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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 2017

#### FINANCIAL HIGHLIGHTS

	<b>FY 2017</b> <i>HK\$'million</i>	<b>FY 2016</b> <i>HK\$'million</i>	<b>Change</b>
<b>Revenue</b>			

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 2017 together with the comparative figures for the year ended 31 December 2016 as follows:

## **CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

*For the year ended 31 December 2017*

	<i>No e</i>	<b>2017</b> <i>HK\$'000</i>	<b>2016</b> <i>HK\$'000</i>
Revenue	2	43,159,473	35,830,320
Cost of sales and services rendered		<u>(33,243,202)</u>	<u>(28,613,700)</u>
Gross profit		9,916,271	7,216,620
Other income, gains and losses		344,168	619,069
Distribution costs		(1,149,527)	(1,035,873)
Administrative costs		(1,706,910)	(1,727,765)
Gain on fair value changes of investment properties		54,284	21,286
Gain on disposal of available-for-sale investments		1,153,015	465,247
Gain on disposal of subsidiaries		–	2,121,238
Share-based payments		(3,136)	(20,910)
Impairment loss recognised on available-for-sale investments		(34,152)	(27,764)
Finance costs			

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<b>2017</b> <i>HK\$'000</i>	<b>2016</b> <i>HK\$'000</i>
Profit for the year	<u>6,834,184</u>	<u>6,162,017</u>
Other comprehensive income (expenses) 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	<u>2,777,558</u>	<u>(2,161,396)</u>
<i>Items that may be reclassified to profit or loss:</i>		
Investment revaluation reserve:		
Net changes arising from available-for-sale investments	403,135	(268,971)
Translation reserve:		
Exchange differences arising from translation of foreign operations	(6,825)	(6,279)
Share of change in reserve of associates	<u>141,108</u>	<u>(135,317)</u>
	<u>537,418</u>	<u>(410,567)</u>
Other comprehensive income (expenses) for the year (net of tax)	<u>3,314,976</u>	<u>(2,571,963)</u>
Total comprehensive income for the year	<u>10,149,160</u>	<u>3,590,054</u>
Total comprehensive income attributable to:		
Owners of the Company	8,495,578	2,766,637
Non-controlling interests	<u>1,653,582</u>	<u>823,417</u>
	<u>10,149,160</u>	<u>3,590,054</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		<b>2017</b>	<b>2016</b>
	<i>No e</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Investment properties		17,151,915	15,368,824
Properties, plant and equipment		14,529,533	13,545,102
Prepaid lease payments		931,029	874,668
Other non-current assets		691,213	–
Goodwill		2,288,149	2,288,149
Interests in associates		504,090	1,959,874
Available-for-sale investments		5,746,584	6,537,266
Entrusted loans	9	788,860	882,944
Deposits paid for acquisition of properties, plant and equipment and investment properties		485,451	90,940
Deferred tax assets		3,768	3,347
		<u>43,120,592</u>	<u>41,551,114</u>
<b>Current assets</b>			
Inventories		2,115,557	1,779,065
Properties held for development		15,637,824	15,810,227
Trade and other receivables and prepayments	9	11,763,029	6,946,775
Bills receivables	9	5,036,119	3,182,724
Available-for-sale investments		778,986	–
Other current assets		–	645,931
Prepaid lease payments		24,363	21,809
Taxation recoverable		7,964	10,294
Bank balances and cash		8,113,756	6,472,614
		<u>43,477,598</u>	<u>34,869,439</u>
Assets classified as held for sale		1,696,193	–
		<u>45,173,791</u>	<u>34,869,439</u>
<b>Current liabilities</b>			
Trade and other payables	10	9,569,089	6,809,624
Bills payables	10	691,834	170,224
Deposits received from pre-sale of residential units		3,551,562	7,334,955
Taxation payable		886,418	528,938
Bank borrowings – amount due within one year		5,290,745	7,849,588
		<u>19,989,648</u>	<u>22,693,329</u>
Net current assets		<u>25,184,143</u>	<u>12,176,110</u>
Total assets less current liabilities		68,304,735	53,727,224

