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KB

KINGBOA D CHEMICAL HOLDINGS LIMITED

建滔化工集團*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 148)

INTE IM ESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2012	**2011**	**Change**
	HK$'million	*HK$'million*	
evenue	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 rofit attributable to owners of the Com any	908.1	1,814.3	-50%
Basic earnings er share	HK$1.062	HK$2.128	-50%
Interim dividend er share	HK10.0 cents	HK40.0 cents	-75%
Net asset value er share	HK$33.6	HK$32.6	+3%
Net gearing	45%	33%	

* *For identification purpose only*

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**
	Notes	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*2*	16,593,930	18,953,859
Cost of sales and services rendered		(14,087,993)	(15,330,116)

Condensed Consolidated Statement of Com rehensive Income

	Six months ended 30 June	
	2012	**2011**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
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	31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(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

Notes:

1. Basis of re aration and rinci al accounting olicies

Segment revenues and results by reportable segments are presented below:

	Laminates	PCBs	Chemicals	Pro erties	Others	Eliminations	Consolidated

3. De reciation

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	**2011**
	HK$'000	*HK$'000*
	(Unaudited)	(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

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 er 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	**2011**
	HK$'000	*HK$'000*
	(Unaudited)	(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 ro erties, lant and equi ment

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 re ayments and bills receivables

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	5,353,416	5,203,420
Advance to suppliers	947,334	1,052,656
Other receivables and prepayments	2,298,009	2,158,029
	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	31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(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 ayables and bills ayables

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

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(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.

BUSINESS EVIEW

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

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	2012	**2011**	**Change**
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Basic earnings er share	HK$1.062	HK$2.128	-50%
Interim dividend er share	HK10.0 cents	HK40.0 cents	-75%
Net asset value er share	HK$33.6	HK$32.6	+3%
Net gearing ratio	45%	33%	

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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 ESOU CES

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 ESOU CES

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.

P OSPECTS

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.

APP ECIATION

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.

CLOSU E OF EGISTE OF MEMBE S AND EGISTE OF WA ANTHOLDE S

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.

PU CHASE, SALE O EDEMPTION OF COMPANY'S LISTED SECU ITIES

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 CO PO ATE GOVE NANCE P ACTICES

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

As at the date of this announcement, the Board consists of Messrs. Cheung Kwok Wing, Cheung Kwong Kwan, Chang Wing Yiu, Ho Yin Sang, Cheung Wai Lin, Stephanie, Mok Cham Hung, Chadwick, and Chen Maosheng, being the executive Directors, Mr. Chan Wing Kwan, being the non-executive Director, and Messrs. Cheng Wai Chee, Christopher, Henry Tan, Lai Chung Wing, Robert and Tse Kam Hung, being the independent non-executive Directors.