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KINGBOARD CHEMICAL HOLDINGS LIMITED

建滔化工集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 148)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS			
	FY2016	FY2015	Change
	<i>HK\$'million</i>	<i>HK\$'million</i>	
Revenue	35,830.3	32,788.2	+9%
EBITDA*	7,251.6	5,279.5	+37%
Profit before tax*	4,872.3	2,598.9	+87%
Net profit attributable to owners of the Company			
– Underlying net profit*	3,283.5	1,740.5	+89%
– Reported net profit	5,026.8	1,650.3	+205%
Basic earnings per share			
– Based on underlying net profit*	HK\$3.193	HK\$1.697	+88%
– Based on reported net profit	HK\$4.889	HK\$1.609	+204%
Full-year dividend per share	HK130.0 cents	HK50.0 cents	+160%
– Interim dividend per share	HK30.0 cents	HK20.0 cents	+50%
– Proposed final dividend per share	HK70.0 cents	HK30.0 cents	+133%
– Proposed special final dividend per share	HK30.0 cents	–	N/A
Net asset value per share	HK\$36.2	HK\$34.4	+5%
Net gearing	24%	38%	

* Excluding:

- (1) Gain on fair value changes of investment properties of HK\$17.2 million, net of deferred tax and portion shared by non-controlling shareholders (FY2015: HK\$249.6 million).
- (2) Share-based payments of HK\$20.9 million, net of portion shared by non-controlling shareholders (FY2015: HK\$62.8 million).
- (3) Impairment loss recognised on available-for-sale investments of HK\$27.8 million, net of portion shared by non-controlling shareholders (FY2015: HK\$310.6 million).
- (4) Gain on disposal of a subsidiary of HK\$1,573.7 million, net of portion shared by non-controlling shareholders (FY2015: HK\$33.6 million).
- (5) Income from relocation compensation of HK\$201.1 million, net of portion shared by non-controlling shareholders (FY2015: Nil).

The board of directors (the “Board”) of Kingboard Chemical Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016 together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Revenue	2	35,830,320	32,788,186
Cost of sales and services rendered		<u>(28,613,700)</u>	<u>(27,992,732)</u>
Gross profit		7,216,620	4,795,454
Other income, gains and losses	3	619,069	555,546
Distribution costs		(1,035,873)	(1,026,218)
Administrative costs		(1,727,765)	(1,616,485)
Gain on fair value changes of investment properties		21,286	267,085
Gain on disposal of available-for-sale investments		465,247	345,692
Gain on disposal of subsidiaries	12	2,121,238	33,590
Share-based payments		(20,910)	(62,764)
Impairment loss recognised on available-for-sale investments		(27,764)	(314,293)
Finance costs	4	(403,074)	(439,779)
Share of results of associates		<u>9,152</u>	<u>(15,269)</u>
Profit before taxation		7,237,226	2,522,559
Income tax expense	6	<u>(1,075,209)</u>	<u>(569,464)</u>
Profit for the year		<u>6,162,017</u>	<u>1,953,095</u>
Profit for the year attributable to:			
Owners of the Company		5,026,831	1,650,323
Non-controlling interests		<u>1,135,186</u>	<u>302,772</u>
		<u>6,162,017</u>	<u>1,953,095</u>
		HK\$	HK\$
Earnings per share	8		
Basic		<u>4.889</u>	<u>1.609</u>
Diluted		<u>4.875</u>	<u>1.609</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit for the year	<u>6,162,017</u>	<u>1,953,095</u>
Other comprehensive (expenses) income for the year:		
<i>Items that will not be reclassified to profit or loss:</i>		
Translation reserve:		
Exchange differences arising from translation to presentation currency	(2,161,396)	(2,208,571)
Property revaluation reserve:		
Revaluation of properties transferred to investment properties	<u>–</u>	<u>309,429</u>
	<u>(2,161,396)</u>	<u>(1,899,142)</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Investment revaluation reserve:		
Net changes arising from available-for-sale investments	(268,971)	74,021
Translation reserve:		
Exchange differences arising from translation of foreign operations	(6,279)	(6,919)
Share of change in reserve of associates	(135,317)	(121,165)
Reserve release upon disposal of an associate	<u>–</u>	<u>(4,388)</u>
	<u>(410,567)</u>	<u>(58,451)</u>
Other comprehensive expenses for the year (net of tax)	<u>(2,571,963)</u>	<u>(1,957,593)</u>
Total comprehensive income (expenses) for the year	<u>3,590,054</u>	<u>(4,498)</u>
Total comprehensive income (expenses) for the year attributable to:		
Owners of the Company	2,766,637	(46,501)
Non-controlling interests	<u>823,417</u>	<u>42,003</u>
	<u>3,590,054</u>	<u>(4,498)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets			
Investment properties		15,368,824	10,876,251
Properties, plant and equipment		13,545,102	15,660,817
Prepaid lease payments		874,668	912,439
Other non-current assets		–	689,670
Goodwill		2,288,149	2,288,149
Interests in associates		1,959,874	2,086,039
Available-for-sale investments		6,537,266	2,403,069
Entrusted loans	9	882,944	1,193,072
Deposits paid for acquisition of properties, plant and equipment		90,940	311,866
Deferred tax assets		3,347	3,420
		<u>41,551,114</u>	<u>36,424,792</u>
Current assets			
Inventories		1,779,065	2,287,118
Properties held for development		15,810,227	19,228,370
Trade and other receivables and prepayments	9	6,946,775	7,849,134
Bills receivables	9	3,182,724	2,017,736
Other current assets		645,931	–
Prepaid lease payments		21,809	25,086
Taxation recoverable		10,294	24,890
Fixed deposits held at banks with original maturity over three months		–	210,079
Bank balances and cash		6,472,614	4,853,792
		<u>34,869,439</u>	<u>36,496,205</u>
Current liabilities			
Trade and other payables	10	6,809,624	5,927,617
Bills payables	10	170,224	409,762
Deposits received from pre-sale of residential units		7,334,955	3,192,521
Taxation payable		528,938	534,181
Bank borrowings – amount due within one year		7,849,588	6,241,379
		<u>22,693,329</u>	<u>16,305,460</u>
Net current assets		<u>12,176,110</u>	<u>20,190,745</u>
Total assets less current liabilities		<u>53,727,224</u>	<u>56,615,537</u>