	<b>2017</b> <i>HK\$'000</i>	<b>2016</b> <i>HK\$'000</i>
Non-current liabilities		
Deferred tax liabilities	783,418	759,988
Bank borrowings – amount due after one year	<u>13,797,597</u>	<u>9,014,564</u>
	<u>14,581,015</u>	<u>9,774,552</u>
	<u><b>53,723,720</b></u>	<u><b>43,952,672</b></u>
Capital and reserves		
Share capital	106,645	103,840
Reserves	<u>45,932,874</u>	<u>37,483,164</u>
Equity attributable to owners of the Company	46,039,519	37,587,004
Non-controlling interests	<u>7,684,201</u>	<u>6,365,668</u>
Total equity	<u><b>53,723,720</b></u>	<u><b>43,952,672</b></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 the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to Hong Kong Accounting Standards (“HKAS”) 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

Except for amendments to HKAS 7 Disclosure Initiative, 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.

**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 (mainly including manufacture and sale of magnetic products). The management aggregated the sales of properties and rental income business into one reportable segment because the financial performances of both businesses are affected by changes in the property market. In addition, the management aggregated service income, hotel business and manufacture and sale 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 available-for-sale investments, 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).

## 2. SEGMENT INFORMATION – Continued

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>
<b>Year ended 31 December 2017</b>							
Segment revenue							
External sales	14,714,174	8,194,104	13,351,870	6,467,607	431,718	–	43,159,473
Inter-segment sales	<u>1,941,068</u>	<u>–</u>	<u>644,303</u>	<u>–</u>	<u>274</u>	<u>(2,585,645)</u>	<u>–</u>
Total	<u>16,655,242</u>	<u>8,194,104</u>	<u>13,996,173</u>	<u>6,467,607</u>	<u>431,992</u>	<u>(2,585,645)</u>	<u>43,159,473</u>
Result							
Segment result	<u>3,953,106</u>	<u>693,051</u>	<u>966,366</u>	<u>1,974,715</u>	<u>18,854</u>		7,606,092
Gain on disposal of available-for-sale investments							1,153,015
Impairment loss recognised on available-for-sale investments							(34,152)
Share-based payments							(3,136)
Unallocated corporate income							256,185
Unallocated corporate expenses							(403,991)
Finance costs							(311,919)
Share of results of associates							<u>103,267</u>
Profit before taxation							<u>8,365,361</u>



### 3. OTHER INCOME, GAINS AND LOSSES

	<b>2017</b> <i>HK\$'000</i>	<b>2016</b> <i>HK\$'000</i>
Other income, gains and losses includes:		
Interest income from available-for-sale investments	177,147	104,376
Interest income from bank balances and cash	74,495	57,572
Interest income from entrusted loans	52,898	64,186
Dividends from available-for-sale investments	34,650	168,382
Loss on disposal and write off of properties, plant and equipment	(40,519)	(32,656)
Others	45,497	25,130
Income from relocation compensation	–	271,079
Impairment loss recognised on properties, plant and equipment	–	(39,000)
	<u>344,168</u>	<u>619,069</u>

### 4. FINANCE COSTS

	<b>2017</b> <i>HK\$'000</i>	<b>2016</b> <i>HK\$'000</i>
Interest on bank borrowings	345,522	438,379
Less: Amount capitalised in the cost of qualifying assets	<u>(33,603)</u>	<u>(35,305)</u>
	<u>311,919</u>	<u>403,074</u>

Bank borrowing costs capitalised during the year includes the bank borrowing costs of HK\$28,809,000 (2016: HK\$30,796,000) 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 2.23% (2016: 2.49%) per annum to expenditure on qualifying assets.

### 5. DEPRECIATION

During the year, depreciation of approximately HK\$1,758 million (2016: HK\$1,955 million) was charged in respect of the Group's properties, plant and equipment.

