KB

KINGBOARD CHEMICAL HOLDINGS LIMITED

建滔化工集團#

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 148)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

	FY2010 *HK$'million*	**FY2009** *HK$'million*	**Change**
Revenue	33,891.5	23,863.4	+42%
EBITDA*	7,373.1	5,131.8	+44%
Underlying profit before tax*	5,010.0	3,098.5	+62%
Net profit attributable to owners of the Company			
– Underlying net profit*	3,509.0	2,239.0	+57%
– Reported net profit	3,620.8	2,396.0	+51%
Basic earnings per share			
– Based on underlying net profit*	HK$4.146	HK$2.651	+56%
– Based on reported net profit	HK$4.278	HK$2.837	+51%
Full-year dividend per share	HK110.0 cents	HK75.0 cents	+47%
– Interim dividend per share	HK50.0 cents	HK30.0 cents	+67%
– Proposed final dividend per share	HK60.0 cents	HK45.0 cents	+33%
Dividend payout ratio	26%	26%	
Net asset value per share	HK$30.3	HK$25.5	+19%
Net gearing	23%	22%	

* *Excluding:*

2010: (1) gain on disposal of available-for-sale investments of HK$111.8 million (net of the portion shared by minority shareholders)

2009: (1) net loss on disposal of subsidiaries of HK$82.6 million

(2) gain on disposal of partial interests in subsidiaries of HK$340.0 million

(3) impairment loss on available-for-sale investments of HK$111.8 million (net of the portion shared by minority shareholders)

(4) discount on acquisition of HK$11.4 million (net of the portion shared by minority shareholders)

\# *For identification purpose only*

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 2010 together with the comparative figures for the year ended 31 December 2009 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2010

	Notes	**2010** *HK$'000*	**2009** *HK$'000* (Restated)
Revenue	*2*	33,891,522	23,863,373
Cost of sales and services rendered		(26,900,920)	(18,938,206)
Gross profit		6,990,602	4,925,167
Other income	*3*	193,389	184,237
Distribution costs		(856,950)	(685,151)
Administrative costs		(1,346,513)	(1,277,987)
Gain on disposal of available-for-sale investments		296,012	111,564
Impairment loss on available-for-sale investments	*4*	–	(156,367)
Gain on disposal of partial interests in subsidiaries	*5*	–	340,038
Gain on disposal of subsidiaries		–	24,242
Loss on disposal of subsidiaries		–	(106,814)
Discount on acquisition of additional interests in subsidiaries		–	14,580
Finance costs	*6*	(304,040)	(221,256)
Share of results of associates		200,873	64,252
Share of results of jointly controlled entities		(7,035)	(2,325)
Profit before taxation		5,166,338	3,214,180
Income tax expense	*8*	(516,221)	(248,484)
Profit for the year		4,650,117	2,965,696
Profit for the year attributable to:			
Owners of the Company		3,620,818	2,396,030
Non-controlling interests		1,029,299	569,666
		4,650,117	2,965,696
Earnings per share	*10*		
Basic		HK$4.278	HK$2.837
Diluted		HK$4.236	HK$2.813

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010	**2009**
	HK$'000	*HK$'000*
Profit for the year	4,650,117	2,965,696
Other comprehensive income:		
Cash flow hedge:		
Loss on cash flow hedges	(44,088)	(89,986)
Deferred tax recognised in relation to cash flow hedges	8,373	11,099
Reclassification adjustment relating to transfer of cash flow hedges	111,774	95,026
Reclassification adjustment relating to deferred tax on transfer of cash flow hedges	(18,443)	(12,228)
Investment revaluation reserve:		
Fair value changes of available-for-sale investments	405,831	233,017
Reclassification adjustment relating to disposal of available-for-sale investments	(296,012)	(111,564)
Reclassification adjustment relating to impairment loss on available-for-sale investments	–	67,319
Property revaluation reserve:		
Fair value changes on properties transferred to investment properties	7,268	5,579
Translation reserve:		
Exchange differences arising on translation of foreign operations and to presentation currency	633,786	46,691
Share of change in reserve of associates	18,785	796
Other comprehensive income for the year (net of tax)	827,274	245,749
Total comprehensive income for the year	5,477,391	3,211,445
Total comprehensive income attributable to:		
Owners of the Company	4,323,205	2,637,959
Non-controlling interests	1,154,186	573,486
	5,477,391	3,211,445

