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建滔化工集團

Kingboard Chemical Holdings Limited



2004 Interim Report

For the six months ended
30 June 2004

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 2004 together with the comparative figures for the corresponding period in 2003 as follows:–

Condensed Consolidated Income Statement

		Six months ended 30 June	
	<i>Notes</i>	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	2	3,059,573	1,853,813
Cost of sales		(2,160,655)	(1,476,331)
Gross profit		898,918	377,482
Other operating income		11,701	8,071
Distribution costs		(83,154)	(46,313)
Administrative costs		(172,445)	(92,127)
Amortisation of goodwill		(7,846)	(7,238)
Release of negative goodwill to income		2,865	5,708
Profit from operations		650,039	245,583
Finance costs		(31,742)	(27,927)
Share of results of jointly controlled entities		(155)	–
Profit before taxation		618,142	217,656
Taxation	4	(37,509)	(10,286)
Profit before minority interests		580,633	207,370
Minority interests		(35,128)	(20,727)
Net profit for the period attributable to shareholders		<u>545,505</u>	<u>186,643</u>
Interim dividend	5	<u>64,884</u>	<u>30,611</u>
Earnings per share	6		
Basic		<u>84.1 cents</u>	<u>33.9 cents</u>
Diluted		<u>79.8 cents</u>	<u>32.4 cents</u>

Condensed Consolidated Balance Sheet

	<i>Notes</i>	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
Non-current assets			
Investment properties		37,140	37,140
Other properties, plant and equipment	7	4,387,475	3,617,746
Goodwill		108,512	115,749
Negative goodwill		–	(2,837)
Investment in an associate		188,137	93,885
Interests in jointly controlled entities		32,383	33,027
Other non-current assets		940,273	595,872
		5,693,920	4,490,582
Current assets			
Inventories		844,823	657,012
Trade and other receivables and prepayments	8	2,328,102	1,889,898
Taxation recoverable		69	2,124
Bank balances and cash		606,268	585,661
		3,779,262	3,134,695
Current liabilities			
Trade and other payables	9	972,225	835,954
Bills payable		575,314	271,261
Taxation payable		107,980	79,027
Bank borrowings – amount due within one year		723,974	535,354
		2,379,493	1,721,596
Net current assets		1,399,769	1,413,099
Total assets less current liabilities		7,093,689	5,903,681
Capital and reserves			
Share capital		64,860	64,859
Reserves		3,980,936	3,489,796
		4,045,796	3,554,655
Minority interests		685,847	648,815
Non-current liabilities			
Deferred taxation		21,643	24,498
Bank borrowings – amount due after one year		2,340,403	1,675,713
		2,362,046	1,700,211
		7,093,689	5,903,681

Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Capital redemption 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 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
– from exercise of warrants	4,464	254,458	–	–	–	–	–	258,922
– from exercise of share options	530	19,292	–	–	–	–	–	19,822
Expenses incurred in connection with issue of new shares	–	(10,402)	–	–	–	–	–	(10,402)
Exchange differences on translation of overseas operations not recognized in the consolidated income statement	–	–	–	–	–	(6,534)	–	(6,534)
Profit for the year	–	–	–	–	–	–	472,366	472,366
Final dividend for the period ended 31 December 2002	–	–	–	–	–	–	(32,725)	(32,725)
Interim dividend for the year ended 31 December 2003	–	–	–	–	–	–	(30,807)	(30,807)
Balance at 31 December 2003	64,859	1,364,886	897	(791)	10,594	(1,654)	2,115,864	3,554,655
Issue of new shares from exercise of warrants	1	28	–	–	–	–	–	29
Exchange differences on translation of overseas operations not recognized in the consolidated income statement	–	–	–	–	–	10,467	–	10,467
Profit for the period	–	–	–	–	–	–	545,505	545,505
Final dividend for the year ended 31 December 2003	–	–	–	–	–	–	(64,860)	(64,860)
Balance at 30 June 2004	64,860	1,364,914	897	(791)	10,594	8,813	2,596,509	4,045,796

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's reorganisation in 1993 and the nominal amount of the deferred shares of a wholly-owned subsidiary, Kingboard Laminates Limited.