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current liabilities		
Deferred tax liabilities	759,988	805,518
Bank borrowings – amount due after one year	9,014,564	14,469,292
	<u>9,774,552</u>	<u>15,274,810</u>
	<u>43,952,672</u>	<u>41,340,727</u>
Capital and reserves		
Share capital	103,840	102,560
Reserves	37,483,164	35,143,608
	<u>37,587,004</u>	<u>35,246,168</u>
Equity attributable to owners of the Company	37,587,004	35,246,168
Non-controlling interests	6,365,668	6,094,559
	<u>43,952,672</u>	<u>41,340,727</u>
Total equity	<u>43,952,672</u>	<u>41,340,727</u>

NOTES:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and by the Hong Kong Companies Ordinance.

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied for the first time in current year the following amendments to HKFRSs issued by HKICPA:

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to Hong Kong Accounting Standards (“HKAS”) 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instrument ²
HKFRS 15	Revenue from contracts with customers and the related amendments ²
HKFRS 16	Leases ³
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions ²
Amendments to HKFRS 4	Applying HKFRS 9 Financial Investments with HKFRS 4 Insurance Contracts ²
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁴
Amendments to HKAS 7	Disclosure initiative ¹
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses ¹

¹ Effective for annual periods beginning on or after 1 January 2017.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after 1 January 2019.

⁴ Effective for annual periods on or after a date to be determined.

The directors of the Company (“Directors”) do not anticipate that the application of other new and amendments to HKFRSs will have a material impact on the Group’s 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 assess their performance. Specifically, the Group’s operating and reportable segments under HKFRS 8 were organised into five main operating divisions – (i) manufacture and sale of laminates, (ii) manufacture and sale of printed circuit boards (“PCBs”), (iii) manufacture and sale of chemicals, (iv) sales and rental of properties and (v) others (including service income, hotel business and manufacture and sale of LCDs and magnetic products). The management aggregated the sales of properties and rental income business into one reportable segment because the financial performance of both businesses are affected by changes in the property market. In addition, the management aggregated service income, hotel business and manufacture and sales of LCDs and magnetic products into one reportable segment because the revenue, results, assets and liabilities of each business are insignificant to the Group. No other operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Under HKFRS 8, 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 CODM 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, gain on disposal of and impairment loss recognised on available-for-sale investments, gain on disposal of a subsidiary, finance costs, share-based payments and unallocated corporate income and expenses).

