwise and its subsidiaries of the 12-month period immediately preceding the month in which the notice of exercising the options is served at 4.5 times, and the valuation of HK\$417,500,000 (HK\$417,500,000 being the valuation used by the Group in its acquisition of interest in Techwise during the year). The consideration may be satisfied, at the option of the Group, either by way of cash or shares in the Company, or mixture of both. If shares of the Company were to be issued in satisfaction of the consideration, the value of the Company's shares will be determined by reference to the weighted average price of the Company's shares for the 20 trading days immediately following the date of exercise of the options.

13. 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 years' 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.

14. Post balance sheet event

The Board of Directors of the Company announced on 29 August 2003 that Able Capital Investments Limited ("Able Capital"), a wholly owned subsidiary of the Company, intended to make a voluntary conditional cash offer (i) to acquire all the shares of HK\$0.10 each (the "Suwa Share(s)") in the issued share capital of Suwa International Holdings Limited ("Suwa") (other than those already owned by Able Capital or parties acting in concert with it) (the "Share Offer"); and (ii) for the cancellation of an aggregate of 18,050,000 outstanding options ("Suwa Option(s)") granted by Suwa under the former share option scheme adopted by Suwa on 18 February 2000 ("Option Offer"). The offer price for each Suwa Share under Share Offer is HK\$0.45 in cash, and for each Suwa Option is HK0.001 cent in cash.

The Share Offer and Option Offer are subject to conditions which include, among others, valid acceptance under the Share Offer in respect of Suwa Shares, which together with the Suwa Shares held by Able Capital and parties acting in concert with it, constitute more than 50% of the entire issued share capital of Suwa as of the first closing date of the Share Offer and Option Offer.

For the details of the Share Offer and Option Offer, please refer to the announcement dated 29 August 2003 of the Company.

BUSINESS REVIEW

I am glad to report to our shareholders that the Group posted respectable performance amidst a few challenges, as discussed in the following sections, occurred in the six months period to 30 June 2003. As we changed the financial year end from March to December last year, the comparatives which covered the six months ended 30 September 2002 did not reflect the traditional reduction in manufacturing outputs during the Chinese New Year festival but contained higher sales in the seasonally strong quarter ended September.

Financial Summary

- Revenue reached HK\$1.85 billion, a record high for the Group's sales in a six month period
- Pre-tax margins were down to around 12% owing mostly to the seasonality and two other temporarily adverse factors i.e. increased material costs and start up losses of new printed circuit board plants
- Net profit was steady at around HK\$187 million, but return on equity was diluted to around 13% (annualized) following the equity issuance of HK\$380 million in May 2003
- Gearing ratio in terms of interest bearing borrowings net of cash to shareholders' funds improved to around 36%
- Interim dividend per share jumped 25% to HK5.0 cents

Performance

The period was somewhat volatile and challenging to us. On the macro front, the electronics industry, although most participants were convinced that the cyclical bottom was passed through, did not show many signs of sustained rebound. In addition the Iraq war followed by SARS outbreak did not help the industry's recovery either. Fortunately they did not have any material impact on the Group's operations other than causing some brief delays in the progress of our expansion.

In the laminate segment our significant competitiveness continued to enable us to have consistent gains in the market share for both paper and glass epoxy laminates. Hence despite the lack of a strong demand recovery, we were able to achieve around 20% growth of volume sales over the corresponding six months period ended 30 June 2002. The surge in the costs, on the average of 15-20%, of raw materials including copper, pulp and chemical products, had exerted heavy pressure on the laminate's EBIT (earnings before interest and tax) margin. However we once again were able to successfully contain the adverse conditions with a 2-3% modest increase of laminate prices in March, further increased economies of scale, strategic locating of new production to the low cost area and the successful introduction of value-added drilling services. The EBIT margin, as a result, fell marginally to around 14%.

The chemicals segment not only kept providing a reliable supply for internal consumption, but also managed building a strong franchise in the market with over 300 customers. External sales of formalin and hydrogen peroxide were up by around 30% by volume from the corresponding six months period last year and, in dollar terms, represented around 63% of the chemicals output. However EBIT margin was also adversely impacted by increased material costs, down to around 8% from over 10% a year ago. In particular methanol, the major raw material for both formalin and hydrogen peroxide, had its price up over 40% on a year on year basis.

The printed circuit board segment achieved volume growth exceeding 20%. Unit selling price decline was about 5% but started to slow down in the period under review. EBIT margin was also hit by the increased costs of materials including laminates and chemicals as well as start up losses incurred in the new production plants. These plants were completed in late 2002, and the progress of their ramping up was slightly affected as customers were unwilling to travel to China for plant visit during the outbreak of SARS. Excluding the start up losses EBIT margin was sustained at a healthy level above 10%.

LIQUIDITY AND CAPITAL RESOURCES

The financial position of the Group remained healthy. As at 30 June 2003, net current assets and current ratio of the Group were approximately HK\$1,209 million (31 December 2002 – HK\$940 million) and 1.86 (31 December 2002 – 1.69) respectively.

