



Kingboard Chemical

Interim Report 2006

KB

建滔化工集團

KINGBOARD CHEMICAL HOLDINGS LIMITED

Stock Code: 148

RESULTS

The Board of Directors of Kingboard Chemical Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006 together with the comparative figures for the corresponding period in 2005 as follows:

Condensed Consolidated Income Statement

		Six months ended 30 June	
		2006	2005
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>Notes</i>		
Revenue	2	7,464,958	5,954,028
Cost of sales		<u>(5,475,385)</u>	<u>(4,515,982)</u>
Gross profit		1,989,573	1,438,046
Other operating income		29,152	29,316
Distribution costs		(215,039)	(154,793)
Administrative costs		(365,795)	(337,555)
Release of discount on acquisition of additional interest in a subsidiary		1,498	–
Finance costs		(149,639)	(129,009)
Share of results of jointly controlled entities		<u>(2,503)</u>	<u>(4,065)</u>
Profit before tax		1,287,247	841,940
Income tax expense	4	<u>(105,533)</u>	<u>(55,899)</u>
Profit for the period		<u>1,181,714</u>	<u>786,041</u>
Attributable to:			
Equity holders of the parent		1,068,807	688,299
Minority interests		<u>112,907</u>	<u>97,742</u>
		<u>1,181,714</u>	<u>786,041</u>
Interim dividend	5	<u>157,113</u>	<u>94,149</u>
Earnings per share	6		
Basic		<u>136.2 cents</u>	<u>95.6 cents</u>
Diluted		<u>130.4 cents</u>	<u>90.6 cents</u>

Condensed Consolidated Balance Sheet

	Notes	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Non-current assets			
Investment properties		39,830	33,057
Other properties, plant and equipment	7	9,077,315	8,690,274
Prepaid lease payments		372,868	351,374
Goodwill		1,708,975	1,659,354
Investment in an associate		188,137	188,137
Available-for-sale investments		181,184	121,281
Derivative financial instruments		24,606	60,697
Interests in jointly controlled entities		14,606	17,109
Non-current deposits		418,256	250,978
Intangible assets		2,490	1,778
Deferred tax assets		10,235	11,606
		<u>12,038,502</u>	<u>11,385,645</u>
Current assets			
Inventories		2,169,460	1,785,809
Trade and other receivables and prepayments	8	5,306,308	4,894,221
Prepaid lease payments		9,320	7,669
Derivative financial instruments		93,019	56,496
Taxation recoverable		3,083	4,054
Bank balances and cash		1,617,224	1,226,928
		<u>9,198,414</u>	<u>7,975,177</u>
Current liabilities			
Trade and other payables	9	2,692,052	2,355,179
Bills payable		358,622	409,311
Taxation payable		200,893	121,656
Bank borrowings		2,337,444	2,231,728
		<u>5,589,011</u>	<u>5,117,874</u>
Net current assets		<u>3,609,403</u>	<u>2,857,303</u>
		<u>15,647,905</u>	<u>14,242,948</u>
Capital and reserves			
Share capital		78,546	78,477
Reserves		9,132,610	8,156,737
Equity attributable to equity holders of the parent		9,211,156	8,235,214
Minority interests		1,504,854	1,411,529
Total equity		<u>10,716,010</u>	<u>9,646,743</u>
Non-current liabilities			
Deferred tax liabilities		33,582	46,960
Bank borrowings		4,898,313	4,549,245
		<u>4,931,895</u>	<u>4,596,205</u>
		<u>15,647,905</u>	<u>14,242,948</u>