Segment revenues and results by reportable segments are presented below:

	Laminates <i>HK\$'000</i>	PCBs <i>HK\$'000</i>	Chemicals <i>HK\$'000</i>	Properties <i>HK\$'000</i>	Others <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Year ended 31 December 2016							
Segment revenue							
External sales	12,230,171	7,478,095	10,229,696	5,486,149	406,209	–	35,830,320
Inter-segment sales	<u>1,692,941</u>	<u>–</u>	<u>508,952</u>	<u>–</u>	<u>2,781</u>	<u>(2,204,674)</u>	<u>–</u>
Total	<u>13,923,112</u>	<u>7,478,095</u>	<u>10,738,648</u>	<u>5,486,149</u>	<u>408,990</u>	<u>(2,204,674)</u>	<u>35,830,320</u>
Result							
Segment result	<u>2,465,136</u>	<u>378,298</u>	<u>312,823</u>	<u>1,701,060</u>	<u>8,567</u>		4,865,884
Gain on disposal of available-for-sale investments							465,247
Gain on disposal of a subsidiary							2,121,238
Impairment loss recognised on available-for-sale investments							(27,764)
Share-based payments							(20,910)
Unallocated corporate income							590,125
Unallocated corporate expenses							(362,672)
Finance costs							(403,074)
Share of results of associates							<u>9,152</u>
Profit before taxation							<u>7,237,226</u>

2. SEGMENT INFORMATION – Continued

	Laminates <i>HK\$'000</i>	PCBs <i>HK\$'000</i>	Chemicals <i>HK\$'000</i>	Properties <i>HK\$'000</i>	Others <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Year ended 31 December 2015							
Segment revenue							
External sales	11,284,105	7,103,780	9,809,217	4,057,549	533,535	–	32,788,186
Inter-segment sales	<u>1,598,342</u>	<u>–</u>	<u>577,768</u>	<u>–</u>	<u>2,052</u>	<u>(2,178,162)</u>	<u>–</u>
Total	<u>12,882,447</u>	<u>7,103,780</u>	<u>10,386,985</u>	<u>4,057,549</u>	<u>535,587</u>	<u>(2,178,162)</u>	<u>32,788,186</u>
Result							
Segment result	<u>1,603,961</u>	<u>183,836</u>	<u>26,739</u>	<u>1,252,617</u>	<u>(1,172)</u>		3,065,981
Gain on disposal of available-for-sale investments							345,692
Gain on disposal of subsidiaries							33,590
Impairment loss recognised on available-for-sale investments							(314,293)
Share-based payments							(62,764)
Unallocated corporate income							157,316
Unallocated corporate expenses							(247,915)
Finance costs							(439,779)
Share of results of associates							<u>(15,269)</u>
Profit before taxation							<u>2,522,559</u>

Inter-segment sales are charged at a price mutually agreed by both parties.

The Group operates principally in the People's Republic of China ("PRC") (country of domicile).

The geographical analysis of the Group's revenue from external customers by geographical location based on where the goods sold and delivered and services are rendered, is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
The PRC (country of domicile)	32,083,087	29,065,210
Other Asian countries (including Thailand, Japan, Korea and Singapore)	1,664,101	1,780,722
Europe	1,527,199	1,384,251
America	<u>555,933</u>	<u>558,003</u>
	<u>35,830,320</u>	<u>32,788,186</u>

No single external customer of the Group contributed over 10% of the Group's revenue for each of the years ended 31 December 2015 and 31 December 2016.

