

KB 建滔化工集團

KINGBOARD CHEMICAL HOLDINGS LIMITED

Stock Code : 148



INTERIM REPORT
2012

RESULTS

The board of directors (the “Board”) of Kingboard Chemical Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2012 together with the comparative figures for the corresponding period in 2011 as follows:

Condensed Consolidated Income Statement

| | | Six months ended 30 June | |
|-------|---|---------------------------------|--------------------|
| | | 2012 | 2011 |
| | | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Unaudited) |
| Notes | | | |
| | Revenue | 16,593,930 | 18,953,859 |
| | Cost of sales and services rendered | (14,087,993) | (15,330,116) |
| | Gross profit | 2,505,937 | 3,623,743 |
| | Other income | 157,824 | 142,017 |
| | Distribution costs | (441,722) | (447,899) |
| | Administrative costs | (742,414) | (751,374) |
| | Share-based payments | (63,425) | (43,329) |
| | Finance costs | (166,663) | (156,431) |
| | Share of results of associates | 105,247 | 125,043 |
| | Share of results of jointly controlled entities | – | (687) |
| | Profit before taxation | 1,354,784 | 2,491,083 |
| | Income tax expense | (205,605) | (264,855) |
| | Profit for the period | 1,149,179 | 2,226,228 |
| | Profit for the period attributable to: | | |
| | Owners of the Company | 908,060 | 1,814,339 |
| | Non-controlling interests | 241,119 | 411,889 |
| | | 1,149,179 | 2,226,228 |
| | Earnings per share | | |
| | Basic | HK\$1.062 | HK\$2.128 |
| | Diluted | HK\$1.062 | HK\$2.113 |



Condensed Consolidated Statement of Comprehensive Income

| | Six months ended 30 June | |
|--|---------------------------------|--------------------|
| | 2012 | 2011 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Profit for the period | 1,149,179 | 2,226,228 |
| Other comprehensive income for the period: | | |
| Cash flow hedge: | | |
| Gain (loss) on cash flow hedges | 9,786 | (1,375) |
| Deferred tax recognised in relation to change in cash flow hedges | (1,659) | (4,680) |
| Reclassification adjustment relating to transfer of cash flow hedges | 44 | 35,952 |
| Investment revaluation reserve: | | |
| Fair value changes of available-for-sale investments | (99,853) | (26,003) |
| Reclassification adjustment relating to disposal of available-for-sale investments | 46,219 | (4,550) |
| Property revaluation reserve: | | |
| Fair value gain on properties transferred to investment properties | – | 290,548 |
| Translation reserve: | | |
| Exchange differences arising on translation of foreign operations and to presentation currency | (89,763) | 523,449 |
| Other comprehensive (expense) income for the period (net of tax) | (135,226) | 813,341 |
| Total comprehensive income for the period | 1,013,953 | 3,039,569 |
| Total comprehensive income for the period attributable to: | | |
| Owners of the Company | 798,834 | 2,532,144 |
| Non-controlling interests | 215,119 | 507,425 |
| | 1,013,953 | 3,039,569 |

Condensed Consolidated Statement of Financial Position

| | Notes | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|--|-------|--|--|
| Non-current assets | | | |
| Investment properties | | 4,933,296 | 3,505,610 |
| Properties, plant and equipment | 9 | 18,950,762 | 18,357,984 |
| Prepaid lease payments | | 971,572 | 947,807 |
| Other non-current assets | | 712,707 | 712,707 |
| Goodwill | | 2,288,149 | 2,288,149 |
| Interests in associates | | 542,059 | 746,359 |
| Available-for-sale investments | | 4,301,012 | 4,285,141 |
| Held-to-maturity investments | | 948,702 | 972,883 |
| Non-current deposits | | 845,205 | 1,433,910 |
| Deferred tax assets | | 18,301 | 14,342 |
| | | 34,511,765 | 33,264,892 |
| Current assets | | | |
| Inventories | | 3,480,369 | 2,926,128 |
| Properties held for development | | 9,808,746 | 9,227,363 |
| Trade and other receivables and prepayments | 10 | 8,598,759 | 8,414,105 |
| Bills receivables | 10 | 1,918,054 | 2,120,683 |
| Prepaid lease payments | | 28,249 | 26,034 |
| Taxation recoverable | | 80,456 | 42,580 |
| Bank balances and cash | | 3,769,252 | 4,437,442 |
| | | 27,683,885 | 27,194,335 |
| Current liabilities | | | |
| Trade and other payables | 11 | 5,678,448 | 5,023,154 |
| Bills payables | 11 | 879,970 | 1,001,947 |
| Deposits received from pre-sale of residential units | | 813,828 | 1,423,679 |
| Derivative financial instruments | | 3,975 | 13,761 |
| Taxation payable | | 589,435 | 660,536 |
| Bank borrowings | | 6,419,896 | 6,723,757 |
| | | 14,385,552 | 14,846,834 |
| Net current assets | | 13,298,333 | 12,347,501 |
| Total assets less current liabilities | | 47,810,098 | 45,612,393 |





| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|--|--|--|
| Non-current liabilities | | |
| Deferred tax liabilities | 229,830 | 167,194 |
| Bank borrowings | 12,893,861 | 11,450,813 |
| | 13,123,691 | 11,618,007 |
| | 34,686,407 | 33,994,386 |
| Capital and reserves | | |
| Share capital | 85,467 | 85,467 |
| Share premium and reserves | 28,616,134 | 27,959,913 |
| Equity attributable to owners of the Company | 28,701,601 | 28,045,380 |
| Non-controlling interests | 5,984,806 | 5,949,006 |
| Total equity | 34,686,407 | 33,994,386 |

Condensed Consolidated Statement of Changes in Equity

| | Attributable to owners of the Company | | | | | | | | | | | | | | Non-controlling interests | Total equity |
|--|---------------------------------------|---------------|----------------------------|-----------------|----------------------|------------------|-------------------------|-------------------|-----------------|------------------------------|--------------------------------|---------------------|------------------|------------|---------------------------|--------------|
| | Share capital | Share premium | Capital redemption reserve | Warrant reserve | Share option reserve | Goodwill reserve | Special surplus account | Statutory reserve | Hedging reserve | Property revaluation reserve | Investment revaluation reserve | Translation reserve | Retained profits | Total | | |
| | 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 | HK\$'000 | HK\$'000 |
| Balance at 1 January 2012 | 85,467 | 4,474,830 | 1,911 | 669,521 | 167,039 | 765,338 | 10,594 | 260,432 | (2,496) | 23,175 | (513,086) | 2,964,467 | 19,138,188 | 28,045,380 | 5,949,006 | 33,994,386 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | - | - | 908,060 | 908,060 | 241,119 | 1,149,179 |
| Gain on cash flow hedge | - | - | - | - | - | - | - | - | 9,786 | - | - | - | - | 9,786 | - | 9,786 |
| Transfer to profit or loss on cash flow hedge | - | - | - | - | - | - | - | - | 44 | - | - | - | - | 44 | - | 44 |
| Deferred tax recognised in relation to change in cash flow hedges | - | - | - | - | - | - | - | - | (1,659) | - | - | - | - | (1,659) | - | (1,659) |
| Fair value changes of available-for-sale investments | - | - | - | - | - | - | - | - | - | - | (99,853) | - | - | (99,853) | - | (99,853) |
| Investment revaluation reserve released on disposal | - | - | - | - | - | - | - | - | - | - | 46,219 | - | - | 46,219 | - | 46,219 |
| Exchange differences arising on translation of foreign operations and to presentation currency | - | - | - | - | - | - | - | - | - | - | - | (63,763) | - | (63,763) | (26,000) | (89,763) |
| Total comprehensive income for the period | - | - | - | - | - | - | - | - | 8,171 | - | (53,634) | (63,763) | 908,060 | 798,834 | 215,119 | 1,013,953 |
| Recognition of equity-settled share-based payments | - | - | - | - | 44,838 | - | - | - | - | - | - | - | - | 44,838 | 18,587 | 63,425 |
| Final dividend for the year ended 31 December 2011 | - | - | - | - | - | - | - | - | - | - | - | - | (213,667) | (213,667) | - | (213,667) |
| Acquisition of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 69,571 | 69,571 |
| Acquisition of additional interests in subsidiaries | - | - | - | - | - | 26,216 | - | - | - | - | - | - | - | 26,216 | (147,054) | (120,838) |
| Dividend paid to minority shareholders of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (120,423) | (120,423) |
| Transfers | - | - | - | - | - | - | - | 70,184 | - | - | - | - | - | (70,184) | - | - |
| | - | - | - | - | 44,838 | 26,216 | - | 70,184 | - | - | - | - | - | (283,951) | (142,613) | (179,319) |
| Balance at 30 June 2012 | 85,467 | 4,474,830 | 1,911 | 669,521 | 211,877 | 791,554 | 10,594 | 330,616 | 5,675 | 23,175 | (566,720) | 2,900,704 | 19,762,397 | 28,701,601 | 5,894,806 | 34,686,407 |