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	31 December 2010 HK$'000	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
Non-current assets				
Investment properties		2,130,210	1,423,437	1,327,165
Properties, plant and equipment		17,574,362	17,847,473	16,888,278
Prepaid lease payments		919,313	933,230	1,499,021
Goodwill		2,288,149	2,288,149	2,005,658
Interests in associates		564,447	498,319	686,133
Available-for-sale investments		2,299,936	1,206,869	780,248
Interests in jointly controlled entities		1,075	8,110	10,435
Non-current deposits		1,715,339	511,659	1,413,450
Intangible assets		–	622	770,142
Properties held for development		–	–	233,135
Deferred tax assets		25,549	33,499	32,660
		27,518,380	24,751,367	25,646,325
Current assets				
Inventories		4,023,228	3,454,705	2,561,334
Properties held for development		4,625,399	1,980,068	–
Trade and other receivables and prepayments	*11*	7,958,511	6,245,782	4,990,317
Bills receivables	*11*	1,932,724	1,261,966	775,582
Prepaid lease payments		23,617	22,667	32,103
Derivative financial instruments		–	–	3,468
Taxation recoverable		41,693	5,772	7,063
Bank balances and cash		5,143,658	5,652,209	4,225,273
		23,748,830	18,623,169	12,595,140
Current liabilities				
Trade and other payables	*12*	4,368,885	4,473,837	3,733,140
Bills payables	*12*	1,163,337	755,284	615,362
Deposits received from pre-sale of residential units		1,061,578	–	–
Derivative financial instruments		47,070	13,329	1,940
Taxation payable		591,764	401,906	383,261
Bank borrowings		5,241,974	3,826,869	3,131,511
		12,474,608	9,471,225	7,865,214
Net current assets		11,274,222	9,151,944	4,729,926
Total assets less current liabilities		38,792,602	33,903,311	30,376,251

	31 December 2010	31 December 2009	1 January 2009
	HK$'000	*HK$'000* (Restated)	*HK$'000* (Restated)
Non-current liabilities			
Deferred tax liabilities	73,378	56,418	51,329
Derivative financial instruments	50,755	130,317	136,961
Bank borrowings	7,086,134	7,592,460	6,570,760
	7,210,267	7,779,195	6,759,050
	31,582,335	26,124,116	23,617,201
Capital and reserves			
Share capital	84,950	84,474	83,926
Share premium and reserves	25,685,224	21,421,943	19,270,120
Equity attributable to owners of the Company	25,770,174	21,506,417	19,354,046
Non-controlling interests	5,812,161	4,617,699	4,263,155
Total equity	31,582,335	26,124,116	23,617,201

NOTES:

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied a number of new and revised Standards, amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for 2010 financial year ends, and has early applied HKAS 32 (Amendments) "Classification of rights issues" issued by the HKICPA during the year.

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and disclosures set out in these consolidated financial statements.

HKAS 27 (as revised in 2008) "Consolidated and separate financial statements"

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

The application of the revised Standard has affected the accounting for the Group's acquisition of additional interests in Kingboard Laminates Holdings Limited ("KLHL"), a non-wholly owned subsidiary of the Company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and Elec & Eltek International Company Limited ("EEIC"), a non-wholly owned subsidiary of the Company listed on the Singapore Exchange Securities Trading Limited, in the current year. The change in policy has resulted in the difference of HK$248,486,000 between the consideration paid of HK$508,396,000 and the amount of non-controlling interests adjusted of HK$259,910,000 being recognised directly in equity, instead of being recognised as goodwill. Therefore, the change in accounting policy has resulted in a decrease in equity attributable to owners of the Company of HK$248,486,000 as at 31 December 2010 and no change in the profit for the year. In addition, the cash consideration paid in the current year of HK$508,396,000 has been included in cash flows from financing activities instead of investing activities.