3. OTHER INCOME, GAINS AND LOSSES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Other income, gains and losses include:		
Income from relocation compensation	271,079	–
Interest income from available-for-sale investments	104,376	182,840
Interest income from bank balances and cash	57,572	79,508
Interest income from entrusted loans	64,186	95,653
Dividends from available-for-sale investments	168,382	171,236
Impairment loss recognised on properties, plant and equipment	(39,000)	–
Loss on disposal and write off of properties, plant and equipment	(32,656)	(13,132)
Fair value changes of foreign exchange forward contracts	–	(453)
Loss on disposal of prepaid lease payments	–	(325)
Loss on disposal of an associate	–	(8,977)
Others	25,130	49,196
	<u>619,069</u>	<u>555,546</u>

4. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on bank borrowings	438,379	473,439
Less: Amount capitalised in the cost of qualifying assets	<u>(35,305)</u>	<u>(33,660)</u>
	<u>403,074</u>	<u>439,779</u>

Bank borrowing costs capitalised during the year includes the bank borrowing costs of HK\$30,796,000 (FY2015: HK\$29,671,000) arose from a bank borrowing specific for the property development project and bank borrowing costs arose from the general borrowing pool which were calculated by applying a weighted average capitalisation rate of 2.49% (FY2015: 1.0%) per annum to expenditure on qualifying assets.

5. DEPRECIATION

During the year, depreciation of approximately HK\$1,955.0 million (FY2015: HK\$2,216.5 million) was charged in respect of the Group's properties, plant and equipment.

6. INCOME TAX EXPENSE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
The amount comprises:		
Hong Kong Profit Tax		
Charge for the year	30,339	17,906
Overprovision in previous years	<u>(2,190)</u>	<u>–</u>
	<u>28,149</u>	<u>17,906</u>
PRC Enterprise Income Tax		
Charge for the year	850,571	474,860
Under (over) provision in previous years	<u>866</u>	<u>(7,766)</u>
	<u>851,437</u>	<u>467,094</u>
PRC Land Appreciation Tax (“LAT”)	188,893	67,281
Taxation arising in other jurisdictions	5,333	4,626
Deferred taxation	<u>1,397</u>	<u>12,557</u>
	<u>1,075,209</u>	<u>569,464</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The provision of LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been levied at progressive rates ranging from 30% to 60% on the appreciation of land value, represented by the excess of sales proceeds of properties over prescribed direct costs. Prescribed direct costs are defined to include costs of land, development and construction costs, as well as certain costs relating to the property development. According to the State Administration of Taxation’s official circulars, LAT shall be payable provisionally upon sales of the properties, followed by final ascertainment of the gain at the completion of the properties development.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

7. DIVIDENDS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Dividends declared and paid		
Interim dividend for the year ended 31 December 2016 of HK30 cents (FY2015: HK20 cents) per ordinary share	307,680	205,120
Final dividend for the year ended 31 December 2015 of HK30 cents (FY2015: final dividend for the year ended 31 December 2014 of HK30 cents) per ordinary share	<u>307,680</u>	<u>307,680</u>
	<u>615,360</u>	<u>512,800</u>
Dividends proposed		
Proposed final dividend for the year ended 31 December 2016 of HK70 cents (for the year ended 31 December 2015: HK30 cents) per ordinary share	726,880	307,680
Proposed special final dividend for the year ended 31 December 2016 of HK30 cents (for the year ended 31 December 2015: Nil) per ordinary share	<u>311,520</u>	<u>–</u>
	<u>1,038,400</u>	<u>307,680</u>

The final dividend of HK70 cents and special final dividend of HK30 cents per ordinary share amounting to HK\$726,880,000 and HK\$311,520,000 respectively (FY2015: final dividend of HK30 cents and nil of special final dividend per ordinary share amounted to HK\$307,680,000 and nil, respectively) in respect of the year ended 31 December 2016 have been proposed by the Directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

8. EARNINGS PER SHARE

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Earnings for the purpose of calculating basic and diluted earnings per share	<u>5,026,831</u>	<u>1,650,323</u>
	Number of shares	
	2016	2015
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,028,230,273	1,025,600,236
Add: Effect of dilutive potential ordinary shares arising from share options	<u>3,016,559</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,031,246,832</u>	<u>1,025,600,236</u>

8. EARNINGS PER SHARE – Continued

The calculation of diluted earnings per share for the year ended 31 December 2016 did not take into account the effects of share options of the Company granted on 21 March 2011 and Kingboard Laminates Holdings Limited (“KLHL”), the listed subsidiary of the Company, as the exercise prices of the outstanding share options were higher than the average market prices of the Company’s and KLHL’s shares during the year ended 31 December 2016.