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent													
	Share capital	Share premium	Share option reserve	Capital redemption reserve	Goodwill reserve	Special surplus account	Statutory reserve	Hedging reserve	Investment revaluation reserve	Translation reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 31 December 2004	71,948	2,324,661	-	897	(791)	10,594	3,466	-	-	3,168	3,091,121	5,505,064	1,638,440	7,143,504
Effect of changes in accounting policies	-	-	-	-	-	-	-	(89,795)	(41,465)	-	-	(131,260)	-	(131,260)
Balance at 1 January 2005 as restated	71,948	2,324,661	-	897	(791)	10,594	3,466	(89,795)	(41,465)	3,168	3,091,121	5,373,804	1,638,440	7,012,244
Increase in fair value changes of derivatives under cash flow hedge	-	-	-	-	-	-	-	206,988	-	-	-	206,988	-	206,988
Increase in fair value changes of available-for-sale investments	-	-	-	-	-	-	-	-	16,602	-	-	16,602	-	16,602
Investment revaluation reserve released on disposal of available-for-sale investments	-	-	-	-	-	-	-	-	14,531	-	-	14,531	-	14,531
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	124,211	-	124,211	24,016	148,227
Issue of new shares														
- from share subscription	4,000	886,000	-	-	-	-	-	-	-	-	-	890,000	-	890,000
- from exercise of warrants	1,999	397,817	-	-	-	-	-	-	-	-	-	399,816	-	399,816
- from exercise of share options	530	19,292	-	-	-	-	-	-	-	-	-	19,822	-	19,822
Expenses incurred in connection with issue of new shares	-	(10,891)	-	-	-	-	-	-	-	-	-	(10,891)	-	(10,891)
Recognition of equity-settled share based payments	-	-	3,047	-	-	-	-	-	-	-	-	3,047	-	3,047
Profit for the year	-	-	-	-	-	-	-	-	-	-	1,435,809	1,435,809	213,023	1,648,832
Final dividend for the year ended 31 December 2004	-	-	-	-	-	-	-	-	-	-	(144,376)	(144,376)	-	(144,376)
Interim dividend for the year ended 31 December 2005	-	-	-	-	-	-	-	-	-	-	(94,149)	(94,149)	-	(94,149)
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(407,127)	(407,127)
Contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	30,266	30,266
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(87,089)	(87,089)
Balance at 31 December 2005	78,477	3,616,879	3,047	897	(791)	10,594	3,466	117,193	(10,332)	127,379	4,288,405	8,235,214	1,411,529	9,646,743

Attributable to equity holders of the parent

	Share capital	Share premium	Share option reserve	Capital redemption reserve	Goodwill reserve	Special surplus account	Statutory reserve	Hedging reserve	Investment revaluation reserve	Translation reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Decrease in fair value changes of derivatives under cash flow hedge	-	-	-	-	-	-	-	(5,660)	-	-	-	(5,660)	-	(5,660)
Increase in fair value changes of available-for-sale investments	-	-	-	-	-	-	-	-	18,588	-	-	18,588	-	18,588
Investment revaluation reserve released on disposal of available-for-sale investments	-	-	-	-	-	-	-	-	(3,014)	-	-	(3,014)	-	(3,014)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	99,927	-	99,927	38,855	138,782
Issue of new shares from exercise of warrants	69	13,721	-	-	-	-	-	-	-	-	-	13,790	-	13,790
Recognition of equity-settled share based payments	-	-	3,431	-	-	-	-	-	-	-	-	3,431	-	3,431
Profit for the period	-	-	-	-	-	-	-	-	-	-	1,068,807	1,068,807	112,907	1,181,714
Final dividend for the year ended 31 December 2005	-	-	-	-	-	-	-	-	-	-	(219,927)	(219,927)	-	(219,927)
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(12,211)	(12,211)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	8,779	8,779
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(55,005)	(55,005)
Transfer to statutory reserve	-	-	-	-	-	-	6,185	-	-	-	(6,185)	-	-	-
Balance at 30 June 2006	78,546	3,630,600	6,478	897	(791)	10,594	9,651	111,533	5,242	227,306	5,131,100	9,211,156	1,504,854	10,716,010

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

Notes:

1. Basis of preparation and principal accounting policies

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

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

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

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economics ²
HK(IFRIC)-INT 8	Scope of HKFRS 2 ³
HK(IFRIC)-INT 9	Reassessment of embedded derivatives ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

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 2006						
Segment revenue						
External sales	2,867,235	2,899,184	1,183,282	515,257	-	7,464,958
Inter-segment sales	848,644	-	669,962	8,836	(1,527,442)	-
Total	<u>3,715,879</u>	<u>2,899,184</u>	<u>1,853,244</u>	<u>524,093</u>	<u>(1,527,442)</u>	<u>7,464,958</u>
Result						
Segment result	925,361	327,971	140,917	40,511	-	1,434,760
Release of discount on acquisition of additional interest in a subsidiary	1,498	-	-	-	-	1,498
Unallocated corporate income						8,926
Unallocated corporate expenses						(5,795)
Finance costs						(149,639)
Share of results of jointly controlled entities	-	-	-	(2,503)	-	(2,503)
Profit before tax						1,287,247
Income tax expense						(105,533)
Profit for the period						<u>1,181,714</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 2005						
Segment revenue						
External sales	2,041,492	2,465,443	916,747	530,346	-	5,954,028
Inter-segment sales	578,231	-	470,669	-	(1,048,900)	-
Total	<u>2,619,723</u>	<u>2,465,443</u>	<u>1,387,416</u>	<u>530,346</u>	<u>(1,048,900)</u>	<u>5,954,028</u>
Result						
Segment result	571,350	270,111	91,271	33,770	-	966,502
Unallocated corporate income						27,708
Unallocated corporate expenses						(19,196)
Finance costs						(129,009)
Share of results of jointly controlled entities	-	-	-	(4,065)	-	(4,065)
Profit before tax						841,940
Income tax expense						(55,899)
Profit for the period						<u>786,041</u>