In addition, the application of the revised Standard has affected the accounting for the Group's disposal of part of its interests in KLHL in the current year. The change in policy has resulted in the difference of HK$1,031,712,000 between the consideration received of HK$1,665,386,000, the non-controlling interests recognised of HK$706,517,000 and de-recognition of translation reserve of HK$72,843,000 being recognised directly in equity, instead of in profit or loss. Therefore, the change in accounting policy has resulted in a decrease in the profit for the year of HK$1,031,712,000. In addition, the cash consideration received in the current year of HK$1,665,386,000 has been included in cash flows from financing activities instead of investing activities.

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed.

Specifically, under the revised Standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent. The application of the revised Standard has resulted in share option reserve relating to the employee share option plan of EEIC, an indirect subsidiary of the Company, being included as part of non-controlling interest in the consolidated statement of financial position and consolidated statement of changes in equity. Previously, such share options reserve was presented separately in the consolidated statement of financial position and consolidated statement of changes in equity.

Hong Kong Interpretation 5 "Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause"

Hong Kong Interpretation 5 "Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause" ("HK INT 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK INT 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK INT 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK INT 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$368,305,000 and HK$534,516,000 have been reclassified from non-current liabilities to current liabilities as at 31 December 2009 and 1 January 2009, respectively. At 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$420,769,000 have been classified as current liabilities. The application of HK INT 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities.

HKAS 32 (Amendments) "Classification of rights issues"

The amendments to HKAS 32 address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. The Company's functional currency is RMB, whilst the warrants issued by the Company to the shareholders on a pro-rata basis are denominated in HK$. Under the current HKAS 32, the warrants would be treated as a derivative financial liability which should be measured at fair value at initial inception. The corresponding entry on inception would have been made to the shareholders' equity. Subsequently, the liability would have been re-measured at fair value with movements in fair value recognised in profit or loss until the exercise of the warrants.

The early adoption of HKAS 32 (Amendments) has affected the accounting for the warrants issued by the Company during the year. The warrants would be treated as a component of equity and resulted in recognition of equity component of warrants amounting to HK$675,791,000 in the equity (i.e. warrant reserve) at initial inception. The re-measurement of fair value of the warrants is not required. The change in accounting policy has resulted in an increase in the profit for the year of HK$21,096,000 and an increase in equity attributable to owners of the Company of HK$21,096,000 as at 31 December 2010.

Summary of the effects of the above changes in accounting policies

The effect of changes in accounting policies described above on the results for current year by line items is as follows:

	Year ended 31 December 2010 *HK$'000*
Decrease in gain on disposal of partial interests in KLHL (offsetting with the de-recognition of goodwill of HK$39,860,000)	(991,852)
Decrease in fair value loss recognised in respect of the Company's warrants	21,096
Decrease in profit for the year	(970,756)

There is no impact on the results for the year ended 31 December 2009 as the changes in accounting policies for changes in interests in subsidiaries has applied prospectively.

The effects of the above changes in accounting policies on the financial positions of the Group as at 1 January 2009 and 31 December 2009 is as follows:

	As at 1.1.2009 (originally stated) *HK$'000*	Adjustments *HK$'000*	As at 1.1.2009 (restated) *HK$'000*	As at 31.12.2009 (originally stated) *HK$'000*	Adjustments *HK$'000*	As at 31.12.2009 (restated) *HK$'000*
Bank borrowings – current	2,596,995	534,516	3,131,511	3,458,564	368,305	3,826,869
Bank borrowings – non-current	7,105,276	(534,516)	6,570,760	7,960,765	(368,305)	7,592,460
Total effects on net assets and equity		–			–	

The effects of the above changes in accounting policies on the Group's basic and diluted earnings per share for the current year are as follows:

	Impact on basic earnings per share Year ended 31 December 2010 *HK$*	Impact on diluted earnings per share Year ended 31 December 2010 *HK$*
Figures before adjustments	5.425	5.372
Adjustments arising from changes in the Group's accounting policies in relation to changes in ownership interests in subsidiaries and recognition of warrants	(1.147)	(1.136)
Figures after adjustments	4.278	4.236

There is no impact on the basic and diluted earnings per share for the year ended 31 December 2009.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendments)	Limited exemptions from comparative HKFRS 7 disclosures for first time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 January 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard may affect the amounts reported in respect of the Groups' available-for-sale equity investments which are currently measured at cost less impairment and will be measured at fair value upon adoption. In addition, the application of the new Standard may affect the amounts reported in respect of the Group's derivative financial instruments which currently the entire amount of the change in fair value was presented in profit or loss and will be accounted for under new requirements.

The amendments to HKAS 12 titled "Deferred tax: Recovery of underlying assets" mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property". Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

HKAS 24 "Related party disclosures" (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) for government-related entities do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because counterparties that do not currently meet the definition of a related party under the current HKAS 24 may come within scope of the revised Standard.

The directors of the Company (the "Directors") anticipate that the application of the other new and revised HKFRSs will have no material impact on the 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 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) property development and investment ("Properties") and (v) others (including manufacture and sale of liquid crystal displays and magnetic products).

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

The following is an analysis of the Group's revenue and results by reportable segments:

	Laminates	PCBs	Chemicals	Properties	Others	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2010							
Segment revenue							
External sales	10,559,428	8,704,865	13,701,813	125,679	799,737	–	33,891,522
Inter-segment sales	2,948,161	–	763,699	–	16,796	(3,728,656)	–
Total	13,507,589	8,704,865	14,465,512	125,679	816,533	(3,728,656)	33,891,522
Result							
Segment result	2,612,545	1,080,157	1,296,569	165,100	64,658		5,219,029
Gain on disposal of available-for-sale investments							296,012
Unallocated corporate income							32,457
Unallocated corporate expenses							(270,958)
Finance costs							(304,040)
Share of results of associates							200,873
Share of results of jointly controlled entities							(7,035)
Profit before taxation							5,166,338
Income tax expense							(516,221)
Profit for the year							4,650,117

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

	Laminates	PCBs	Chemicals	Properties	Others	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2009 (Restated)							
Segment revenue							
External sales	6,956,042	7,236,550	9,013,214	90,840	566,727	–	23,863,373
Inter-segment sales	2,464,528	–	476,903	–	113,156	(3,054,587)	–
Total	9,420,570	7,236,550	9,490,117	90,840	679,883	(3,054,587)	23,863,373
Result							
Segment result	1,935,096	607,160	590,898	126,316	42,930		3,302,400
Discount on acquisition of additional interests in subsidiaries							14,580
Gain on disposal of available-for-sale investments							111,564
Gain on disposal of partial interests in subsidiaries							340,038
Gain on disposal of subsidiaries							24,242
Impairment loss on available-for-sale investments							(156,367)
Loss on disposal of subsidiaries							(106,814)
Unallocated corporate income							58,487
Unallocated corporate expenses							(214,621)
Finance costs							(221,256)
Share of results of associates							64,252
Share of results of jointly controlled entities							(2,325)
Profit before taxation							3,214,180
Income tax expense							(248,484)
Profit for the year							2,965,696

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

The Group's operations are located in the People's Republic of China (the "PRC') (country of domicile) and Thailand.

The analysis of the Group's revenue from external customers by geographical location is as follows:

	2010	**2009**
	HK$'000	*HK$'000*
		(Restated)
The PRC	29,364,098	20,330,982
Other Asian countries	2,888,851	2,444,230
Europe	1,054,252	676,532
America	584,321	411,629
	33,891,522	23,863,373

No single external customer of the Group contributed over 10% of the Group's revenue for each of the years ended 31 December 2009 and 2010.