Attributable to owners of the Company

| | Share capital HK\$'000 | Share premium HK\$'000 | Capital redemption reserve HK\$'000 | Warrant reserve HK\$'000 | Share option reserve HK\$'000 | Goodwill reserve HK\$'000 | Special surplus account HK\$'000 | Statutory reserve HK\$'000 | Hedging reserve HK\$'000 | Property revaluation reserve HK\$'000 | Investment revaluation reserve HK\$'000 | Translation reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 | Non-controlling interests HK\$'000 | Total equity HK\$'000 |
|--|---------------------------|---------------------------|--|-----------------------------|----------------------------------|------------------------------|-------------------------------------|-------------------------------|-----------------------------|--|--|---------------------------------|------------------------------|-------------------|---------------------------------------|--------------------------|
| Balance at 1 January 2011 | 84,950 | 4,425,228 | 1,911 | 675,066 | - | 782,435 | 10,594 | 211,988 | (49,757) | 22,484 | 137,703 | 2,056,261 | 17,411,291 | 25,770,174 | 5,812,161 | 31,582,335 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | - | - | 1,814,339 | 1,814,339 | 411,689 | 2,226,028 |
| Loss on cash flow hedge | - | - | - | - | - | - | - | - | (1,375) | - | - | - | - | (1,375) | - | (1,375) |
| Transfer to profit or loss on cash flow hedge | - | - | - | - | - | - | - | - | 35,952 | - | - | - | - | 35,952 | - | 35,952 |
| Deferred tax recognised in relation to change in cash flow hedges | - | - | - | - | - | - | - | - | (4,680) | - | - | - | - | (4,680) | - | (4,680) |
| Fair value changes of available-for-sale investments | - | - | - | - | - | - | - | - | - | - | (26,003) | - | - | (26,003) | - | (26,003) |
| Investment revaluation reserve released on disposal | - | - | - | - | - | - | - | - | - | - | (4,550) | - | - | (4,550) | - | (4,550) |
| Fair value gain on properties transferred to investment properties | - | - | - | - | - | - | - | - | 290,548 | - | - | - | - | 290,548 | - | 290,548 |
| Exchange differences arising on translation of foreign operations and to presentation currency | - | - | - | - | - | - | - | - | - | - | - | 427,913 | - | 427,913 | 95,536 | 523,449 |
| Total comprehensive income for the period | - | - | - | - | - | - | - | - | 29,897 | 290,548 | (30,553) | 427,913 | 1,814,339 | 2,532,144 | 507,425 | 3,039,569 |
| Issue of new shares from exercise of share options | 447 | 16,283 | - | - | - | - | - | - | - | - | - | - | - | 16,730 | - | 16,730 |
| Issue of new shares from exercise of warrants | 70 | 33,319 | - | (5,565) | - | - | - | - | - | - | - | - | - | 27,824 | - | 27,824 |
| Recognition of equity-settled share-based payments | - | - | - | - | 30,317 | - | - | - | - | - | - | - | - | 30,317 | 13,020 | 43,337 |
| Final dividend for the year ended 31 December 2010 | - | - | - | - | - | - | - | - | - | - | - | - | (512,800) | (512,800) | - | (512,800) |
| Capital contribution from minority shareholders of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 3,046 | 3,046 |
| Acquisition of additional interests in subsidiaries | - | - | - | - | - | (6,816) | - | - | - | - | - | - | - | (6,816) | (87,185) | (94,001) |
| Disposal of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | (35,771) | 35,771 | - | (101,192) | (101,192) |
| Dividend paid to minority shareholders of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (321,359) | (321,359) |
| Transfers | - | - | - | - | - | - | - | 36,231 | - | - | - | - | - | (36,231) | - | - |
| | 517 | 49,602 | - | (5,565) | 30,317 | (6,816) | - | 36,231 | - | - | - | (35,771) | (513,260) | (444,745) | (493,669) | (938,414) |
| Balance at 30 June 2011 | 85,467 | 4,474,830 | 1,911 | 669,521 | 30,317 | 775,619 | 10,594 | 248,219 | (19,860) | 313,032 | 107,150 | 2,448,403 | 18,712,370 | 27,857,573 | 5,825,917 | 33,683,490 |

Condensed Consolidated Statement of Cash Flows

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) |
| Net cash from (used in) operating activities | 725,310 | (1,194,015) |
| Net cash used in investing activities | (2,294,084) | (1,659,500) |
| Net cash from financing activities | 900,584 | 2,563,610 |
| Net decrease in cash and cash equivalents | (668,190) | (289,905) |
| Cash and cash equivalents at the beginning of the period | 4,437,442 | 5,143,658 |
| Cash and cash equivalents at the end of the period, representing bank balances and cash | 3,769,252 | 4,853,753 |

Notes:

1. Basis of preparation and principal accounting policies

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

Business combinations – achieved in stages

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA:

| | |
|-----------------------|---|
| Amendments to HKFRS 7 | Financial Instruments: Disclosures – |
| | Transfers of financial assets; and |
| Amendments to HKAS 12 | Deferred tax: Recovery of underlying assets |





The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. Segment information

HKFRS 8 “Operating Segments” requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (“CODM”) in order to allocate resources to segments and to access their performance. Specifically, the Group’s operating segments under HKFRS 8 are as follows:

| | | |
|------------------------|---|---|
| Laminates | – | manufacture and sale of laminates |
| Printed circuit boards | – | manufacture and sale of PCBs |
| Chemicals | – | manufacture and sale of chemicals |
| Properties | – | property developments and investments |
| Others | – | manufacture and sale of liquid crystal displays, magnetic products and others |

Under HKFRS 8, reported segment information is based on internal management reporting information that is regularly reviewed by the executive directors, being the CODM of the Group. The measurement policies the Group used for segment reporting under HKFRS 8 are the same as those used in its HKFRS financial statements. The executive directors assess segment profit or loss using a measure of operating profit whereby certain items are not included in arriving at the segment results of the operating segments (share of results of associates and jointly controlled entities, income tax expense, finance costs, share-based payments, unallocated corporate income and expenses).