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

The analysis of the Group's revenue by geographical market is as follows:

	Six months ended 30 June	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
The People's Republic of China	5,775,416	4,690,843
Other Asian countries	865,483	673,345
Europe	623,407	369,368
America	200,652	220,472
	<u>7,464,958</u>	<u>5,954,028</u>

3. Depreciation

During the period, depreciation and amortisation of HK\$471.4 million (1 January 2005 to 30 June 2005: HK\$393.2 million) was charged in respect of the Group's other properties, plant and equipment.

4. Income tax expense

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

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

5. Interim dividend

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

6. Earnings per share

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

	Six months ended 30 June	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Earnings for the purposes of calculating basic and diluted earnings per share	<u>1,068,807</u>	<u>688,299</u>
	Number of shares	
	30 June 2006	30 June 2005
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	784,978,763	720,140,294
Effect of dilutive potential ordinary shares relating to:		
– outstanding share options	30,431,573	34,677,353
– outstanding warrants	<u>4,403,675</u>	<u>5,008,568</u>
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>819,814,011</u>	<u>759,826,215</u>

7. Additions to other properties, plant and equipment

During the period, the Group spent approximately HK\$844 million (1 January 2005 to 30 June 2005: HK\$972 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\$4,020,892,000 (31 December 2005: HK\$3,812,823,000). The Group allows credit periods of up to 120 days, depending on the product sold, to its trade customers. The aged analysis of the trade receivables 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 2006 (Unaudited)	<u>3,302,919</u>	<u>639,391</u>	<u>78,582</u>	<u>4,020,892</u>
Balance at 31 December 2005 (Audited)	<u>2,998,323</u>	<u>742,192</u>	<u>72,308</u>	<u>3,812,823</u>

9. Trade and other payables

Included in trade and other payables are trade payables of HK\$1,544,234,000 (31 December 2005: HK\$1,471,804,000). The aged analysis of the 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 2006 (Unaudited)	<u>1,199,976</u>	<u>244,450</u>	<u>99,808</u>	<u>1,544,234</u>
Balance at 31 December 2005 (Audited)	<u>1,059,106</u>	<u>319,985</u>	<u>92,713</u>	<u>1,471,804</u>

10. Share options

(a) *Employees' share option scheme of the Company*

Under the Company's share option scheme (the "Scheme") adopted on 2 July 2002, which is valid for a period of ten years, the board of directors of the Company may, at its discretion, grant options to subscribe for shares in the Company to eligible participants ("Eligible Participants") who contributes to the long-term growth and profitability of the Company. Eligible Participants includes (i) any employee (whether full time or part time) of the Company, any of its subsidiaries or any entity in which the Group holds any equity interests ("Invested Entity"), including any executive director of the Company, any of such subsidiaries or any Invested Entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of the Group or any Invested Entity; (v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and (vi) any person or entity who from time to time determined by the Board as having contributed or may contribute to the development and growth of the Group based on his or its performance and/or years of service, or is regarded as valuable resources of the Group based on his/its working experience, knowledge in the industry and other relevant factors. The subscription price for the Company's shares shall be a price at least equal to the highest of the nominal value of the Company's shares, the average of the closing prices of the Company's shares quoted on the Stock Exchange on the five trading days immediately preceding the date of an offer of the grant of the options and the closing price of the Company's shares quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of an offer of the grant of the options. The options must be taken up within 28 days from the date of grant upon payment of HK\$1 and are exercisable over a period to be determined and notified by the directors to each grantee, which period may commence from the date of acceptance of the offer of the grant of the options but shall end in any event not later than ten years from the date of adoption of the Scheme.