The calculation of diluted earnings per share for the year ended 31 December 2015 did not take into account the effects of share options of the Company and KLHL, as the exercise prices of the outstanding share options were higher than the average market prices of the Company’s and KLHL’s shares during the year ended 31 December 2015.

9. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS, ENTRUSTED LOANS AND BILLS RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Trade receivables	5,237,066	5,705,197
Advance to suppliers	447,831	810,399
Entrusted loans (<i>Note i</i>)	942,536	1,268,714
Prepayments and deposits	662,346	803,334
Value added tax recoverable	184,569	265,093
LAT on pre-sale properties (<i>Note ii</i>)	145,260	72,847
Other receivables	210,111	116,622
	<hr/>	<hr/>
	7,829,719	9,042,206
Less: Non-current portion of entrusted loans (<i>Note i</i>)	<hr/> (882,944) <hr/>	<hr/> (1,193,072) <hr/>
	<hr/> 6,946,775 <hr/>	<hr/> 7,849,134 <hr/>

Notes:

- (i) The entrusted loans of HK\$942,536,000 (FY2015: HK\$1,268,714,000) are due from certain purchasers of the properties developed by the Group in the PRC through four (FY2015: four) commercial banks in the PRC (the “Lending Agents”). The entrusted loans carry interest at variable rates ranging from 3.920% to 5.390% (FY2015: 4.920% to 6.900%) per annum payable on monthly basis and the principal will be payable on or before 2034 (FY2015: 2034). The purchasers of the Group’s properties has pledged to the Lending Agents the respective properties purchased. These properties are located in Kunshan, PRC.

As at 31 December 2016, entrusted loans amounting to HK\$882,944,000 (FY2015: HK\$1,193,072,000) are in respect of repayments due after 12 months from the end of the reporting period and are classified as non-current assets.

- (ii) The amount represents the provisional LAT prepaid to PRC tax authority based on the latest completion status. The final assessment will be carried out upon sales of properties at the completion of development projects.

9. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS, ENTRUSTED LOANS AND BILLS RECEIVABLES – Continued

The Group allows credit period of up to 120 days, depending on the products sold, to its trade customers. The following is an aging analysis of trade receivables based on invoice date at the end of the reporting period which approximates the respective revenue recognition dates:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0–90 days	4,069,593	4,219,523
91–120 days	733,053	800,629
121–150 days	260,167	414,983
151–180 days	81,751	176,839
Over 180 days	92,502	93,223
	<u>5,237,066</u>	<u>5,705,197</u>

All bills receivables of the Group are aged within 90 days (FY2015: 90 days) at the end of the reporting period.

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

The average credit period on purchases of goods is 90 days (FY2015: 90 days). The following is an aging analysis of the trade payables at the end of the reporting period:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0–90 days	1,995,590	1,888,329
91–180 days	375,710	358,478
Over 180 days	211,159	159,562
	<u>2,582,459</u>	<u>2,406,369</u>

All bills payables of the Group are aged within 90 days (FY2015: 90 days) at the end of the reporting period.

11. ACQUISITIONS OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

In December 2016, the Group acquired 100% equity interests in BOP (MX) S.A.R.L. (“BOP”), a company incorporated in Luxembourg, from an independent third party at a cash consideration of approximately GBP265,386,000 (equivalent to HK\$2,583,638,000). BOP is principally engaged in holding commercial properties in United Kingdom for rental purpose.

In July 2015, the Group acquired 100% equity interests together with shareholder’s loan in Ao Sheng Limited, Baiyu Property (Overseas) Holding Limited and Bumper Champ Limited, the companies are principally engaged in holding commercial properties in Hong Kong for rental purpose, from a related company at a cash consideration of approximately HK\$352,366,000.

In July 2015, the Group acquired 100% equity interests together with shareholder loan in Million Victory International Investment Limited, the company is principally engaged in holding a property in PRC, from an independent third party at a cash consideration of approximately HK\$272,854,000.

12. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2016, the Group disposal of its entire equity interest in 建滔數碼發展(深圳)有限公司 (Kingboard Digital Development (Shenzhen) Co., Ltd.*), a subsidiary principally engaged in holding a piece of land in PRC, to an independent third party for a cash consideration of approximately RMB2,004,430,000 (equivalent to HK\$2,386,230,000), with a gain of approximately HK\$2,121,238,000.

During the year ended 31 December 2015, the Group disposal of its entire equity interest in Glorious Luck Limited and its sole subsidiary, principally engaged in holding a property development in PRC, to an independent third party for a cash consideration of approximately RMB100,000,000 (equivalent to HK\$126,594,000), with a gain of approximately HK\$33,590,000.

* *For identification purpose only*

BUSINESS REVIEW

On behalf of the Board of Directors, I am delighted to report an outstanding performance by Kingboard Chemical Holdings Limited (the “Group”) for the financial year ended 31 December 2016 (“FY2016”). During the year, a shortage of upstream materials led to an undersupply situation in the laminates market. With a competitive advantage built on a vertically integrated production platform, the Group’s laminates division was able to significantly lift productions and sales, thereby achieving a major breakthrough in its performance. As the restructuring of the printed circuit board (“PCB”) division began to deliver positive results, production efficiency was substantially enhanced while orders continued to grow. Earnings contribution from this division has grown steadily. With the rally in international oil price, chemical prices have shown significant increases, driving the chemicals division to yield a strong rebound. The property division also reported robust results, with marked growth in the number of units pre-sold. Relying on an improvement in the average selling price, the property division’s profit margin improved overall.

Group revenue rose by 9% to HK\$35,830.3 million in 2016, registering an underlying net profit (excluding non-recurring items) of HK\$3,283.5 million, a significant increase of 89%. Basic earnings per share based on underlying net profit were HK\$3.193. During the year, the Group’s subsidiary, Kingboard Laminates Holdings Limited, disposed of a subsidiary holding land for commercial use in Shenzhen, Guangdong Province. As a result, the Group’s reported net profit surged 205% to HK\$5,026.8 million. Basic earnings per share based on reported net profit were HK\$4.889. The Group’s financial position remains robust and the Board has therefore proposed a final dividend of HK70 cents per share and a special final dividend of HK30 cents per share, subject to shareholders’ approval. Together with the interim dividend of HK30 cents per share paid in October 2016, this will constitute a full-year dividend of HK130 cents per share.

Financial Highlights

	FY 2016 <i>HK\$'million</i>	FY 2015 <i>HK\$'million</i>	Change
Revenue	35,830.3	32,788.2	+9%
EBITDA*	7,251.6	5,279.5	+ 37%
Profit before tax*	4,872.3	2,598.9	+87%
Net profit attributable to owners of the Company			
– Underlying net profit*	3,283.5	1,740.5	+ 89%
– Reported net profit	5,026.8	1,650.3	+ 205%
Basic earnings per share			
– Based on underlying net profit*	HK\$3.193	HK\$1.697	+ 88%
– Based on reported net profit	HK\$4.889	HK\$1.609	+ 204%
Full-year dividend per share	HK130.0 cents	HK50.0 cents	+160%
– Interim dividend per share	HK30.0 cents	HK20.0 cents	+50%
– Proposed final dividend per share	HK70.0 cents	HK30.0 cents	+133%
– Proposed special final dividend per share	HK30.0 cents	–	N/A
Net asset value per share	HK\$36.2	HK\$34.4	+5%
Net gearing	24%	38%	

* Excluding:

- (1) Gain on fair value changes of investment properties of HK\$17.2 million, net of deferred tax and portion shared by non-controlling shareholders (FY2015: HK\$249.6 million).
- (2) Share-based payments of HK\$20.9 million, net of portion shared by non-controlling shareholders (FY2015: HK\$62.8 million).
- (3) Impairment loss recognised on available-for-sale investments of HK\$27.8 million, net of portion shared by non-controlling shareholders (FY2015: HK\$310.6 million).
- (4) Gain on disposal of a subsidiary of HK\$1,573.7 million, net of portion shared by non-controlling shareholders (FY2015: HK\$33.6 million).
- (5) Income from relocation compensation of HK\$201.1 million, net of portion shared by non-controlling shareholders (FY2015: Nil).