Segment revenues and results by reportable segments are presented below:

| | Laminates HK\$'000 | PCBs HK\$'000 | Chemicals HK\$'000 | Properties HK\$'000 | Others HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|--------------------------------------|-----------------------|------------------|-----------------------|------------------------|--------------------|--------------------------|--------------------------|
| Six months ended 30 June 2012 | | | | | | | |
| Segment revenue | | | | | | | |
| External sales | 5,093,340 | 3,545,862 | 6,767,514 | 884,469 | 302,745 | - | 16,593,930 |
| Inter-segment sales | 1,130,012 | - | 351,035 | - | 3,101 | (1,484,148) | - |
| Total | 6,223,352 | 3,545,862 | 7,118,549 | 884,469 | 305,846 | (1,484,148) | 16,593,930 |
| Result | | | | | | | |
| Segment result | 743,899 | 211,539 | 242,582 | 308,162 | 10,352 | | 1,516,534 |
| Share-based payments | | | | | | | (63,425) |
| Unallocated corporate income | | | | | | | 88,867 |
| Unallocated corporate expenses | | | | | | | (125,776) |
| Finance costs | | | | | | | (166,663) |
| Share of results of associates | | | | | | | 105,247 |
| Profit before taxation | | | | | | | 1,354,784 |
| Income tax expense | | | | | | | (205,605) |
| Profit for the period | | | | | | | 1,149,179 |

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





| | Laminates HK\$'000 | PCBs HK\$'000 | Chemicals HK\$'000 | Properties HK\$'000 | Others HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|---|-----------------------|------------------|-----------------------|------------------------|--------------------|--------------------------|--------------------------|
| Six months ended 30 June 2011 | | | | | | | |
| Segment revenue | | | | | | | |
| External sales | 5,825,716 | 4,021,582 | 8,625,697 | 100,331 | 380,533 | - | 18,953,859 |
| Inter-segment sales | 1,343,156 | - | 452,726 | - | 7,269 | (1,803,151) | - |
| Total | 7,168,872 | 4,021,582 | 9,078,423 | 100,331 | 387,802 | (1,803,151) | 18,953,859 |
| Result | | | | | | | |
| Segment result | 1,089,741 | 352,511 | 1,065,515 | 84,276 | 15,139 | | 2,607,182 |
| Share-based payments | | | | | | | (43,329) |
| Unallocated corporate income | | | | | | | 75,988 |
| Unallocated corporate expenses | | | | | | | (116,683) |
| Finance costs | | | | | | | (156,431) |
| Share of results of associates | | | | | | | 125,043 |
| Share of results of jointly controlled entities | | | | | | | (687) |
| Profit before taxation | | | | | | | 2,491,083 |
| Income tax expense | | | | | | | (264,855) |
| Profit for the period | | | | | | | <u>2,226,228</u> |

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

3. Depreciation

During the reporting period, depreciation of approximately HK\$1,078.6 million (1 January 2011 to 30 June 2011: HK\$1,065.9 million) was charged in respect of the Group's properties, plant and equipment.

4. Other income

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2012 | 2011 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Other income comprises: | | |
| Dividends from available-for-sale investments | 46,417 | 38,601 |
| Gain on disposal of available-for-sale investments | - | 4,551 |
| Gain on fair value changes of investment properties | - | 26,915 |
| Interest income | 99,363 | 24,438 |

5. Finance costs

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) |
| Interest on bank borrowings wholly repayable within five years | 162,071 | 124,871 |
| Interest paid in relation to the interest rate swap contracts | 10,058 | 35,952 |
| | 172,129 | 160,823 |
| Less: Amount capitalised in the cost of qualifying assets | (5,466) | (4,392) |
| | 166,663 | 156,431 |

Borrowing costs capitalised during the reporting period arose on the general borrowing pool and were calculated by applying a capitalisation rate of 1.1% for the period (1 January 2011 to 30 June 2011: 1.1%) per annum to expenditures on qualifying assets.

6. Income tax expense

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) |
| The amount comprises: | | |
| Hong Kong Profits Tax | 3,485 | 7,088 |
| Taxation arising in other jurisdictions | 198,710 | 248,875 |
| | 202,195 | 255,963 |
| Deferred taxation | | |
| Charge for the period | 3,410 | 8,892 |
| | 205,605 | 264,855 |

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) on the estimated assessable profit for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

7. Interim dividend

The Directors have resolved to declare an interim dividend for the six months ended 30 June 2012 of HK10 cents (1 January 2011 to 30 June 2011: HK40 cents) per share to the shareholders whose names appear on the register of members of the Company on Thursday, 20 September 2012. The dividend warrants will be dispatched on or around Thursday, 27 September 2012.



8. Earnings per share

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

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) |
| Earnings for the purpose of calculating basic and diluted earnings per share | 908,060 | 1,814,339 |

| | Number of shares | |
|--|------------------|-----------------|
| | 30 June 2012 | 30 June 2011 |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | 854,666,754 | 852,566,187 |
| Add: Effect of dilutive potential ordinary shares relating to: | | |
| – outstanding share options issued by the Company | – | 1,762,901 |
| – outstanding warrants issued by the Company | – | 4,243,159 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | 854,666,754 | 858,572,247 |

No diluted earnings per share for the six months ended 30 June 2012 has been presented in respect of the Company's share options and warrants because the exercise prices of the Company's share options and warrants were higher than the average market price of the Company's shares during the period.

9. Additions to properties, plant and equipment

During the reporting period, the Group spent approximately HK\$1,269 million (1 January 2011 to 30 June 2011: HK\$1,143 million) on acquisition of properties, plant and equipment.

10. Trade and other receivables and prepayments and bills receivables

| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|--|--|--|
| Trade receivables | 5,353,416 | 5,203,420 |
| Advance to suppliers | 947,334 | 1,052,656 |
| Prepayment and deposits | 886,773 | 981,017 |
| Value-added tax ("VAT") recoverable | 1,062,702 | 815,339 |
| Land appreciation tax on pre-sale properties | 64,521 | 123,297 |
| Other receivables | 284,013 | 238,376 |
| | 8,598,759 | 8,414,105 |

The Group allows credit periods of up to 120 days, depending on the products sold, to its trade customers. The following is an aged analysis of the trade receivables at the end of the reporting period:

| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|---------------|--|--|
| 0 – 90 days | 4,053,084 | 3,923,013 |
| 91 – 180 days | 1,230,890 | 1,223,439 |
| Over 180 days | 69,442 | 56,968 |
| | 5,353,416 | 5,203,420 |

All bills receivables of the Group are aged within 90 days at the end of the reporting period.

11. Trade and other payables and bills payables

| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|---|--|--|
| Trade payables | 3,522,707 | 2,968,157 |
| Accrued expenses | 578,161 | 579,290 |
| Payables for acquisition of properties, plant and equipment | 630,248 | 571,269 |
| Receipt in advance | 303,693 | 221,342 |
| Other tax payables | 187,609 | 210,593 |
| VAT payables | 148,769 | 145,577 |
| Other payables | 307,261 | 326,926 |
| | 5,678,448 | 5,023,154 |

The following is an aged analysis of the trade payables at the end of the reporting period:

| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|---------------|--|--|
| 0 – 90 days | 2,583,585 | 2,191,413 |
| 91 – 180 days | 747,004 | 592,294 |
| Over 180 days | 192,118 | 184,450 |
| | 3,522,707 | 2,968,157 |

All bills payables of the Group are aged within 90 days at the end of the reporting period.





12. Share options

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

The Company adopted its first share option scheme on 11 May 1998, and such share option scheme was terminated upon the adoption of its second share option scheme (the "2002 Scheme") on 2 July 2002 for the duration of 10 years. In view of the changes to the Listing Rules, a new share option scheme (the "Scheme") was approved by shareholders of the Company at the extraordinary general meeting of the Company held on 23 March 2009. The 2002 Scheme was accordingly terminated on the same day without affecting the rights of holders of any options granted and outstanding under the 2002 Scheme.

Under the Scheme which is valid for a period of 10 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 contribute to the long-term growth and profitability of the Company. Eligible Participants include (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 on the date of an offer of the grant of the options. The options must be taken up within 28 business 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 of the Company 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 approval 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.

In accordance with the terms of the 2002 Scheme and the Scheme, share options of the Company issued vest at the date of grant.