### 6. INCOME TAX EXPENSES

	<b>2017</b> <i>HK\$'000</i>	<b>2016</b> <i>HK\$'000</i>
The amount comprises:		
PRC Enterprise Income Tax	1,187,799	850,571
PRC Land Appreciation Tax ("LAT")	251,217	188,893
Hong Kong Profits Tax	61,609	30,339
Taxation arising in other jurisdictions	29,919	5,333
Under (over) provision in previous years	<u>12,165</u>	<u>(1,324)</u>
	1,542,709	1,073,812
Deferred taxation	<u>(11,532)</u>	<u>1,397</u>
	<u>1,531,177</u>	<u>1,075,209</u>

## 6. INCOME TAX EXPENSES – Continued

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.

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

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

## 7. DIVIDENDS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<b>Dividends declared and paid</b>		
2017 Interim dividend of HK60 cents (2016: HK30 cents) per ordinary share	639,872	307,680
2016 Final dividend of HK70 cents (2015: HK30 cents) per ordinary share	726,880	307,680
2016 Special final dividend of HK30 cents (2015: Nil) per ordinary share	311,520	–
	<u>1,678,272</u>	<u>615,360</u>
<b>Dividends proposed</b>		
Proposed 2017 final dividend of HK100 cents (2016: HK70 cents) per ordinary share	1,066,452	726,880
Proposed 2016 Special final dividend of HK30 cents (2017: Nil) per ordinary share	–	311,520
	<u>1,066,452</u>	<u>1,038,400</u>

The final dividend of HK100 cents per ordinary share amounting to HK\$1,066,452,000 (2016: 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) in respect of the year ended 31 December 2017 has 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:

	<b>2017</b> <i>HK\$'000</i>	<b>2016</b> <i>HK\$'000</i>
Earnings for the purpose of calculating basic and diluted earnings per share	<u>5,593,434</u>	<u>5,026,831</u>
	<b>Number of shares</b>	
	<b>2017</b>	<b>2016</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,043,040,213	1,028,230,273
Effect of dilutive potential ordinary shares arising from share options	<u>9,576,220</u>	<u>3,016,559</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,052,616,433</u>	<u>1,031,246,832</u>

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”), 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.

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

	<b>2017</b> <i>HK\$'000</i>	<b>2016</b> <i>HK\$'000</i>
Trade receivables	6,276,643	5,237,066
Advance to suppliers	492,792	447,831
Entrusted loans ( <i>No e i</i> )	845,616	942,536
Prepayment and deposits	728,573	662,346
Value added tax recoverables	247,852	184,569
LAT on pre-sale properties ( <i>No e ii</i> )	96,763	145,260
Deposits for acquisition of land use rights for development of properties held for sale ( <i>No e iii</i> )	3,590,431	–
Other receivables	<u>273,219</u>	<u>210,111</u>
	12,551,889	7,829,719
Less: Non-current portion of entrusted loans ( <i>No e i</i> )	<u>(788,860)</u>	<u>(882,944)</u>
	<u>11,763,029</u>	<u>6,946,775</u>

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

*Note :*

- (i) The entrusted loans of HK\$845,616,000 (2016: HK\$942,536,000) are due from certain purchasers of properties developed by the Group in the PRC through four (2016: four) commercial banks in the PRC (the “Lending Agents”). The entrusted loans carry interest at variable rates ranging from 3.92% to 5.39% (2016: 3.92% to 5.39%) per annum payable on monthly basis and the principal will be payable on or before 2034 (2016: 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 2017, entrusted loans amounting to HK\$788,860,000 (2016: HK\$882,944,000) 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.
- (iii) The amount represents deposits paid for acquisition of land use right in the PRC for the purpose of development of properties held for sale. The acquisition was completed in January 2018.

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 net of allowance for doubtful debts based on invoice date at the end of the reporting period:

	<b>2017</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0–90 days	4,873,171	4,069,593
91–120 days	786,520	733,053
121–150 days	399,032	260,167
151–180 days	123,979	81,751
Over 180 days	93,941	92,502
	<u>6,276,643</u>	<u>5,237,066</u>

Bills receivables of the Group are aged within 90 days (2016: 90 days) at the end of the reporting period.