PERFORMANCE

The Group has been ranked as the world's top one laminates producer for more than ten consecutive years. This achievement is attributable to the Group's strong and comprehensive vertical integration business model. As a result of undersupply, market prices of glass fabric and other upstream materials rose significantly during the year, leading to several price increases of laminates. The division's profit margin thus grew significantly. Segment turnover (including inter-segment sales) increased by 8% to HK\$13,923.1 million, while earnings before interest, tax, depreciation and amortisation ("EBITDA") increased substantially by 32% to HK\$3,093.0 million.

Benefitting from upgrades in telecommunications network equipment, as well as the wide application of smart home appliances and automobile electronics, the PCB division gained strong demand and recorded steady orders growth. With the conclusion of its restructuring, the Elec & Eltek Group achieved an earnings turnaround for the year, and is expected to be back on track to positive contribution hereafter. The PCB division's segment turnover was up by 5% to HK\$7,478.1 million, delivering an EBITDA of HK\$873.7 million, an increase of 19%.

The bottoming out of international oil price has driven the increase in the prices of the Group's chemical products. China's further move to reduce excess capacity has also brought evident improvement in the demand-supply dynamics in the market. The profit margins for chemical products have thus rebounded. Segment turnover (including inter-segment sales) increased by 3% to HK\$10,738.7 million, with EBITDA growing 21% to HK\$1,106.6 million.

The partial booking of pre-sales from Huaqiao Kingboard Yu Garden Phase 2, Zhangpu Kingboard Yu Garden, Kunshan Development Zone Kingboard Yu Garden Phase 3, Qiandeng Kingboard Yu Garden Phase 2 and Jiangyin Kingboard Yu Garden Phase 1 contributed property sales turnover of HK\$4,860.2 million during the year. Together with rental income of HK\$625.9 million, segment turnover grew 35% to HK\$5,486.1 million with EBITDA increased by 72% to HK\$1,699.6 million. Pre-sales activities during the year generated contracted sales of HK\$8,692.5 million on a contracted sales floor area of 650,000 square metres. As at 31 December 2016, the Group held a prime land bank in Shanghai and Kunshan with a gross floor area of over 4 million square metres.

LIQUIDITY AND CAPITAL RESOURCES

The Group's financial and liquidity position continued to be robust. As at 31 December 2016, net current assets and current ratio of the Group were approximately HK\$12,176.1 million (31 December 2015: HK\$20,190.8 million) and 1.54 (31 December 2015: 2.24) respectively.

The net working capital cycle decreased from 57 days as at 31 December 2015 to 41 days as at 31 December 2016 on the following key metrics:

- Inventories, in terms of stock turnover days, was 23 days (31 December 2015: 30 days).
- Trade receivables, in terms of debtors turnover days, was 53 days (31 December 2015: 64 days).
- Trade and bills payables, in terms of creditors turnover days, was 35 days (31 December 2015: 37 days).

The Group's net gearing ratio (ratio of interest-bearing borrowings net of cash and cash equivalents to total equity) significantly decreased from 38% as at 31 December 2015 to 24% as at 31 December 2016, while the proportion of bank borrowings between short term and long term stood at 47%:53% (31 December 2015: 30%:70%). During the year, the Group invested HK\$840 million and HK\$5.1 billion in new production capacity and property development projects respectively. Backed by a highly experienced professional management team, a sound business foundation and solid financial strength, management is confident that these investments will deliver stable and satisfactory returns to shareholders over the long term. Less than 1% of the Group's bank borrowings were denominated in RMB, while the remainder were in Hong Kong dollars or US dollars.

The Group continued to adopt a prudent financial management policy. It did not enter into any material derivative financial instruments, nor did the Group have any material foreign exchange exposure during the year. The Group's revenue, mostly denominated in Hong Kong dollars, RMB and US dollars, was fairly matched with the currency requirements of its operating expenses.

HUMAN RESOURCES

As at 31 December 2016, the Group had a global workforce of approximately 41,800 (31 December 2015: 43,200). Through the continued increase in the level of automation at its plants, the Group was able to streamline its manpower. This has enabled the Group to raise efficiency while controlling costs. In addition to offering competitive salary packages, the Group grants share options and discretionary bonuses to eligible employees based on the Group overall financial achievements and individual employee performance. The Group's continued success relies on a solid human resources strategy, part of which involved the establishment of the Kingboard Institute of Management to provide management training for middle and senior managers of the Group. The Group also recruits fresh graduates from both mainland China and Hong Kong each year in its search for talents to nurture. In future, the Group will continue its efforts in developing and retaining staff through its management training schemes, in order to sustain its long-term growth momentum.