There was 28,000,000 share options granted under the Scheme since its adoption. At 30 June 2012, the number of shares in respect of which options had been granted and remained outstanding was 28,000,000 (31 December 2011: 28,000,000), representing 3.28% (31 December 2011: 3.28%) 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:

| | Number of share options outstanding as at 31 December 2011 | Granted during the period | Exercised during the period | Lapsed during the period | Number of share options outstanding as at 30 June 2012 | Option grant date | Exercise period | Exercise price HK\$ |
|---|---|------------------------------------|--------------------------------------|-----------------------------------|--|----------------------|---|---------------------------|
| Directors | | | | | | | | |
| Cheung Kwok Wing (Executive Director) | 2,800,000 | - | - | - | 2,800,000 | 21 Mar 2011 | 21 Mar 2011 to 22 Mar 2019 (Note 1) | 40.7 |
| Chang Wing Yiu (Executive Director) | 2,600,000 | - | - | - | 2,600,000 | 21 Mar 2011 | 21 Mar 2011 to 22 Mar 2019 (Note 1) | 40.7 |
| Cheung Kwong Kwan (Executive Director) | 2,600,000 | - | - | - | 2,600,000 | 21 Mar 2011 | 21 Mar 2011 to 22 Mar 2019 (Note 1) | 40.7 |
| Ho Yin Sang (Executive Director) | 2,600,000 | - | - | - | 2,600,000 | 21 Mar 2011 | 21 Mar 2011 to 22 Mar 2019 (Note 1) | 40.7 |
| Mok Cham Hung, Chadwick (Executive Director) | 2,600,000 | - | - | - | 2,600,000 | 21 Mar 2011 | 21 Mar 2011 to 22 Mar 2019 (Note 1) | 40.7 |
| Cheung Wai Lin, Stephanie (Executive Director) | 2,600,000 | - | - | - | 2,600,000 | 21 Mar 2011 | 21 Mar 2011 to 22 Mar 2019 (Note 1) | 40.7 |
| Sub-total | 15,800,000 | - | - | - | 15,800,000 | | | |
| Employees | 12,200,000 | - | - | - | 12,200,000 | 21 Mar 2011 | 21 Mar 2011 to 22 Mar 2019 (Note 1) | 40.7 |
| Sub-total | 12,200,000 | - | - | - | 12,200,000 | | | |
| Total | 28,000,000 | - | - | - | 28,000,000 | | | |

Note:

- (1) These share options are exercisable only from the date of grant until 22 March 2019 with the maximum number of shares entitled to be subscribed by each grantee as follows: (a) up to 25% of the total number of shares subject to the share options from 21 March 2011 to 22 March 2019 ("Lot 1"); (b) additional 25% of the total number of shares subject to the share options from 21 March 2012 to 22 March 2019 ("Lot 2"); (c) additional 25% of the total number of shares subject to the share options from 21 March 2013 to 22 March 2019 ("Lot 3"); and (d) remaining 25% of the total number of shares subject to the share options from 21 March 2014 to 22 March 2019 ("Lot 4"). The closing price of the Company's shares quoted on the Stock Exchange immediately before the granting date is HK\$39.55.

The Group recognised the total expense of approximately HK\$44,838,000 for the six months ended 30 June 2012 (six months ended 30 June 2011: HK\$30,317,000) in relation to the share options granted by the Company.





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

The 2002 Elec & Eltek Employees' Share Option Scheme (the "2002 EEIC Scheme") which was adopted from 12 November 2002 for the duration of 5 years, had been terminated in November 2007 without affecting the rights of holders of any options granted and outstanding under the 2002 EEIC Scheme.

EEIC has since 1997, had in place share option schemes to acknowledge the contributions of and to motivate employees to contribute to EEIC and its subsidiaries ("EEIC Group"). With the expiration of the 2002 EEIC Scheme in 2007, the directors of EEIC wished to have in place a new share option scheme to replace the expired 2002 EEIC Scheme for the purpose of providing an opportunity for employees who have contributed significantly to the growth and performance of the EEIC Group to participate in the equity of EEIC so as to motivate them to greater dedication, loyalty and higher standards of performance, and to give recognition to past contributions and services as well as to align the interests of employees with the interests of shareholders.

The 2008 Elec & Eltek Employees' Share Option Scheme (the "2008 EEIC Scheme") was approved by the shareholders of EEIC at the extraordinary general meeting held on 21 April 2008 and was adopted and took effect from 9 May 2008 upon approval by the shareholders of the Company.

The 2008 EEIC Scheme which shall be administered by the committee of directors of EEIC as authorised by EEIC's directors, is open to full-time employees and directors of any company within the EEIC Group, the parent group and of an associated company of EEIC, subject to certain conditions being satisfied.

The 2008 EEIC Scheme entitles the option holders to exercise their options and subscribe for new ordinary shares in EEIC either at an "Exercise Price", which equals to the average of the last dealt prices for an EEIC share for a period of 5 consecutive market days immediately preceding the relevant date of grant, or at a discount to the Exercise Price as defined earlier, whereby the discount shall not exceed 20% of the Exercise Price.

Options granted at the Exercise Price or at a discount to the Exercise Price may be exercised after the first or second anniversary respectively of the date of grant and expiring on the fifth anniversary of the date of grant.

The duration of the 2008 EEIC Scheme is 10 years and the total number of shares in EEIC that may be issued shall not exceed 10% of the total number of EEIC shares in issue as at the adoption date or subject to certain conditions being satisfied, 15% of the total issued shares of EEIC excluding treasury shares (if any) from time to time. The total number of EEIC shares issued and to be issued upon the 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 after the relevant date of grant accompanied by payment of S\$1.00 (or its equivalent) as 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 shareholders' meeting.

There was no share option granted under the 2008 EEIC Scheme since its adoption. There were no share options outstanding under the 2002 EEIC Scheme as at 30 June 2012 (31 December 2011: nil).

(c) Employees' share option scheme of Kingboard Laminates Holdings Limited ("KLHL")

The share option scheme of KLHL (the "KLHL Scheme") was approved by the shareholders of KLHL and the shareholders of the Company on 18 May 2007 and 25 June 2007 respectively. The KLHL Scheme has taken effect after obtaining the approval from the Listing Committee of the Stock Exchange on 6 July 2007.

The KLHL Scheme would be valid for a period of 10 years. The directors of KLHL may, at its discretion, grant options to subscribe for shares in KLHL to eligible participants who contribute to the long-term growth and profitability of KLHL and include (i) any employee or proposed employee (whether full-time or part-time and including any executive director), consultants or advisers of or to KLHL, any of its subsidiaries or any entity ("KLHL's Invested Entity") in which KLHL and its subsidiaries (collectively referred to as the "KLHL Group") hold an equity interest; (ii) any non-executive directors (including independent non-executive directors) of KLHL, any of its subsidiaries or any KLHL's Invested Entity; (iii) any supplier of goods or services to any member of the KLHL Group or any KLHL's Invested Entity; (iv) any customer of the KLHL Group or any KLHL's Invested Entity; (v) any person or entity that provides research, development or other technological support to the KLHL Group or any KLHL's Invested Entity; and (vi) any shareholder of any member of the KLHL Group or any KLHL's Invested Entity or any holder of any securities issued by any member of the KLHL Group or any KLHL's Invested Entity.

The subscription price of KLHL's share in respect of any option granted under the KLHL Scheme must be at least the highest of (i) the closing price of the shares of KLHL as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average closing price of the shares of KLHL as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the shares of KLHL.