## 10. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

The following is an aging analysis of the trade payables based on the invoice date at the end of the reporting period:

	<b>2017</b>	<b>2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-90 days	2,073,037	1,995,590
91-180 days	432,894	375,710
Over 180 days	192,514	211,159
	<u>2,698,445</u>	<u>2,582,459</u>

Bills payables of the Group are aged within 90 days (2016: 90 days) at the end of the reporting period. Included in bills payable as at 31 December 2017 was payable for acquisition of properties, plant and equipment of HK\$163,461,000 (2016: HK\$28,049,000).

## 11. EVENT AFTER THE REPORTING PERIOD

On 15 December 2017, the Group announced that they have entered into the Deed of Agreement in relation to the purchase of a leasehold property in London for consideration of approximately HK\$4,213,000,000. The transaction was completed in January 2018. Details of which were disclosed in the Company's announcement dated on 15 December 2017.

On 18 December 2017, the Group announced that they intended to dispose its interest in a subsidiary for a consideration of approximately HK\$3,766,000,000. The subsidiary has an indirect equity interest of 49% in an associate established in the PRC. The disposal was completed in January 2018. Details of which were disclosed in the Company's announcement dated on 18 December 2017.

## **BUSINESS REVIEW**

On behalf of the Board of Directors of Kingboard Chemical Holdings Limited (the “Company”), I am delighted to report an outstanding performance by the Company and its subsidiaries (the “Group”) for the financial year ended 31 December 2017. As strong market demand for laminates and their upstream materials led to product price surges across all categories, the laminates division posted a set of record results during the year. The printed circuit board (“PCB”) division also registered satisfactory order growth against relatively-competitive market situation, while its production efficiency has been raised steadily. The chemical industry has also recovered from its over-capacity. Major products of the chemical division have recorded significant price increases, thereby contributing continued growth in earnings. For the property division, rental income from commercial property leases and sales of residential units also increased at a stable pace.

Revenue of the Group increased by 20% to HK\$43,159.5 million in 2017, posting an underlying net profit (excluding non-recurring items) of HK\$5,589.1 million, representing a significant growth of 70%. Basic earnings per share were HK\$5.358. The Group maintained a robust financial position and the Board has therefore proposed a final dividend of HK100 cents per share, subject to shareholders’ approval. Together with the interim dividend of HK60 cents per share, this will constitute a full-year dividend of HK160 cents per share.

<b>FINANCIAL HIGHLIGHTS</b>			
	<b>FY 2017</b>	<b>FY 2016</b>	<b>Change</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	
<b>Revenue</b>	43,159.5	35,830.3	+20%
<b>EBITDA*</b>	10,442.4	7,251.6	+44%
<b>Profit before tax*</b>	8,348.4	4,872.3	+71%
<b>Net profit attributable to owners of the Company</b>			
– Underlying net profit*	5,589.1	3,283.5	+70%
– Reported net profit	5,593.4	5,026.8	+11%
<b>Basic earnings per share</b>			
– Based on underlying net profit*	HK\$5.358	HK\$3.193	+68%
– Based on reported net profit	HK\$5.363	HK\$4.889	+10%
<b>Interim dividend per share</b>	HK60 cents	HK30 cents	+100%
<b>Proposed final dividend per share</b>	HK100 cents	HK70 cents	+43%
<b>Proposed special final dividend per share</b>	–	HK30 cents	N/A
<b>Net asset value per share</b>	HK\$43.2	HK\$36.2	+19%
<b>Net gearing</b>	20%	24%	

\* Excluding:

- (1) Gain on fair value changes of investment properties of HK\$41.6 million, net of portion shared by non-controlling shareholders (2016: HK\$17.2 million).
- (2) Share-based payments of HK\$3.1 million, net of portion shared by non-controlling shareholders (2016: HK\$20.9 million).
- (3) Impairment loss recognised on available-for-sale investments of HK\$34.2 million, net of portion shared by non-controlling shareholders (2016: HK\$27.8 million).
- (4) Gain on disposal of a subsidiary of HK\$1,573.7 million, net of portion shared by non-controlling shareholders in 2016 (2017: Nil).
- (5) Income from relocation compensation of HK\$201.1 million, net of portion shared by non-controlling shareholders in 2016 (2017: Nil).