PROSPECTS

Management has complete confidence in the prospects for the Group's development in 2017. The Group's multi-year investments in operational enhancements for its four core divisions have put it among the industry's top players in terms of R&D capabilities, production efficiency and environmental standards. Riding on the significant recovery of the global business environment, the Group looks forward to driving its performance further to deliver greater returns to shareholders.

Looking ahead to 2017, the tight supply of upstream materials and laminates is unlikely to improve over the short term due to the lengthy process involved in capacity expansion. Thus there is room for upward price adjustments in those products. In view of the strong market demand and considering further supply-demand dynamics in the market, laminates division plans to expand its capacity for glass fabric and other upstream materials, as well as that for laminates.

Driven by the replacement demand brought by the upgrading of smartphone devices, the demand for high density interconnect (“HDI”) PCB remains robust. The proliferation of smart home appliances, coupled with the introduction of new homes to the market, has helped to sustain a growing order for PCB used in home appliances. To cater to the keen market demand, the PCB division plans to add automated production facilities to its plant, while optimizing its product portfolio.

The chemicals division is constantly investing in environmental protection facilities in order to create a highly efficient and sustainable low-carbon production platform. It is expected that China will continue to phase out those chemical enterprises of weak performance in operating efficiency and environmental standards. Apart from the tightening of approval for new chemical capacities, the cost of production also increases, which will raise the industry’s entry barrier. Management therefore anticipates further reduction in market supply, and subsequently steady earnings growth for the division.

Shanghai Kingboard Plaza Phase 1, located in Changning District, Shanghai, was completed during the second half of 2016. The Group also acquired a commercial property in London, the United Kingdom. These two projects are expected to drive significant growth in the property division’s rental income in 2017. The Group has also scheduled the pre-sale of its residential projects in Kunshan, Jiangsu Province, with a view to expediting cash returns from its developments. In respect of its land bank, the Group will adopt a prudent and pragmatic approach before considering any expansion plans.

APPRECIATION

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

FINAL DIVIDEND

The proposed final dividend and special final dividend of HK70 cents and HK30 cents per share respectively, the payment of which is subject to approval by the shareholders at the forthcoming annual general meeting of the Company to be held on Monday, 29 May 2017 (“2017 AGM”), is to be payable on Tuesday, 20 June 2017 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 7 June 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of the Members of the Company will be closed during the following periods:

- (i) From Wednesday, 24 May 2017 to Monday, 29 May 2017, both days inclusive, during which period no transfer of shares will be registered, for the purpose of ascertaining shareholders’ entitlement to attend and vote at the 2017 AGM. In order to be eligible to attend and vote at the 2017 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share register in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:00 p.m. on Tuesday, 23 May 2017; and

- (ii) From Monday, 5 June 2017 to Wednesday, 7 June 2017, both days inclusive, during which period no transfer of shares will be registered, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend and proposed special final dividend. In order to qualify for the proposed final dividend and proposed special final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share register in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 2 June 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") under Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2016, save for the deviation from paragraph A.4.1 of the CG Code since the independent non-executive Directors are not appointed for a specific term. Notwithstanding the aforesaid deviation, all the Directors (including the independent non-executive Directors) are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association. As such, the Company considers that steps have been taken with a view to ensure that the Company's corporate governance practices are in line with the principles of the CG Code.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, 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 year ended 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, 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 audited annual financial statements of the Group for the year ended 31 December 2016.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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

Hong Kong, 24 March 2017

As at the date of this announcement, the Board consists of Messrs. Cheung Kwok Wing, Chang Wing Yiu, Cheung Kwong Kwan, Ho Yin Sang, Cheung Wai Lin, Stephanie, Cheung Ka Shing, and Chen Maosheng, being the executive Directors and Messrs. Cheng Wai Chee, Christopher, Cheung Ming Man, Chong Kin Ki and Leung Tai Chiu, being the independent non-executive Directors.