The net working capital cycle had improved from 132 days (31 December 2002) to 125 days with the breakdowns as follows:

- Inventories, in terms of stock turnover days, stayed nearly flat at 90 days (31 December 2002 – 89 days)
- Trade receivables, in terms of debtors turnover days, remained at 120 days (31 December 2002 – 120 days)
- Trade and bills payables, in terms of creditors turnover days, increased to 85 days (31 December 2002 – 77 days)

In May 2003, we received net proceeds of approximately HK\$380 million on the issuance of 60 million new shares to institutional investors. As a result, the ratio of interest bearing borrowings net of cash to shareholders' funds improved to 36% (31 December 2002 – 49%). The mix of borrowings continued to shift in favor of long-term biased funding. The balance between short term and long term bank borrowings was 25%:75% (31 December 2002 – 31%:69%). Approximately 19% of the bank borrowings was denominated in Renminbi which has reduced to below 15% following repayments post the period end. The Group adopts a prudent financial management policy including the use of interest rate hedging instruments to minimize the impact of interest rate movements. As at 30 June 2003, approximately 20% of the bank borrowings was hedged with forward interest rate contracts.

The Group had no material exposure to foreign exchange fluctuations. The Group's revenue mostly dominated in Hong Kong dollars, Renminbi and US dollars was fairly matched with the currency requirements of operating expenses.

HUMAN RESOURCES

As at the end of June 2003, the Group had around 9,800 employees (December 2002 – 8,900) of whom around 70 were based in Hong Kong offices and the rest in the production plants at twenty locations in China. The increase in headcount was in line with our expanded manufacturing activity levels. The Group remains committed to offer competitive remuneration together with discretionary bonuses and share options to employees with outstanding performance.

PROSPECTS

We are fully committed to investing for the Group's future. We believe our core competence in all three segments i.e. laminates, printed circuit boards and chemicals provides our shareholders with an extremely attractive growth and return potential long term. By coordinating the right product mix among them, we will be able to generate significant synergies and offer a unique product range to our customers. At the moment of writing this report, not only we are about to celebrate the 10th anniversary of the Group's listing on The Stock Exchange of Hong Kong Limited, but more importantly I am pleased to tell you the electronics industry is showing an encouraging rebound. Although the lack of order visibility beyond a couple of months prevents me from making a sales growth projection into next year, the current quarter is seeing strong demand for laminates and printed circuit boards. The laminate order book for the next couple of months is exceeding our capacity and unit prices are on the uptrend. Hence we are in the process of increasing the monthly capacity by over 20% to around 6 million square meters by the middle of 2004, a production capacity being unparallel in the industry. The new production facilities will be mostly located in the northern Guangdong province, commanding a more competitive cost base.

In the printed circuit board segment all plants are also fully utilized. We are prepared to install more production lines in the new plants should demand be proven sustainable. Anyway most of our eyes are now on a conditional offer recently made by the Group to acquire Suwa International. It has a good reputation of production capability and possesses a solid customer list for its board products for mobile handsets. This acquisition, if successful, will fill in our existing gap for the telecom market and become a significant step forward in our strategy roadmap.

In the chemical segment, we are developing capabilities for producing a range of new chemical products. We have recently commenced producing tetrabromobisphenol-A ("TBBA") with an annual capacity of 10,000 tones. All of the TBBA output at the initial stage is fed into the epoxy resin production process. A coal-based methanol plant with an initial capacity of 120,000 tones per annum in the Hebei province is under construction and scheduled to be completed by the end of 2004. The plant is aimed to provide a reliable supply of methanol for our expanding laminate and formalin plants in the eastern China. In addition we have just reached an agreement with Hengyang City People's Government in the Hunan province to acquire a caustic soda plant with an annual capacity of 30,000 tones. Together with the plant's upgrading the acquisition costs around RMB40 million. Most of the caustic soda will be consumed internally as well as sold to our customers of making printed circuit boards.

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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 October 2003 to 8 October 2003 (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 G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 3 October 2003.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2003, save as disclosed below, none of the directors or chief executives of the Company have any interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(A) long positions in shares and underlying shares of the Company