The total number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group (excluding options lapsed in accordance with the terms of the Scheme and any other schemes of the Group) must not in aggregate exceed 10% of the Company's shares in issue as at the date of adoption of the Scheme. The limit on the number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Group must not exceed 30% of the Company's shares in issue from time to time. The total number of the Company's shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) under the Scheme or other schemes of the Group in any 12-month period up to the date of grant must not exceed 1% of the Company's shares in issue at the date of grant unless approved by the Company's shareholders in general meeting.

At 30 June 2006, the number of the Company's shares in respect of which options had been granted and remained outstanding under the Scheme was 36,522,000, representing approximately 4.6% of the shares of the Company in issue on that date.

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

	Granted to the Company's directors	Granted to the Company's employees	Total
Balance at 31 December 2005			
and at 30 June 2006	<u>29,280,800</u>	<u>7,241,200</u>	<u>36,522,000</u>

(b) *Employees' share option scheme of Elec & Eltek International Company Limited ("EEIC")*

The 2002 EEIC Employees' Share Option Scheme (the "2002 Scheme") was approved by the shareholders of EEIC on 8 November 2002 and was adopted and took effect from 12 November 2002 upon fulfilment of all the conditions precedent as set out in Rule 3 of the 2002 Scheme.

The 2002 Scheme was implemented for the purpose of attracting, retaining and motivating talented directors and employees to strive towards long-term performance targets and allowing the participants to enjoy the results of EEIC.

The 2002 Scheme, administrated by the Employees' Share Option Scheme Committee as authorised by EEIC's directors, is open to full-time employees and directors of EEIC and its subsidiaries, the parent group and an associated company of EEIC, subject to certain conditions being satisfied.

The 2002 Scheme entitles the option holders to exercise their options and subscribe for new ordinary shares in EEIC either at a "Subscription Price", equal to the average of the last dealt price of the EEIC's shares for the last 5 market days immediately preceding the relevant date of grant, or at a "Discounted Subscription Price", whereby the discount shall not exceed 20% of the Subscription Price as defined above.

Options granted at the Subscription Price may be exercised commencing on a date not earlier than the first anniversary date of the date of grant and ending on a date not later than 5 years after the date of grant. Options granted at the Discounted Subscription Price may only be exercised commencing on a date not earlier than the second anniversary date of the date of grant and ending on a date not later than 5 years after the date of grant.

The duration of the 2002 Scheme is 5 years and the total number of shares that may be issued shall not exceed 10% of the issued share capital of EEIC as at the adoption date or subject to certain conditions being satisfied, 15% of the issued share capital of EEIC as at the adoption date. The total number of EEIC Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the total number of EEIC Shares in issue from time to time.

Share options may be accepted within 30 days from the date of offer upon payment of S\$1.00 as a nominal consideration by the participants, but the grant of share options do not confer rights on the option holders to any dividend entitlement or to vote at any shareholder meeting.

A summary of the movements of the share options under the 2002 Scheme for the financial period is as follows:

	Granted to EEIC's directors	Granted to EEIC's employees	Total
Balance at 31 December 2005	8,406,000	3,258,000	11,664,000
Lapsed during the period	–	(294,000)	(294,000)
	<u>8,406,000</u>	<u>2,964,000</u>	<u>11,370,000</u>
Balance at 30 June 2006	<u>8,406,000</u>	<u>2,964,000</u>	<u>11,370,000</u>

Fair value of share options

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

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

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

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

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

11. Warrants

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

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

12. Commitments

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

13. Post balance sheet event

As disclosed by the Company in its announcement dated 21 July 2006 (the “Spin-off Announcement”), an application for the separate listing of the laminates and laminates related business of the Group (including the production and sale of laminates and the upstream component materials required in the production of laminates) on the Main Board of the Stock Exchange was submitted on 21 July 2006. For the reasons set out in the Spin-off Announcement, the Board believes that the proposed spin-off will be beneficial to the Group as well as to the Kingboard Laminates Group (as defined in the Spin-off Announcement). However, no decision has been made by the Company as to whether and when the proposed spin-off will be effected and there is also no assurance that the approval of the proposed spin-off will be granted by the Listing Committee of the Stock Exchange. Further announcement in relation to the proposed spin-off will be made by the Company as and when appropriate.

BUSINESS REVIEW

On behalf of the Board of Directors, I am glad to report that Kingboard Group (“the Group”) has delivered its best ever results with record revenues and profits achieved for the six months ended 30 June 2006 (“the reporting period”), boosted by further improvement in operational efficiency and positive market conditions.

