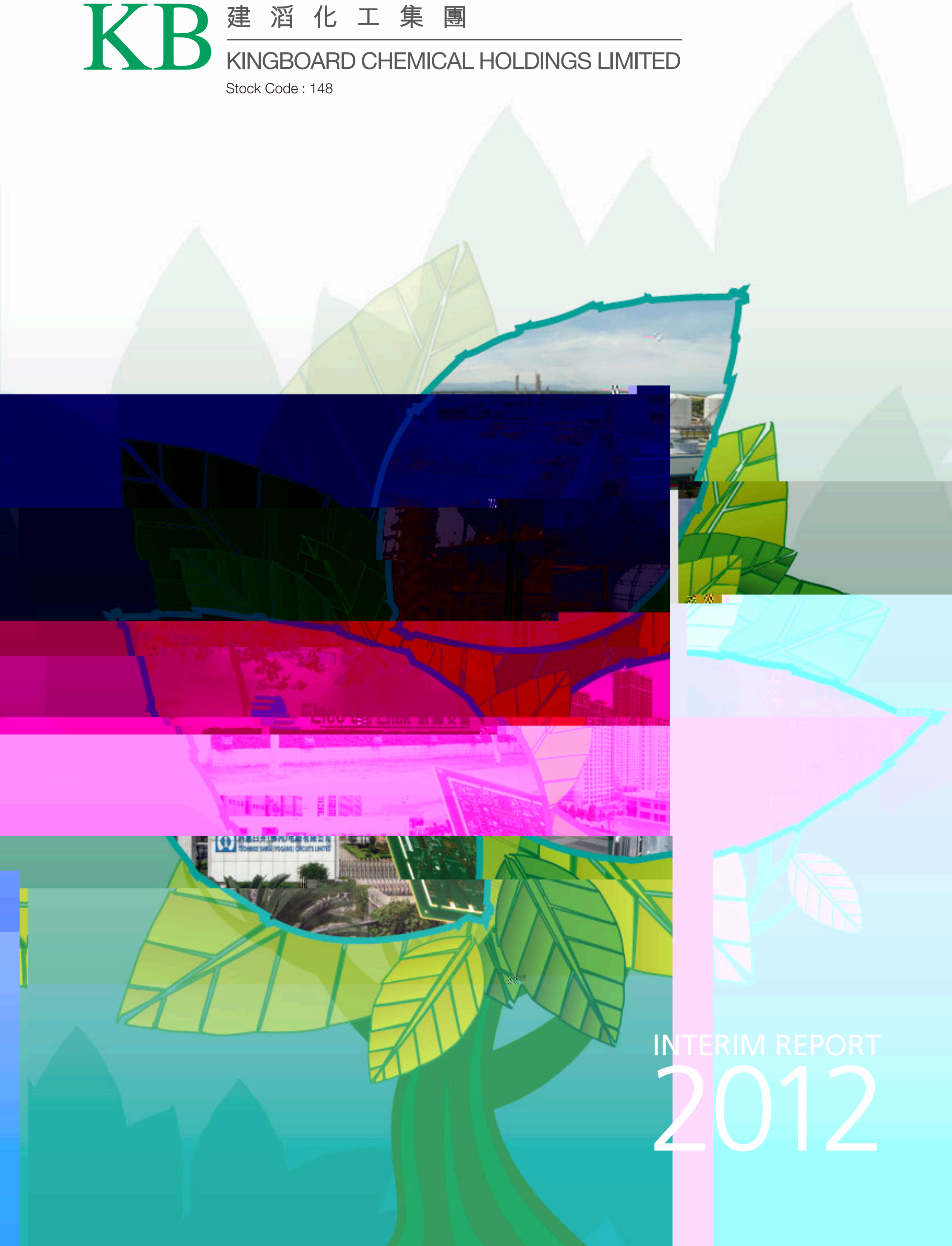
建滔化工集團

KINGBOARD CHEMICAL HOLDINGS LIMITED

Stock Code : 148



INTERIM REPORT 2012

	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					(283,851)	(142,613)	(179,319)	(321,932)
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	5,984,806	34,686,407

Condensed Consolidated Statement of Cash Flows

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

Segment revenues and results by reportable segments are presented below:

	L	PCB	C	P	O	E	C
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
S 30 J 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*
S 30 J 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							2,226,228

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

3. D

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. O

	S 30 J	
	2012 **_HK$'000_** **_(Unaudited)_**	2011 *HK$'000* *(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

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

	N 31 D 2011	G	E	L	N 30 J 2012	O	E	E HK$
D								
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
S	15,800,000	–	–	–	15,800,000			
E	12,200,000	–	–	–	12,200,000	21 Mar 2011	21 Mar 2011 to 22 Mar 2019 (Note 1)	40.7
S	12,200,000	–	–	–	12,200,000			
T	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.

13. W

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. C

	30 J 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

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 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.

( ) S C (S O)

N D	C	S S O S
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.

( ) W C (W)

N D	C	S W
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.

(c) N - HK$1 K L L C

N D	C	N (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.

(d) O EEIC (EEIC S), C

N D	C	N EEIC S	A 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.

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.