## **PERFORMANCE**

Being the world's largest laminates producer, the Group enjoys unrivalled economies of scale. The Group's sophisticated and comprehensive vertically integrated business model enables it to continuously expand its competitive advantage. During the year, shortages in the supply of copper foil, glass yarn and epoxy resin have brought price hikes for these materials, leading to several price increases for laminates. The laminates division's profit margin increased accordingly. Segment turnover (including inter-segment sales) increased by 20% to HK\$16,655.2 million, while earnings before interest, tax, depreciation and amortisation ("EBITDA") went up substantially by 45% to HK\$4,489.2 million.

The PCB division recorded notable growth in orders for use in the telecommunications equipment, automobile and home appliances sectors. The product portfolio continued to evolve towards the higher-grade and the high-value-added end. Efforts to control costs and raise production efficiency have yielded an expanded profit margin, which is among the highest in the industry. The PCB division reported a segment turnover of HK\$8,194.1 million, up 10%, and delivered an EBITDA of HK\$1,179.8 million, an increase of 35%.

With the tightening up of China's environmental policy and efforts to control overcapacity, excess and backward chemical capacities have gradually exited from the market. The Group's major chemical products, including methanol, coke, caustic soda and phenol acetone, have recorded significant price increases. This has driven the segment's turnover (including inter-segment sales) to increase 30% to HK\$13,996.2 million, with EBITDA growing 47% to HK\$1,625.8 million.

The partial booking of sales from the projects, including Huaqiao Kingboard Yu Garden Phase 3, Kunshan Development Zone Kingboard Yu Garden Phase 3 and Qiandeng Kingboard Yu Garden Phase 2, contributed property sales turnover of HK\$5,570.2 million during the year. Together with rental income of HK\$897.4 million, property segment turnover grew 18% to HK\$6,467.6 million with EBITDA increased by 16% to HK\$1,969.8 million.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Group's financial and liquidity position continued to be robust. As at 31 December 2017, net current assets and current ratio of the Group were approximately HK\$25,184.1 million (31 December 2016: HK\$12,176.1 million) and 2.26 (31 December 2016: 1.54) respectively.

The net working capital cycle remained at 41 days as at 31 December 2016 and 31 December 2017 on the following key metrics:

- Inventories, in terms of stock turnover days, was 23 days (31 December 2016: 23 days).
- Trade receivables, in terms of debtors turnover days, was 53 days (31 December 2016: 53 days).
- Trade and bills payable (excluding bills payable to property, plant and equipment), in terms of creditors turnover days, was 35 days (31 December 2016: 35 days).

The Group's net gearing ratio (ratio of interest-bearing borrowings net of cash and cash equivalents to total equity) was 20% as at 31 December 2017 (31 December 2016: 24%), while the proportion of bank borrowings between short term and long term stood at 28%:72% (31 December 2016: 47%:53%). During the year, the Group invested approximately HK\$2.0 billion and HK\$4.0 billion in new production capacity and property development projects respectively. Backed by a highly experienced professional management team, the Group is confident that these investments will deliver stable and satisfactory returns to shareholders over the long term.

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 2017, the Group employed a global workforce of approximately 42,800 (31 December 2016: 41,800) to cope with business development. In addition to offering competitive salary packages, the Group grants share options and discretionary bonuses to eligible employees based on the Group's 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 management of the Group. The Group also recruits fresh graduates from mainland China, Hong Kong and Taiwan each year in its search for talents to nurture. This talent pool will give the Group new impetus to its long-term development.

## **PROSPECTS**

Management has full confidence in the prospects for the Group's ongoing development. The Group has boosted its profitability and unlocked the synergies among its core divisions, resulting in strong growth momentum ahead. Upon continuous input to upgrade its operations, the Group has raised its production efficiency, marketing strength, research and development and environmental standards to the top of the industry. Against a backdrop of positive global economic activity and demand growth, the Group will actively expand its market share with an aim of generating long-term and steady returns.