Condensed Consolidated Cash Flow Statement

	Six months ended	
	30 June	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	658,088	309,679
Net cash used in investing activities	(1,396,904)	(562,349)
Net cash generated from financing activities	759,423	333,602
Net increase in cash and cash equivalents	20,607	80,932
Cash and cash equivalents at beginning of the period	585,661	442,281
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u>606,268</u>	<u>523,213</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 December 2003.

2. Segmental information

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

	Laminates HK\$'000	Printed circuit boards HK\$'000	Chemicals HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2004						
Segment revenue						
External sales	1,826,639	688,048	443,582	101,304	-	3,059,573
Inter-segment sales	186,612	-	274,049	-	(460,661)	-
Total	<u>2,013,251</u>	<u>688,048</u>	<u>717,631</u>	<u>101,304</u>	<u>(460,661)</u>	<u>3,059,573</u>
Result						
Segment result	522,240	52,277	59,463	12,274	-	646,254
Amortisation of goodwill	-	(7,238)	-	(608)	-	(7,846)
Release of negative goodwill to income	2,865	-	-	-	-	2,865
Unallocated corporate income						9,636
Unallocated corporate expenses						(870)
Profit from operations						650,039
Finance costs						(31,742)
Share of results of jointly controlled entities						(155)
Profit before taxation						618,142
Taxation						(37,509)
Profit before minority interests						580,633
Minority interests						(35,128)
Profit for the period						<u>545,505</u>

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 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	<u>1,154,534</u>	<u>412,087</u>	<u>485,259</u>	<u>61,151</u>	<u>(259,218)</u>	<u>1,853,813</u>
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						<u>186,643</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 Six months ended 30 June		Profit from operations Six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
The People's Republic of China	2,563,579	1,548,982	586,751	215,519
Other Asian countries	345,168	204,436	35,720	19,458
America	45,220	24,822	7,721	2,957
Europe	105,606	75,573	19,847	7,649
	<u>3,059,573</u>	<u>1,853,813</u>	<u>650,039</u>	<u>245,583</u>

3. Depreciation

During the period, depreciation and amortisation of HK\$195.1 million (1.1.2003 to 30.6.2003: HK\$154.9 million) was charged in respect of the Group's other properties, plant and equipment.

4. Taxation

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The taxation charges comprise:		
Hong Kong Profits Tax	20,700	5,707
Taxation in other jurisdictions	17,684	4,579
	38,384	10,286
Deferred taxation		
Credit for the period	(875)	–
	37,509	10,286

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profits of the Group for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

5. Interim dividend

The Directors have resolved to declare an interim dividend for the six months ended 30 June 2004 of HK10.0 cents (2003: HK5.0 cents) per share to the shareholders whose names appear on the register of members of the Company on 17 September 2004. The dividend warrants will be dispatched on 21 September 2004.

6. Earnings per share

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

	Six months ended	
	30 June	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings for the purposes of calculating basic and diluted earnings per share	<u>545,505</u>	<u>186,643</u>
	Number of shares	
	30 June 2004	30 June 2003
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	648,598,381	549,858,838
Effect of dilutive potential ordinary shares relating to:		
– outstanding share options	34,721,345	22,475,330
– outstanding warrants	<u>–</u>	<u>3,929,416</u>
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>683,319,726</u>	<u>576,263,584</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.

7. Additions to other properties, plant and equipment

During the period, the Group spent approximately HK\$970 million (1.1.2003 to 31.12.2003: HK\$1,123.3 million) on acquisition of other properties, plant and equipment.

8. Trade and other receivables and prepayments

Included in trade and other receivables and prepayments are trade receivables of HK\$2,001,019,000 (31 December 2003: HK\$1,672,913,000). 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 2004 (Unaudited)	<u>1,508,602</u>	<u>426,215</u>	<u>66,202</u>	<u>2,001,019</u>
Balance at 31 December 2003 (Audited)	<u>1,197,828</u>	<u>416,961</u>	<u>58,124</u>	<u>1,672,913</u>

9. Trade and other payables

Included in trade and other payables are trade payables of HK\$537,027,000 (31 December 2003: HK\$498,522,000). 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 2004 (Unaudited)	<u>404,897</u>	<u>93,968</u>	<u>38,162</u>	<u>537,027</u>
Balance at 31 December 2003 (Audited)	<u>384,756</u>	<u>83,243</u>	<u>30,523</u>	<u>498,522</u>