The option may be accepted by a participant within 28 days from the date of the offer for the grant of the option upon the payment of a consideration of HK\$1. An option may be exercised at any time during a period to be determined and notified by the directors of KLHL to each grantee, and in the absence of such determination, from the date upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. The directors of KLHL may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

The total number of shares of KLHL which may be issued upon exercise of all options to be granted under the KLHL Scheme and any other share option scheme of KLHL (excluding, for this purpose, options lapsed in accordance with the terms of the KLHL Scheme and any other share option scheme of KLHL) must not in aggregate exceed 10% of the total number of shares of KLHL in issue as at the date of approval of the KLHL Scheme.



The maximum number of shares of KLHL which may be issued upon exercise of all outstanding options granted and yet to be exercised under the KLHL Scheme and any other share option scheme of KLHL must not exceed 30% of the issued share capital of KLHL from time to time.

The total number of shares of KLHL issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the share capital of KLHL then in issue unless approved by the shareholders of KLHL and the Company in general meetings.

As at the date of this interim report, the total number of shares of KLHL available for issue under the KLHL Scheme is 100,000,000 shares, representing approximately 3.33% of the issued share capital of KLHL.

Details of the share options granted by KLHL pursuant to the KLHL Scheme and the share options outstanding as at 30 June 2012 were as follows:

| | Number of share options outstanding | | | Lapsed during the period | Number of share options outstanding | | | Option grant date | Exercise period | Exercise price HK\$ |
|--|---|---------------------------------|-----------------------------------|--------------------------------|---|-------------|---|----------------------|--------------------|---------------------------|
| | as at 31 December 2011 | Granted during the period | Exercised during the period | | as at 30 June 2012 | | | | | |
| Directors and employees of KLHL | 100,000,000 | - | - | - | 100,000,000 | 21 Mar 2011 | 21 Mar 2011 to 17 May 2017 (Note 1) | 6.54 | | |
| Total | 100,000,000 | - | - | - | 100,000,000 | | | | | |

Note:

- (1) These share options are exercisable only from the date of grant until 17 May 2017 with the maximum number of shares entitled to be subscribed by each grantee as follows: (a) up to 25% of the total number of shares subject to the share options from 21 March 2011 to 17 May 2017 ("KLHL Lot 1"); (b) additional 25% of the total number of shares subject to the share options from 21 March 2012 to 17 May 2017 ("KLHL Lot 2"); (c) additional 25% of the total number of shares subject to the share options from 21 March 2013 to 17 May 2017 ("KLHL Lot 3"); and (d) remaining 25% of the total number of shares subject to the share options from 21 March 2014 to 17 May 2017 ("KLHL Lot 4"). The closing price of KLHL's shares quoted on the Stock Exchange immediately before the granting date is HK\$6.30.

The Group recognised the total expense of approximately HK\$18,587,000 for the six months ended 30 June 2012 (six months ended 30 June 2011: HK\$13,012,000) in relation to the share options granted by KLHL.

13. Warrants

On 2 March 2010, a bonus issue of warrants (“Warrants”) to the shareholders of the Company on the basis of 1 Warrant for every 10 shares held by shareholders of the Company whose names appeared on the register of members of the Company on 26 April 2010, was proposed. Consequently, 84,473,904 Warrants were issued, conferring rights to the holders of the Warrants from any time on 5 May 2010 up to 31 October 2012 (both days inclusive) to subscribe for up to an aggregate of 84,473,904 shares of the Company at an initial subscription price of HK\$40 per share (subject to adjustment), representing an aggregate subscription price of approximately HK\$3,378,956,000.

The fair value of equity component of the Warrants was amounted to HK\$675,791,000 based on the quoted price of the Warrants as at the first day of their trading on the Stock Exchange and the amount was transferred from retained profits to warrant reserve as a bonus issue of warrants.

During the six months ended 30 June 2012, no (1 January 2011 to 30 June 2011: 695,542) new share of the Company was issued on exercise of the Warrants. Exercise in full of the remaining outstanding Warrants would, under the present capital structure, result in the receipt by the Company of approximately HK\$3,347,607,000 (31 December 2011: HK\$3,347,607,000) in subscription monies and the issue of 83,690,186 (31 December 2011: 83,690,186) new shares of the Company.

14. Commitments

| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|--|--|--|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: | | |
| – acquisition of properties, plant and equipment | 332,738 | 575,554 |
| – acquisition of properties | – | 447,042 |
| – capital injection in an unlisted investment | 6,240 | 12,458 |
| Capital expenditure in respect of acquisition of properties, plant and equipment authorised but not contract for | – | 2,319 |
| | 338,978 | 1,037,373 |





15. Related party transactions

The Group entered into the following significant transactions with related parties during the period:

| | Six months ended 30 June | |
|---|--|---|
| | 2012 <i>HK\$'000</i> <i>(Unaudited)</i> | 2011 <i>HK\$'000</i> <i>(Unaudited)</i> |
| Sales of goods to a minority shareholder of a subsidiary | 32,783 | 56,589 |
| Purchase of goods from a minority shareholder of a subsidiary | – | – |
| Purchase of goods from an associate | 140,988 | 114,503 |
| Sales of goods to a substantial shareholder of the Company | 483,776 | 337,289 |
| Purchase of goods from a substantial shareholder of the Company | 274,539 | 273,316 |

Included in trade and other receivables and prepayments as at 30 June 2012 was an amount due from a minority shareholder of a subsidiary of approximately HK\$16,121,000 (31 December 2011: HK\$17,337,000).

Included in trade and other payables as at 30 June 2012 was an amount due to an associate of approximately HK\$26,905,000 (31 December 2011: HK\$33,970,000).

16. Contingent liabilities

During the year ended 31 December 2011, KLHL Group and Kingboard Copper Foil Holdings Limited (“KBCF”) have been named as defendants in the Supreme Court of Bermuda in respect of an allegation of the affairs of KBCF have been and or are being conducted in a manner which is oppressive or unfairly prejudicial to the minority interests of KBCF. The petitioner is seeking an order to KLHL to purchase all of the KBCF’s shares held by petitioner at the price to be fixed by a valuer or Supreme Court of Bermuda. As at 30 June 2012, KLHL and its Bermuda lawyers are of the view that the allegations are baseless and the petition is misconceived and without merit. The case is still on-going and KLHL will take any and all appropriate steps to oppose the petition. Accordingly, no provision for liability has been made in connection with this claim.

BUSINESS REVIEW

On behalf of the Board of Directors, I am pleased to report to our shareholders that Kingboard Chemical Holdings Limited (the “Group”) delivered another set of satisfactory results for the six months ended 30 June 2012 (“1H 2012”). The business operating environment was extremely challenging for the Group during the reporting period. Against the strong headwind caused by the European sovereign debt crisis and the slow US economic recovery, global demand for electronic products showed signs of weakness in 1H 2012. As a result, the business performance of the laminate and printed circuit board (“PCB”) divisions was negatively impacted. Meanwhile, as chemical prices were dragged lower as a result of the macroeconomic control in China, chemical division revenue and earnings contribution to the Group declined substantially. With regard to our property division, our investment properties continued to bring in strong rental income growth for the Group. Furthermore, boosted by the booking of sales revenue from the Group’s first residential development project Shanghai Yu Garden Kunshan, Jiangsu province in the first half, contribution of earnings before interest, tax, depreciation and amortization (“EBITDA”) of the property division surged to 12% of Group EBITDA to HK\$309.3 million. Despite an extremely tough operating environment in 1H 2012, our dedicated management team reacted quickly to changes in the market. With stringent control over capital expenditure and costs, and efforts on improving operating efficiency, all core business divisions continued to deliver profitable results. Group revenue declined 12% to HK\$16,593.9 million. EBITDA decreased 30% to HK\$2,600 million and net profit decreased 50% to HK\$908.1 million. With the efforts of our staff members and outstanding management team, the Group was able to achieve encouraging results amidst adverse market conditions.