Name of Director	Nature of interest	Number of shares	Number of underlying shares		Approximate percentage of interests (%)
			Listed and physically settled (Note 1)	Unlisted and physically settled (Note 2)	
			Mr. Cheung Kwok Wing	Beneficial owner	2,997,060
Mr. Chan Wing Kwan	Beneficial owner	2,780,600	145,200	4,458,000	1.20
Mr. Lum Gum Wun	Beneficial owner	2,068,400	166,200	-	0.36
Mr. Lam Ka Po	Beneficial owner	379,520	42,000	4,991,000	0.88
Mr. Cheung Kwok Keung	Beneficial owner	936,700	40,000	4,991,000	0.97
Mr. Cheung Kwok Wa	Beneficial owner	2,424,400	687,600	4,740,000	1.28
Mr. Cheung Kwong Kwan	Beneficial owner	549,620	61,100	4,851,000	0.89
Mr. Cheung Kwok Ping	Beneficial owner	1,738,260	308,400	4,795,000	1.11
Mr. Chang Wing Yiu	Beneficial owner	465,700	75,300	5,075,000	0.91
Mr. Mok Cham Hung, Chadwick	Beneficial owner	600,000	-	-	0.09
Mr. Tsao Kwang Yung, Peter	-	-	-	-	-
Mr. Cheng Ming Fun, Paul	-	-	-	-	-
Mr. Lau Tai Chim	Beneficial owner	-	15,000	-	0.002

Notes:

1. The interests are by virtue of warrants held by the directors which entitle the relevant director to subscribe for shares in the Company at a subscription price of HK\$5.80 per share during the period from 3 September 2001 to 31 December 2003.
2. The interests are by virtue of share options granted to directors on 11 October 2002, which entitle the relevant director to subscribe for shares in the Company at an exercise price of HK\$3.74 per share during the period from 15 October 2002 to 2 July 2012.

(B) long positions in shares of associated corporation

Name of director	Nature of interests	Number of shares held <i>(Note)</i>
Mr. Cheung Kwok Wing	Beneficial owner	1,904,400
Mr. Chan Wing Kwan	Beneficial owner	1,481,200
Mr. Lum Gum Wun	Beneficial owner	1,058,000
Mr. Lam Ka Po	Beneficial owner	581,900
Mr. Cheung Kwok Keung	Beneficial owner	529,000
Mr. Cheung Kwok Wa	Beneficial owner	1,058,000
Mr. Cheung Kwong Kwan	Beneficial owner	846,400
Mr. Cheung Kwok Ping	Beneficial owner	952,200
Mr. Chang Wing Yiu	Beneficial owner	423,200

Note: It refers to non-voting deferred shares of HK\$1 each in Kingboard Laminates Limited, a wholly-owned subsidiary of the Company.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following substantial shareholders (other than a director or chief executive of the Company) had interests and short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Number of shares held	Number of underlying shares	Nature of interest	Approximate percentage of interest <i>(%)</i>
Hallgain Management Limited <i>(note 1)</i>	226,881,000	10,314,800	Beneficial owner	38.74
Hallgain Management Limited <i>(note 1)</i>	–	3,064,000	Interest pursuant to section 317(a) and 318 of the SFO	0.50
Chan Pui Hing, Paula	226,881,000	10,314,800	Interest pursuant to section 317(a) and 318 of the SFO	38.74
Chan Pui Hing, Paula	–	3,064,000	Beneficial owner	0.50
The Capital Group Companies, Inc.	67,934,400	4,131,400	Investment manager <i>(note 2)</i>	11.77
Commonwealth Bank of Australia	37,508,000	–	Controlled corporation <i>(note 3)</i>	6.12
FMR Corp	36,952,800	–	Investment manager <i>(note 4)</i>	6.03

Notes:

1. Hallgain Management Limited is owned as to 22% by Mr. Cheung Kwok Wing, 15% by Mr. Chan Wing Kwan, 10% by Mr. Lum Gum Wun, 5.5% by Mr. Lam Ka Po, 5.5% by Mr. Cheung Kwok Keung, 10% by Mr. Cheung Kwok Wa, 8% by Mr. Cheung Kwong Kwan, 9% by Mr. Cheung Kwok Ping and 5% by Mr. Chang Wing Yiu.
2. The interests are indirectly held by The Capital Group Companies, Inc. through its 100%-controlled corporations, namely Capital Research and Management Company and Capital Guardian Trust Company.
3. These interests, which are directly held by Colonial First State Investments Limited, First State (Hong Kong) LLC, First State Investments (Hong Kong) Limited, First State Investments (Singapore), First State Investment Management (UK) Limited and First State Investments International Limited, are indirectly held by Commonwealth Bank of Australia through a chain of 100%-controlled corporations, namely Colonial Ltd, Colonial Holding Company Pty Ltd, Colonial Holding Company (No.2) Pty Limited, The Colonial Mutual Life Assurance Society Ltd, Colonial First State Group Ltd, First State Investment Managers (Asia) Ltd, First State Investments (UK Holdings) Limited, First State Investments (Bermuda) Ltd, First State Investments Holdings (Singapore) Limited and SI Holdings Limited.
4. The interests are indirectly held by FMR Corp through its 100%-controlled corporations, namely Fidelity Management & Research Company and Fidelity Management Trust Company.

INTERESTS OF OTHER PERSONS

Save as disclosed under the paragraph headed "Interests of Substantial Shareholders", no other persons whose interests are recorded in the register required to be kept under section 336 of the SFO as of 30 June 2003.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the six months period ended 30 June 2003, 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, 15 September 2003