10. 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 2003	37,910,000	9,790,000	47,700,000
Exercised during the period	<u>—</u>	<u>—</u>	<u>—</u>
Balance at 30 June 2004	<u>37,910,000</u>	<u>9,790,000</u>	<u>47,700,000</u>

11. Commitments

	30 June 2004 <i>HK\$'000</i> <i>(Unaudited)</i>	31 December 2003 <i>HK\$'000</i> <i>(Audited)</i>
Capital expenditure contracted for but not provided in the financial statements for the acquisition of properties, plant and equipment	386,082	339,301
Capital expenditure contracted for but not provided in the financial statements in satisfaction of the registered capital requirement of an associate	—	93,885
	<u>386,082</u>	<u>433,186</u>

12. 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.

In February 2004, the Company received a letter from the Hong Kong Inland Revenue Department ("IRD") that the IRD will conduct a tax audit on the operations of the Company and its subsidiaries in relation to its Hong Kong tax affairs for the Years of Assessment 1997/1998 to 2002/2003. In the opinion of the directors of the Company, the outcome of this matter cannot be determined with reasonable certainty at this time.

13. Post balance sheet event

During the year ended 31 March 2002, the Group had acquired a majority equity stake in Techwise Circuits Company Limited ("Techwise") and its subsidiaries ("Techwise Group") and put options had been granted to two of the minority shareholders of Techwise which when exercised, Kingboard Investments Limited ("KBI"), a wholly-owned subsidiary of the Company, will be required to purchase an aggregate of 33% equity interest (all but not part only) in Techwise from these two minority shareholders. These two minority shareholders had exercised the put options on 29 June 2004. As a result, the Company and KBI had entered into sale and purchase agreements with these two minority shareholders for the acquisitions of an aggregate of 33% equity interest in Techwise. The aggregate considerations for the acquisition of the 33% equity interest was HK\$137,775,000, which would be payable by KBI by cheque or cashier's order in two equal instalments on the completion date and on the first anniversary of the completion date. The considerations were determined with reference to the higher of the price/earnings ratio of the Techwise Group of the 12-month period immediately preceding the month in which the service of the notice to exercise the put options at 4.5 times, and the valuation of the Techwise Group at HK\$417,500,000, being the valuation used by the Group in its acquisition of interest in Techwise in the previous year. As the valuation of the Techwise Group at HK\$417,500,000 is the higher value of the above formula, the considerations of the 33% equity interest is calculated based on the percentage of the equity interest to be acquired by KBI multiplied by HK\$417,500,000. The acquisition of the 33% equity interest in Techwise had been completed on 5 July 2004.

BUSINESS REVIEW

As discussed in the FY2003 annual report, the laminate market was showing strong rebound and improvements were also seen in the printed circuit boards and chemicals divisions at the date of my last chairman's report. I am now very pleased to report to our shareholders that in the first six months of 2004 the Group once again achieved strong record turnover and profits for a six month period with increased profitability realized across all three divisions, notably a marked advancement by the laminates. Despite some uncertainties currently prevailed in the world's both economic and political scenes, I am confident that the Group will be able to finish the year 2004 with good results.

Financial summary

- Turnover exceeded HK\$3 billion, up 65%
- Pre-tax profit margins* rebounded to about 20%
- Net profit increased by 192% to around HK\$545 million
- Return on equity* was back to 29% (annualized)
- Gearing ratio, in terms of interest bearing borrowings net of cash to shareholders' funds, increased but was still at a comfortable level of 61%
- Interim dividend per share doubled to HK10.0 cents plus a proposed bonus issue of one warrant for every ten shares

* *excluding goodwill amortisation*

Performance

The broad based recovery in the electronics market, led by strong demand for mobile handsets, computers and digital products, continued its momentum into the first half of 2004. Orders for laminate, a key interconnect component for all electronics products, was as a result extremely robust. As indicated in our 2003 annual report, the industry had insufficient net addition to the electronics application glass yarn capacity in the past few years, causing supply shortage and placing a constraint on the output of the glass epoxy laminate industry during the current uptrend. The Group once again demonstrated the success of our long-term commitments and investments in the vertical integration strategy and was able to take the full advantage of the in-house glass yarn plant. We had successfully ridden on the recovery with a record output of the laminates and the financial returns back to, in our opinion, a healthy level as required to sustain the long-term viability of the laminate business. The volume sales of laminates grew around 30% with the average monthly shipment reaching 5.1 million square meters. With the tight supply balance, laminate price was raised on average 30%. Hence, amidst increased material costs, EBIT margin (earnings before interest and tax) improved to 26% from 14% a year ago.