Our excellent business model with diversified income streams created a strong buffer for the Group against a volatile market. This clearly underscores the accomplishments of our seasoned management in building a competitive edge for the Group with sustained returns. To reward our shareholders, the Board resolved to declare an interim dividend of HK10 cents per share.



Financial Highlights

| | Six months ended 30 June | | |
|---|--------------------------|----------------------|--------|
| | 2012 HK\$'million | 2011 HK\$'million | Change |
| Revenue | 16,593.9 | 18,953.9 | -12% |
| EBITDA | 2,600.1 | 3,713.4 | -30% |
| Profit before tax | 1,354.8 | 2,491.1 | -46% |
| Net profit attributable to owners of the Company | 908.1 | 1,814.3 | -50% |
| Basic earnings per share | HK\$1.062 | HK\$2.128 | -50% |
| Interim dividend per share | HK10.0 cents | HK40.0 cents | -75% |
| Net asset value per share | HK\$33.6 | HK\$32.6 | +3% |
| Net gearing ratio | 45% | 33% | |

Performance

Demand for electronic products slowed against a backdrop of sluggish global economic growth, which in turn impacted the demand for laminates. As a result, capacity utilization was lower compared with the corresponding period last year. Average selling price ("ASP") for laminate products, showed a downtrend in 1H 2012 due to lower copper prices compared with last year, inducing pressure on margins. Overall laminate shipment volume was down 6%, to an average monthly shipment of 8.2 million square metres. Overall laminate division revenue (including inter-segment sales) was HK\$6,223.4 million, with EBITDA standing at HK\$1,129.0 million.

Similar to the laminate division, performance of the PCB division was also affected by weaker demand for electronic products. The Group successfully tapped into the thriving high density interconnect ("HDI") PCB market by ongoing product mix enhancement. HDI PCB turnover contribution surged from 16% of total PCB sales in 1H 2011 to 19% of total PCB sales in 1H 2012. Turnover of PCB division reached HK\$3,545.9 million while EBITDA was HK\$484.0 million.

In light of softer global chemical prices and weak chemical product demand in domestic China market, shipment volume and ASP declined against the same period last year. As a result, chemical division revenue (including inter-segment sales) declined 22% to HK\$7,118.5 million with EBITDA at HK\$642.4 million in 1H 2012. Share of associates' results (the bulk of which was contributed by our natural gas based methanol plant joint venture with China BlueChemical Limited) also decreased by 12% to HK\$109.5 million.

Our property division is bringing in attractive returns. Rental income jumped 64% to HK\$164.2 million in 1H 2012. Together with partial booking of property sales income of HK\$720.3 million from Shanghai Yu Garden project, total division revenue reached HK\$884.5 million. Guangzhou Dong Zhao Building, with renovation work completed last year, achieved an occupancy rate of over 80% by the end of June 2012. In addition, the Group completed the acquisition of 24 storey commercial building, Delta House, located at Shatin, Hong Kong in May 2012. It has a gross floor area of around 33,000 square metres. Current occupancy rate is over 90% and is expected to bring in around HK\$50 million extra rental income for the Group per annum. As at 30 June 2012, the Group held a land bank of approximately 4 million square metres of gross floor area located at prime sites in major cities such as Guangzhou, Shanghai and Kunshan in China.

LIQUIDITY AND CAPITAL RESOURCES

Our financial and liquidity position continued to be solid. As at 30 June 2012, net current assets and current ratio of the Group were approximately HK\$13,298.3 million (31 December 2011 – HK\$12,347.5 million) and 1.92 (31 December 2011 – 1.83) respectively.

The net working capital cycle increased from 40 days as at 31 December 2011 to 47 days as at 30 June 2012 on the following key metrics:

- Inventories, in terms of stock turnover days, increased to 45 days (31 December 2011 – 35 days).
- Trade receivables, in terms of debtors turnover days, increased to 59 days (31 December 2011 – 52 days).
- Trade and bills payable, in terms of creditors turnover days, increased to 57 days (31 December 2011 – 47 days).

The Group's net gearing ratio (ratio of interest bearing borrowings net of cash and cash equivalents to total equity) was 45% (31 December 2011 – 40%). The proportion of bank borrowings between short term and long term stood at 33%:67% (31 December 2011 – 37%:63%). During the period under review, the Group invested around HK\$1,268.9 million and HK\$1,894.3 million in new production capacity and property development projects respectively. As at 30 June 2012, the Group had cash on hand and committed and undrawn banking facilities of HK\$3.8 billion and HK\$1.6 billion respectively. Hence, with a robust balance sheet coupled with strong liquidity, the Group is well equipped to ride through any challenges and capture growth opportunities in the market place.





The Group continued to adopt a prudent financial management policy including the use of interest rate swap contracts to minimize exposure to fluctuation in interest rate movement. At the end of June 2012, outstanding notional amount of interest rate swap agreements stood at approximately HK\$400 million with a weighted average duration and interest rate of 0.26 year and 3.04% respectively. Other than derivative financial instruments in connection with our daily operations as mentioned above, the Group had not entered into any other material derivative financial instruments throughout the first six months of 2012. There was no material foreign exchange rate exposure to the Group during the period under review. The Group's revenue, mostly denominated in Hong Kong dollars, RMB and US dollars, was fairly matched with the currency requirement of operating expenses.

HUMAN RESOURCES

As at 30 June 2012, the Group had a global workforce of approximately 45,000 (31 December 2011 – 43,200). The increase in headcount was in line with the expanded business activities. In addition to offering a competitive salary package, the Group grants share options and discretionary bonuses to eligible employees based on our overall financial achievement and individual performance.

PROSPECTS

Looking ahead, the outlook of the global economy remains uncertain. Benefitting from solid business fundamentals and a seasoned management team, the Group is confident of overcoming the challenges ahead. Our well diversified business portfolio has always effectively mitigated risk exposure for the Group during different economic cycles, and we will continue to invest in enhancing the competencies of our core businesses so as to prepare the Group for future business opportunities.

With regard to the laminate division, the Group will focus on expanding the domestic market business in China to gain additional market share. The order book for the first two months of the third quarter of 2012 has shown a positive trend. Capacity utilization also improved against the previous quarter. Construction work for the new Jiangmen laminate plant, Guangdong province has been completed and trial production is scheduled for the end of this year. Preparation is also underway to expand laminate capacity at our Jiangyin plant in Jiangsu province in order to meet demand for high performance laminates in the market.

High-end communication devices and smart phones are the key growth drivers in the technology market. The Group will continue to expand its HDI PCB capacity to capture additional market share. In addition, phase I of the new PCB base in Yangzhou, Jiangsu province, started trial production in June. The new Qingyuan Express PCB plant is also starting trial production in the second half of 2012, enabling the Group to meet customer demand for PCB products.

The new 300,000-tonne phenol/acetone plant in Yangzhou, Jiangsu province, has commenced trial production in the second quarter of 2012. This project is expected to add future growth impetus for the chemical division.

The balance of contract sales revenue and earnings in connection with the Group's first residential development project – Shanghai Yu Garden in Kunshan – is expected to be recognized in 2H 2012. Pre-sales for another residential project – Kunshan, Jiangsu province Qiandeng Yu Garden – has made good progress. Another investment property project, Guangzhou Kingboard Plaza located at Zhujiang Xincheng, is on schedule to complete by the end of this year. These projects, together with the acquisition of Delta House in Hong Kong this year, will fuel rental income growth over the next two years.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers, banks, and to our management and employees for their unreserved support to the Group during the reporting period.

CLOSURE OF REGISTER OF MEMBERS AND REGISTER OF WARRANTHOLDERS

The register of members of the Company will be closed from Tuesday, 18 September 2012 to Thursday, 20 September 2012 (both days inclusive) during which period no transfers of shares will be registered. In order to qualify for receiving the interim dividend, the Company's shareholders are reminded to ensure that all transfers of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Tricor 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 Monday, 17 September 2012.