Demand in the electronics sector continues to be rampant, with growth more broad-based. Tight supply of laminates and their upstream materials will likely continue. The laminates division will make timely moves to raise product prices. The division has also entered another capacity expansion cycle in support of its long-term sustainable growth. New glass yarn and

Significant growth is expected for the automobile sector, and automobile electronics will continue to proliferate and be upgraded. Demand for home appliances will also grow steadily on the back of new residential unit completions. These demand pulls, together with the imminent arrival of the 5G telecommunications era, signal significant growth potential for the PCB business. In order to meet this strong market demand, the PCB division will continue to undertake demand-led facilities optimisation and to expand the capacities in the area that have competitive advantage, such as telecommunications and automobile.

Heading into 2018, chemical products, in particular caustic soda and phenol acetone, will experience continued price hikes. As the PRC authorities tighten up environmental checks and push for industrial upgrades, it is anticipated that backward facilities will exit the market, creating room for steadily improving profitability. The chemicals division will adhere to its low-carbon model and will fully utilise its existing facilities in order to yield higher profits.

Control measures on housing in Kunshan and other parts of China are gradually coming to an end. Latent housing demand is expected to be unleashed. The property division plans to expand the sales of residential units with a view to expediting cash inflow. The factory land in Hengyang, Hunan province could be redeveloped in residential use and the Group increase two pieces of land bank in Kunshan. Thus, the residential sales income will likely show a growing contribution. Rental income will also increase significantly, benefitting from the newly acquired commercial property, 15 Canada Square in London, as well as the leasing out of Shanghai Kingboard Plaza Phases 1-3. Newly-bought land in the Qianhai free-trade zone of Shenzhen is under planning and will be used as the headquarter of Southern China of the Group and for leasing.

The floor heating product using graphene was launched last year with highly positive market response. The Group will continue to enhance the product's functionalities and to add smart control modules to improve user experience. The Group will increase capacity for this product, which is expected to contribute new growth drivers.

## **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 of HK100 cents per share, 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, 28 May 2018 ("2018 AGM"), is to be payable on Friday, 15 June 2018 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 6 June 2018.

## **CLOSURE OF REGISTER OF MEMBERS**

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

- (i) From Wednesday, 23 May 2018 to Monday, 28 May 2018, 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 2018 AGM. In order to be eligible to attend and vote at the 2018 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 Monday, 21 May 2018; and
- (ii) From Monday, 4 June 2018 to Wednesday, 6 June 2018, 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. In order to qualify for the proposed 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, 1 June 2018.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Company has adopted the principles of good corporate governance and 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 of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2017, 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.

### **Non-compliance with Rules 3.10A of the Listing Rules**

Dr. Cheng Wai Chee, Christopher ("Dr. Cheng"), a then independent non-executive Director, retired by rotation in accordance with the Articles at the Company's annual general meeting held on 29 May 2017 ("2017 AGM"). Dr. Cheng was appointed as an independent non-executive Director in 2007 and therefore has served for more than nine (9) years as at the date of the 2017 AGM. To maintain the Company's standards of good corporate governance practices, Dr. Cheng did not offer himself for re-election at the 2017 AGM, and accordingly, he ceased to be an independent non-executive Director upon the conclusion of the 2017 AGM. Upon the retirement of Dr. Cheng, the Board comprises seven executive Directors and three independent non-executive Directors, which fell below the number of independent non-executive Directors representing at least one-third of the Board as required under Rule 3.10A of the Listing Rules. Subsequently, Mr. Chan Wing Kee ("Mr. Chan") was appointed as an independent non-executive Director with effect from 1 July 2017. Following the appointment of Mr. Chan, the Board had a total of 11 Directors, comprises seven executive Directors and four independent non-executive Directors. The number of independent non-executive Directors of the Company therefore meets the requirements under Rule 3.10A of the Listing Rules.

## **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