The Group continued to achieve excellent profitability across all of its core businesses including different segments of Elec & Eltek Group. There has been a perfect integration of Elec & Eltek Group into the Group following our acquisition of a controlling interest some 20 months ago. I am very happy to cite that management team of Elec & Eltek Group has demonstrated strong professional skills and commitments to our future developments, reinforcing the Group’s management capabilities. In addition we have continued to add younger members to our team, providing extra dynamism for the Group’s excellent future prospects.

As a growing global entity, the Group continues to keep a tight rein on costs and implement essential measures to ensure we remain competitive in the international market. One thing came through clearly in the reporting period – our reputation and franchise continued to gain more recognition as our operational performance once again was ahead of competition in most areas. Given the good momentum and barring any unforeseen circumstances, the Group looks forward to adding another set of good results for the full year ending 31 December 2006.

Financial highlights

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

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

Performance

In the last six months, the Group continued to gain market share in both paper and glass epoxy laminate businesses. The laminate division has chalked up commendable revenue and operating profit growth for the reporting period. Revenue for the laminate division grew by 42% to HK\$3,716 million, while earnings before interest & tax (“EBIT”) rose even higher by 62% to HK\$925 million compared to the same period last year, which reflected a 3.1% hike in EBIT margin to 24.9%. Volume sales were up by around 23% with the average monthly shipment reaching 7 million sq. meters. As demand for most consumer related products such as consumer electronics and automotive continued to accelerate, our paper laminate and glass epoxy laminate businesses have experienced respectable growth in the reporting period. The tight supply of raw material for glass epoxy laminate has lifted laminate’s selling prices and also allowed the Group to enjoy a satisfactory return. For paper laminate we continued to possess a formidable market position in the global market and with the advantage of economy of scale to achieve steady profitability.

Tapping on on-going outsourcing trends from the US, Europe and Japan, all of our PCB plants in China, Hong Kong and Thailand have been operating near full capacity utilization throughout the reporting period. As one of the world’s ten largest PCB makers our total monthly production capacity for double-side and multi-layer have exceeded 7.3 million square feet. Our PCB sales achieved an 18% increase in the financial period and EBIT margin improved to 11.3%.

The chemical division of the Group has become one of the key players in certain chemical segments in China. Revenue for the chemical division rose by 34% to a record HK\$1,853 million in the six-month period compared to the same period last year with EBIT, despite higher feedstock costs, up by 54% to reach HK\$141 million. Both caustic soda plant in Hengyang of Hunan province and coke-methanol plant in Hebei province became profit contributors after the initial gestation period. This reflects our strategic moves entrenching over the past few years have paved the growth for the chemical division.

LIQUIDITY AND CAPITAL RESOURCES

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

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

- Inventories, in terms of stock turnover days, increased slightly to 72 days as a result of more feedstock in the pipeline to satisfy increasing customer demand (31 December 2005: 66 days). However, finished goods stayed low at 8 days
- Trade receivables, in terms of debtors turnover days, improved to 98 days (31 December 2005: 106 days)
- Trade and bills payables, in terms of creditors turnover days, decreased to 63 days (31 December 2005: 69 days)

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

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

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

PROSPECTS

Looking ahead into the second half, the growth prospects across our various business segments continue to be good, underpinned by a strong global demand from electronics segment. Medium term outlook remains very favourable as our chemical projects being completed over the next couple of years are bounded to provide extra impetus for growth.

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

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

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

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

HUMAN RESOURCES

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

APPRECIATION

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 18 October 2006 to Friday, 20 October 2006 (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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 17 October 2006. Warrantheolders who wish to participate in the interim dividend must exercise their subscription rights not later than 4:00 p.m. on Tuesday, 17 October 2006.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2006, the interests of the directors of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of 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	Capacity	Number of issued ordinary shares held			Percentage of the issued share capital of the Company
		Interest in underlying shares pursuant to share options (Note 1)	Interest in underlying shares pursuant to warrants	Interest in shares	
Mr. Cheung Kwok Wing	Beneficial owner	2,091,400	371,506	1,629,060	0.21
Mr. Chan Wing Kwan	Beneficial owner	3,499,200	187,440	1,080,000	0.14
Mr. Lam Ka Po	Beneficial owner	4,032,200	70,052	286,800	0.04
Mr. Cheung Kwok Keung	Beneficial owner	4,032,200	117,370	326,800	0.04
Mr. Cheung Kwok Wa	Beneficial owner	3,781,200	194,920	1,009,600	0.13
Mr. Cheung Kwong Kwan	Beneficial owner	3,892,200	102,662	100,000	0.01
Mr. Cheung Kwok Ping	Beneficial owner	3,836,200	201,526	1,427,300	0.18
Mr. Chang Wing Yiu (Note 2)	Beneficial owner	4,116,200	550,950	1,897,100	0.24
Mr. Mok Cham Hung, Chadwick	Beneficial owner	-	60,000	600,000	0.08
Mr. Cheng Ming Fun, Paul	Beneficial owner	-	-	50,000	0.01
Mr. Tse Kam Hung	Beneficial owner	-	-	-	-
Mr. Henry Tan	Beneficial owner	-	-	-	-