Registered holders of the Company's 2012 warrants who wish to exercise their subscription rights attached to their warrants in order to qualify for receiving the interim dividend should complete and sign the subscription form and lodge them with the relevant warrant certificates and the appropriate subscription money with Tricor Secretaries Limited at the above address not later than 4:00 p.m. on Monday, 17 September 2012.



DIRECTORS' INTERESTS

At 30 June 2012, the interests of the Directors and chief executive in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which (1) were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position they were taken or deemed to have under such provisions of the SFO); (2) were recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or (3) were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

Long position

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

| Name of Director | Capacity | Approximate percentage of the issued share capital of the Company | |
|--------------------------------------|------------------|---|------|
| | | Number of issued Shares held | |
| Mr. Cheung Kwok Wing | Beneficial owner | 3,738,675 | 0.43 |
| Mr. Chan Wing Kwan (Note 1) | Beneficial owner | 1,760,250 | 0.20 |
| Mr. Cheung Kwong Kwan | Beneficial owner | 2,068,200 | 0.24 |
| Mr. Chang Wing Yiu (Note 2) | Beneficial owner | 4,115,274 | 0.48 |
| Mr. Ho Yin Sang (Note 3) | Beneficial owner | 4,617,729 | 0.54 |
| Mr. Mok Cham Hung, Chadwick (Note 4) | Beneficial owner | 2,940,000 | 0.34 |
| Ms. Cheung Wai Lin, Stephanie | Beneficial owner | 210,000 | 0.02 |

Notes:

- (1) Out of the 1,760,250 Shares, 1,700,250 Shares were held by Mr. Chan Wing Kwan and 60,000 Shares were held by his spouse.
- (2) Out of the 4,115,274 Shares, 3,397,074 Shares were held by Mr. Chang Wing Yiu and 718,200 Shares were held by his spouse.
- (3) Out of the 4,617,729 Shares, 2,685,229 Shares were held by Mr. Ho Yin Sang and 1,932,500 Shares were held by his spouse.
- (4) Out of the 2,940,000 Shares, 2,830,000 Shares were held by Mr. Mok Cham Hung, Chadwick and 110,000 Shares were held by his spouse.

(b) Share options of the Company (“Share Options”)

| Name of Director | Capacity | Interest in underlying Shares pursuant to Share Options under the Scheme |
|-------------------------------|------------------|---|
| Mr. Cheung Kwok Wing | Beneficial owner | 2,800,000 |
| Mr. Chang Wing Yiu | Beneficial owner | 2,600,000 |
| Mr. Ho Yin Sang (Note) | Beneficial owner | 5,040,000 |
| Mr. Cheung Kwong Kwan | Beneficial owner | 2,600,000 |
| Mr. Mok Cham Hung, Chadwick | Beneficial owner | 2,600,000 |
| Ms. Cheung Wai Lin, Stephanie | Beneficial owner | 2,600,000 |

Note: Out of the 5,040,000 Share Options, 2,600,000 Share Options were held by Mr. Ho Yin Sang and 2,440,000 Share Options were held by his spouse.

(c) Warrants of the Company (“Warrants”)

| Name of Director | Capacity | Interest in underlying Shares pursuant to the Warrants |
|--------------------------------------|------------------|---|
| Mr. Cheung Kwok Wing | Beneficial owner | 165,222 |
| Mr. Chan Wing Kwan (Note 1) | Beneficial owner | 78,025 |
| Mr. Cheung Kwong Kwan | Beneficial owner | 111,320 |
| Mr. Chang Wing Yiu (Note 2) | Beneficial owner | 335,527 |
| Mr. Ho Yin Sang (Note 3) | Beneficial owner | 379,412 |
| Mr. Mok Cham Hung, Chadwick (Note 4) | Beneficial owner | 182,000 |

Notes:

- (1) Out of the 78,025 Warrants, 72,025 Warrants were held by Mr. Chan Wing Kwan and 6,000 Warrants were held by his spouse.
- (2) Out of the 335,527 Warrants, 267,707 Warrants were held by Mr. Chang Wing Yiu and 67,820 Warrants were held by his spouse.
- (3) Out of the 379,412 Warrants, 102,662 Warrants were held by Mr. Ho Yin Sang and 276,750 Warrants were held by his spouse.
- (4) Out of the 182,000 Warrants, 181,000 Warrants were held by Mr. Mok Cham Hung, Chadwick and 1,000 Warrants were held by his spouse.





(d) Ordinary shares of HK\$0.10 each in KLHL (“KLHL Shares”)

| Name of Director | Capacity | Number of issued KLHL Shares held | Approximate percentage of the issued share capital of KLHL |
|--------------------------------------|------------------|--|---|
| Mr. Cheung Kwok Wing | Beneficial owner | 675,500 | 0.023 |
| Mr. Chan Wing Kwan (Note 1) | Beneficial owner | 100,000 | 0.003 |
| Mr. Chang Wing Yiu (Note 2) | Beneficial owner | 100,000 | 0.003 |
| Mr. Ho Yin Sang (Note 3) | Beneficial owner | 540,000 | 0.018 |
| Mr. Mok Cham Hung, Chadwick (Note 4) | Beneficial owner | 60,000 | 0.002 |

Notes:

- (1) The 100,000 KLHL Shares were held by the spouse of Mr. Chan Wing Kwan.
- (2) The 100,000 KLHL Shares were held by the spouse of Mr. Chang Wing Yiu.
- (3) The 540,000 KLHL Shares were held by the spouse of Mr. Ho Yin Sang.
- (4) The 60,000 KLHL Shares were held by the spouse of Mr. Mok Cham Hung, Chadwick.

(e) Share options of KLHL (“KLHL Share Options”)

| Name of Director | Capacity | Interest in underlying shares pursuant to KLHL Share Options |
|--------------------------------------|------------------|---|
| Mr. Ho Yin Sang (Note 1) | Beneficial owner | 9,000,000 |
| Mr. Mok Cham Hung, Chadwick (Note 2) | Beneficial owner | 10,000,000 |

Notes:

- (1) The 9,000,000 KLHL Shares Options were held by the spouse of Mr. Ho Yin Sang.
- (2) The 10,000,000 KLHL Shares Options were held by the spouse of Mr. Mok Cham Hung, Chadwick.

(f) Non-voting deferred shares of HK\$1 each in the share capital of Kingboard Laminates Limited, a non-wholly owned subsidiary of the Company

| Name of Director | Capacity | Number of non-voting deferred shares held (Note) |
|-------------------------|------------------|--|
| Mr. Cheung Kwok Wing | Beneficial owner | 1,904,400 |
| Mr. Chan Wing Kwan | Beneficial owner | 1,481,200 |
| Mr. Cheung Kwong Kwan | Beneficial owner | 846,400 |
| Mr. Ho Yin Sang | Beneficial owner | 529,000 |
| Mr. Chang Wing Yiu | Beneficial owner | 423,200 |

Note: None of the non-voting deferred shares of Kingboard Laminates Limited are held by the Group. Such deferred shares carry no rights to receive notice of or to attend or vote at any general meeting of Kingboard Laminates Limited and have practically no rights to dividends or to participate in any distribution on winding up.

(g) Ordinary shares in the share capital of EEIC (“EEIC Shares”), a non-wholly owned subsidiary of the Company

| Name of Director | Capacity | Number of issued EEIC Shares held | Approximate percentage of the issued share capital of EEIC |
|-----------------------------|------------------|--|---|
| Mr. Cheung Kwok Wing | Beneficial owner | 1,507,200 | 0.81 |
| Mr. Chan Wing Kwan (Note) | Beneficial owner | 1,240,000 | 0.66 |
| Mr. Chang Wing Yiu | Beneficial owner | 486,600 | 0.26 |
| Mr. Mok Cham Hung, Chadwick | Beneficial owner | 1,120,200 | 0.60 |
| Mr. Ho Yin Sang | Beneficial owner | 486,600 | 0.26 |

Note: Out of the 1,240,000 EEIC Shares, 1,200,000 EEIC Shares were held by Mr. Chan Wing Kwan and 40,000 EEIC Shares were held by his spouse.