The printed circuit board division also saw a significant upturn in the order book, in particular multi-layer (i.e. four layers or above) almost doubled in volume. However with a different supply and demand dynamics, the selling price of printed circuit boards increased by a range of 3 – 5%, much more modest when compared with the material cost increases. Nevertheless with the focus on cost reduction and shift to higher layer count boards, we had been able to hold EBIT margin at around 7 – 8%.

The chemical division continued to strengthen its market position in formalin and hydrogen peroxide. We acquired a hydrogen peroxide plant in Gaomi, Shangdong and completed a formalin plant in Changzhou, Jiangsu. This enables us to increase our reach to those customers outside the Guangdong province in which we possess a high local market share. The caustic soda plant in Hengyang, the Hunan province acquired last September was maintained at full utilization throughout the six month period. In addition we had been expanding the production capacity of other chemicals such as epoxy resin and tetrabromobisphenol-A to strengthen the in-house supply for the laminate division. All these were translated in dollar terms of total output into an increase of 48%. EBIT margin was maintained at around 8%.

LIQUIDITY AND CAPITAL RESOURCES

The Group's financial position continued to be healthy. As at 30 June 2004, net current assets and current ratio of the Group were approximately HK\$1,400 million (31 December 2003 – HK\$1,413 million) and 1.59 (31 December 2003 – 1.82) respectively.

The net working capital cycle had improved from 127 days as at 31 December 2003 to 96 days as at 30 June 2004 with the breakdowns as follows:

- Inventories, in terms of stock turnover days, remained almost flat at 71 days (31 December 2003 – 70 days)
- Trade receivables, in terms of debtors turnover days, decreased to 119 days (31 December 2003 – 138 days)
- Trade and bills payables, in terms of creditors turnover days, increased to 94 days (31 December 2003 – 81 days)

In the first half of 2004, the Group continued to make investments in new production facilities with around HK\$970 million across all three divisions. As a result, the ratio of interest bearing borrowings net of cash to shareholders' funds increased but was still at a comfortable level of 61% (31 December 2003 – 46%).

In terms of the mix of borrowings, it remained almost the same as at 31 December 2003. The balance between short term and long term bank borrowings was 24%:76% (31 December 2003 – 24%:76%). Approximately 6% of the bank borrowings was denominated in Renminbi and the rest in Hong Kong dollar. The Group continued to adopt a prudent financial management policy including the use of forward interest rate and foreign exchange hedging instruments to minimize the risk of their fluctuations against our operations. As at 30 June 2004, approximately 75% of the bank borrowings was fixed with three to five year forward interest rate contracts.

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

HUMAN RESOURCES

As at 30 June 2004, the Group's headcount had further increased to around 15,700 (31 December 2003 – 12,700). This was in line with the Group's continuous expansion programmes implemented in the first half of 2004. Among the Group's employees, around 50 were based in Hong Kong and Macau offices while the rest employed in the production plants in the mainland China. In addition to competitive remuneration packages, the Group continues to grant bonuses and share options to eligible employees based on the performance of individual employee as well as the Group.

PROSPECTS

We view the three divisions, particularly in the context of China perspective, offering tremendous opportunities. The Group will at this excellent moment continue to make appropriate investments in facilitating future high growth. The laminate market conditions stay favorable and there is no sign of significant slow down in our order book. With an enhanced market position and expanded capacity established over a down turn of the last three years, more customers are seeing the Group as their main laminate supplier. In order to strengthen our relationship with them and gain access to other potential customers, we are investing in new laminate products with better quality and are on track to increase the monthly laminate capacity by over 40% from a year ago to 6.7 million square meters by the end of 2004. As the printed circuit boards division is running at tight capacity, further expansion is underway with a target for the monthly capacity of double side and above layer count to reach around 2.7 million square feet by the year end. In July we increased our stake in Techwise Circuits from 57% to 90%, facilitating a complete integration with the Group. On the chemicals front, the methanol projects are progressing at full speed while the caustic soda plant with strong performance is in the process of doubling its capacity in early 2005. The construction of a sodium hydrosulphite plant is delayed pending the completion of an environmental evaluation approval by the local authority. Our shareholders are rest assured that the Group is committed and does not hesitate to make any necessary investment in all our production facilities to meet the local environmental protection standards.