- (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. 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

- (c) *Ordinary shares of S\$0.80 each of EEIC, a 70.48% owned subsidiary of the Company*

Name of director	Capacity	Number of issued ordinary shares held		Percentage of the issued share capital of EEIC
		Interest in underlying shares pursuant to share options (Note 3)	Interest in shares	
Mr. Cheung Kwok Wing	Beneficial owner	973,200	177,600	0.10
Mr. Chan Wing Kwan	Beneficial owner	973,200	–	–
Mr. Cheung Kwok Wa	Beneficial owner	973,200	213,400	0.12
Mr. Chang Wing Yiu	Beneficial owner	973,200	–	–
Mr. Mok Cham Hung, Chadwick	Beneficial owner	973,200	74,000	0.04

Notes:

- 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.
- Out of the 550,950 warrants and 1,897,100 shares held by Mr. Chang Wing Yiu, 452,200 warrants and 772,000 shares were held by his spouse as at 30 June 2006.
- The interests are by virtue of an aggregate of 4,055,000 share options accepted by the directors on 24 June 2005. The number of share options were subsequently adjusted pursuant to the 1 for 5 bonus issue effected on 13 October 2005. The relevant directors are entitled to subscribe for shares in EEIC at an adjusted subscription price of US\$2.033 per share. The share options are exercisable in whole or in part at the staggered manner within 5 options period, commencing 26 November 2006, 26 November 2007, 26 November 2008, 26 November 2009, 26 March 2010 respectively and all ending on 24 May 2010.

Other than as disclosed above, none of the directors 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 (within the meaning of Part XV of the SFO) as at 30 June 2006.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of directors, 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	Interest in underlying Shares pursuant to warrants	Nature of interests	Number of issued ordinary Shares held	Percentage of the issued share capital of the Company
Hallgain Management Limited ("Hallgain") (<i>Note 1</i>)	7,963,580	Beneficial owner	243,017,400	30.94
The Capital Group Companies, Inc (<i>Note 2</i>)	–	Investment manager	88,431,436	11.3
FMR Corp (<i>Note 3</i>)	–	Investment manager	47,173,600	6.01
Gryphon Investment Counsel, Inc.	409,740	Investment manager	39,308,908	5.01

Notes:

- (1) At 30 June 2006: (i) no shareholders of Hallgain is entitled to exercise, or control the exercise of, directly or indirectly, one-third or more of the voting power at general meetings of Hallgain, and Hallgain and its directors are not accustomed to act in accordance with any shareholder's direction; and (ii) Messrs. Cheung Kwok Wing, Chan Wing Kwan, Lam Ka Po, Cheung Kwok Wa and Cheung Kwok Ping, directors of the Company, are also directors of Hallgain.
- (2) The interests are indirectly held by The Capital Group Companies, Inc. through its 100% controlled corporations, namely Capital Research and Management Company, Capital Guardian Trust Company, Capital International, Inc, Capital International Limited and Capital International S.A..
- (3) 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 relevant interests or short positions in the issued share capital of the Company as at 30 June 2006.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the six months period ended 30 June 2006, 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.

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 financial statements.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

In the opinion of the directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the six months ended 30 June 2006, save for the deviation that the independent non-executive directors are not appointed for specific terms pursuant to paragraph A.4.1 of the Code. Notwithstanding the aforesaid deviation, all the directors (including the non-executive directors) are subject to retirements by rotation and re-election at the Company's annual general meeting in compliance with the Company's Articles of Association.

By Order of the Board
Kingboard Chemical Holdings Limited
Cheung Kwok Wing
Chairman

Hong Kong, 28 August 2006

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

Independent non-executive

Mr. Cheng Ming Fun, Paul
Mr. Tse Kam Hung
Mr. Henry Tan