(h) Ordinary shares of US\$0.10 each (“KBCF Shares”) in the share capital of Kingboard Copper Foil Holdings Limited (“KBCF”), a non-wholly owned subsidiary of the Company

| Name of Director | Capacity | Number of issued KBCF Shares held | Approximate percentage of the issued share capital of KBCF |
|----------------------------|------------------|--|---|
| Mr. Cheung Kwok Wing | Beneficial owner | 1,000,000 | 0.1380 |
| Mr. Ho Yin Sang (Note) | Beneficial owner | 2,000 | 0.0003 |
| Mr. Lai Chung Wing, Robert | Beneficial owner | 72,000 | 0.0100 |

Note: The 2,000 KBCF Shares were held by the spouse of Mr. Ho Yin Sang.

Other than as disclosed above, none of the Directors and chief executive 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 2012 which (1) were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position they were taken or deemed to have under such provisions of SFO); (2) were recorded in the register required to be kept by the Company under Section 352 of the SFO; or (3) were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Directors or chief executive of the Company, as at 30 June 2012, shareholders who had interests or short positions in the shares or underlying shares of the Company which were disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, other than the interests disclosed above in respect of certain Directors, were as follows:

Long position

The Shares

| Name of shareholder | Nature of interest | Interest in underlying Shares pursuant to the Warrants | Number of issued Shares held | Approximate percentage of the issued share capital of the Company |
|---|------------------------------------|--|------------------------------|---|
| Hallgain Management Limited ("Hallgain") (Note 1) | Beneficial owner | 25,969,292(L) | 280,043,329(L) | 32.76(L) |
| Capital Research and Management Company | Investment manager | – | 76,786,836(L) | 8.98(L) |
| FMR LLC | Investment manager | 4,175,000(L) | 50,682,000(L) | 5.93(L) |
| Cheah Cheng Hye | Beneficial owner | – | 132,000(L) | 0.01(L) |
| | Interest of spouse | – | 31,900(L) | 0.003(L) |
| | Founder of a discretionary trust | – | 59,369,150(L) | 6.94(L) |
| To Hau Yin | Beneficial owner | – | 31,900(L) | 0.003(L) |
| | Interest of spouse | – | 59,501,150(L) | 6.96(L) |
| Value Partners Limited (Note 2) | Investment manager | 10,050(L) | 59,797,346(L) | 6.99(L) |
| J.P. Morgan Chase & Co. (Note 3) | Interest of controlled corporation | 53,400(L) | 51,387,454(L) | 6.01(L) |
| | | | 300,000(S) | 0.04(S) |
| | | | 46,288,996(P) | 5.41(P) |
| Gryphon International Investment Corporation | Investment manager | 3,325,990(L) | 42,898,398(L) | 5.01(L) |

(L) The letter "L" denotes a long position.

(S) The letter "S" denotes a short position.

(P) The letter "P" denotes interest in a lending pool.

Notes:

- (1) As at 30 June 2012: (i) no shareholder of Hallgain was 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 were not accustomed to act in accordance with any shareholder's direction; and (ii) Messrs. Cheung Kwok Wing and Chan Wing Kwan, being Directors, were also directors of Hallgain.





- (2) Value Partners Limited was wholly controlled by Value Partners Hong Kong Limited, a company wholly controlled by Value Partners Group Limited. Value Partners Group Limited is a company listed in Hong Kong and was controlled as to 28.47% by Cheah Capital Management Limited. Cheah Capital Management Limited was wholly controlled by Cheah Company Limited, a company wholly controlled by Hang Seng Bank Trustee International Limited in the capacity as a trustee of a trust.
- (3) J.P. Morgan Chase & Co wholly controlled J.P. Morgan Chase Bank, N.A. and JP Morgan Asset Management Holdings Inc.. J.P. Morgan Chase Bank, N.A. was interested in 47,901,496 Shares as beneficial owner.

J.P. Morgan Chase Bank, N.A. wholly controlled JP Morgan International Inc., a company which wholly controlled Bank One International Holdings Corporation, a company which in turn wholly controlled JP Morgan International Finance Limited. JP Morgan International Finance Limited wholly controlled: (a) JP Morgan Overseas Capital Corporation, a company which wholly controlled JP Morgan Whitefriars Inc., which was interested in 1,586,568 Shares as beneficial owner; and (b) JP Morgan Capital Holdings Limited.

JP Morgan Capital Holdings Limited wholly controlled JP Morgan Chase (UK) Holdings Limited, which in turn wholly controlled JP Morgan Chase International Holdings. JP Morgan Securities Limited, which was interested in 300,000 Shares as beneficial owner and had short position in 300,000 Shares as beneficial owner, was 98.95% controlled by JP Morgan Chase International Holdings.

JP Morgan Asset Management Holdings Inc. wholly controlled: (a) JP Morgan Investment Management Inc., which was interested in 322,000 Shares as beneficial owner; (b) JP Morgan Management (Asia) Inc.; and (c) JP Morgan Asset Management International Limited.

JP Morgan Management (Asia) Inc. wholly controlled JP Morgan Asset Management (Taiwan) Limited, which was interested in 45,000 Shares as beneficial owner.

JP Morgan Asset Management International Limited wholly controlled JP Morgan Asset Management Holdings (UK) Limited, which in turn wholly controlled JP Morgan Asset Management (UK) Limited. JP Morgan Asset Management (UK) Limited was interested in 1,232,390 Shares as beneficial owner.

Other than as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2012 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2012, 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 of the Group for the period ended 30 June 2012.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

As disclosed in the Corporate Governance Report contained in the Company's 2011 annual report, the Company has applied the principles under the Code on Corporate Governance Practices as in force for the period ended 31 December 2011 (the "Former Code") and has been in compliance with relevant provisions of the Former Code for that financial period.

The Stock Exchange has made various amendments to the Former Code set out in Appendix 14 of the Listing Rules, and the revised code, namely the "Corporate Governance Code and Corporate Governance Report" (the "Revised Code"), became effective on 1 April 2012. In the opinion of the Directors, the Company has been in compliance with relevant provisions of the Former Code from 1 January 2012 to 31 March 2012 and the Revised Code from 1 April 2012 to 30 June 2012, save for the deviation that the non-executive Director and independent non-executive Directors are not appointed for specific terms pursuant to paragraph A.4.1 of the Former Code and the Revised Code (as the case may be). Notwithstanding the aforesaid deviation, all the Directors (including the non-executive Director and independent non-executive Directors) are subject to retirement by rotation and re-election at the Company's annual general meeting in compliance with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Former Code and the Revised Code (as the case may be).





The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Following a specific enquiry, each Director has confirmed that he or she has complied with the required standard set out in the Model Code and the code of conduct regarding director's securities transactions adopted by the Company throughout the six months ended 30 June 2012.

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

Hong Kong, 31 August 2012

Board of Directors:

Executive Directors

Mr. Cheung Kwok Wing (*Chairman*)
Mr. Cheung Kwong Kwan
Mr. Chang Wing Yiu
Mr. Ho Yin Sang
Ms. Cheung Wai Lin, Stephanie
Mr. Mok Cham Hung, Chadwick
Mr. Chen Maosheng

Non-executive Director

Mr. Chan Wing Kwan

Independent non-executive Directors

Mr. Cheng Wai Chee, Christopher
Mr. Henry Tan
Mr. Lai Chung Wing, Robert
Mr. Tse Kam Hung