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 15 September 2004 to 17 September 2004 (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 14 September 2004.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30 June 2004, the interests of the directors, chief executives and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long position

(a) Ordinary shares of HK\$0.10 each of the Company

Name of director	Number of issued ordinary shares held Interest in underlying shares pursuant to share options (Note)		Beneficial owner	Percentage of the issued share capital of the Company
Mr. Cheung Kwok Wing	4,009,000		2,951,060	0.45%
Mr. Chan Wing Kwan	4,458,000		1,931,400	0.30%
Mr. Lum Gum Wun	–		2,068,400	0.32%
Mr. Lam Ka Po	4,991,000		223,520	0.03%
Mr. Cheung Kwok Keung	4,991,000		826,700	0.13%
Mr. Cheung Kwok Wa	4,740,000		1,630,200	0.25%
Mr. Cheung Kwong Kwan	4,851,000		549,620	0.08%
Mr. Cheung Kwok Ping	4,795,000		1,538,260	0.24%
Mr. Chang Wing Yiu	5,075,000		510,500	0.08%
Mr. Mok Cham Hung, Chadwick	–		600,000	0.09%
Mr. Tsao Kwang Yung, Peter	–		–	–
Mr. Cheng Ming Fun, Paul	–		–	–
Mr. Lau Tai Chim	–		–	–

- (b) *Non-voting deferred shares of HK\$1 each of Kingboard Laminates Limited, a wholly-owned subsidiary of the Company*

Name of director	Capacity	Number of shares held
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:

The interests are by virtue of share options granted to directors on 11 October 2002, which entitle the relevant directors 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.

Other than as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2004.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests disclosed above in respect of directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long position

Ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Notes	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Hallgain Management Limited	(a)	Beneficial owner	234,635,800	36.18%
The Capital Group Companies, Inc.	(b)	Investment manager	67,934,400	10.47%
FMR Corp	(c)	Investment manager	61,376,800	9.46%

Notes:

- (a) 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.
- (b) 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.
- (c) The interests are indirectly held by FMR Corp through its 100% controlled corporations, namely Fidelity Management & Research Company and Fidelity Management Trust Company.

Other than as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 30 June 2004.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the six months period ended 30 June 2004, 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.

PROPOSED BONUS ISSUE OF WARRANTS

The Directors of the Company will recommend a bonus issue of warrants ("2006 Warrants") with a right to subscribe HK\$20.00 in cash for each new share of HK\$0.10 each in the share capital of the Company at an initial subscription price of HK\$20.00 per Share, subject to adjustment, at any time between the date when the dealings in the 2006 Warrants on The Stock Exchange of Hong Kong Limited commence (which is expected to be 7 October 2004) and 31 December 2006 (both days inclusive), to the shareholders of the Company whose names appear on the register of members of the Company on 30 September 2004 (the "Record Date") (other than shareholders whose registered addresses as shown on the register of members of the Company on the Record Date are outside Hong Kong), on the basis of one (1) 2006 Warrant for every ten (10) existing shares then held.

By Order of the Board
Cheung Kwok Wing
Chairman

Hong Kong, 16 August 2004

Board of directors:

Executive

Mr. Cheung Kwok Wing (*Chairman*)
Mr. Chan Wing Kwan (*Managing Director*)
Mr. Lam Ka Po
Mr. Cheung Kwok Keung
Mr. Cheung Kwok Wa
Mr. Cheung Kwong Kwan
Mr. Cheung Kwok Ping
Mr. Chang Wing Yiu
Mr. Mok Cham Hung, Chadwick

Non-executive

Mr. Lum Gum Wun

Independent non-executive

Mr. Tsao Kwang Yung, Peter, CBE, CPM
Mr. Cheng Ming Fun, Paul
Mr. Lau Tai Chim