3. OTHER INCOME

	2010	**2009**
	HK$'000	*HK$'000*
		(Restated)
Other income comprises:		
Dividends from available-for-sale investments	29,785	32,124
Gain on fair value changes of investment properties	68,824	51,425
Net exchange gain	55,373	38,244
Interest income	38,639	50,575
Government grants	–	10,937
Gain on fair value changes of foreign currency forward contracts	–	370
Others	768	562
	193,389	184,237

4. IMPAIRMENT LOSS ON AVAILABLE-FOR-SALE INVESTMENTS

During the year ended 31 December 2009, impairment loss on available-for-sale investments of HK$156,367,000 (2010: nil) was recognised as a result of significant or prolonged decline in the fair values of certain of the Group's listed equity investments below their costs.

5. GAIN ON DISPOSAL OF PARTIAL INTERESTS IN SUBSIDIARIES

	2010	2009
	HK$'000	*HK$'000*
Gain on disposal of partial interest in KLHL	–	339,756
Gain on disposal of partial interest in United Hill Group Limited	–	282
	–	340,038

During the year ended 31 December 2009, the Group entered into an agreement with an independent agent to place down 160,000,000 ordinary shares of KLHL, a non-wholly owned subsidiary of the Company which is listed on the Stock Exchange, to independent third parties at a placing price of HK$4.92 per share, giving a total consideration of approximately HK$787,200,000 before expenses, which amounted to approximately HK$20,540,000.

As a result of the placement, the Group's interest in KLHL was reduced from 74.77% to 69.44% and the gain on disposal of partial interest in KLHL amounted to approximately HK$339,756,000.

6. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	194,007	130,007
Other finance charges	7,392	4,473
	201,399	134,480
Fair value loss reclassified from equity on interest rate swaps designated as cash flow hedge of variable rate bank borrowings	111,774	95,026
	313,173	229,506
Less: Interest capitalised	(9,133)	(8,250)
	304,040	221,256

Borrowing costs capitalised during the year arose on the general borrowing pool and were calculated by applying a capitalisation rate of 1.1% for 2010 (2009: 1.2%) to expenditures on qualifying assets.

7. DEPRECIATION

During the year, depreciation of approximately HK$2,058.4 million (2009: HK$1,811.3 million) was charged in respect of the Group's properties, plant and equipment.

8. INCOME TAX EXPENSE

	2010 *HK$'000*	**2009** *HK$'000*
The amount comprises:		
Hong Kong Profits Tax		
Charge for the year	8,007	239
Overprovision in previous years	(1,616)	–
	6,391	239
Taxation arising in the PRC		
Charge for the year	478,808	242,759
Overprovision in previous years	–	(3,154)
	478,808	239,605
Taxation arising in other jurisdictions		
Charge for the year	9,025	31
Deferred taxation		
Charge for the year	21,997	8,609
	516,221	248,484

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%.

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

9. DIVIDENDS

	2010	2009
	HK$'000	*HK$'000*
Dividends declared and paid		
Interim dividend for 2010 of HK50 cents (2009: HK30 cents) per ordinary share	424,567	253,422
Final dividend for 2009 of HK45 cents (2009: final dividend for 2008 of HK30 cents) per ordinary share	380,133	253,422
	804,700	506,844
Dividend proposed		
Proposed final dividend for 2010 of HK60 cents (2009: HK45 cents) per ordinary share	509,698	380,133

The final dividend of HK60 cents per ordinary share in respect of the year ended 31 December 2010 has been proposed by the Directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

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

	2010	2009
	HK$'000	*HK$'000*
Earnings for the purpose of calculating basic earnings per share	3,620,818	2,396,030
Less: Adjustment to the share of profit of EEIC and its subsidiaries based on dilution of their earnings per share	(1,473)	–
Earnings for the purpose of calculating diluted earnings per share	3,619,345	2,396,030

	Number of shares	
	2010	**2009**
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	846,433,936	844,465,583
Add: Effect of dilutive potential ordinary shares relating to:		
– outstanding share options issued by the Company	6,687,049	7,329,438
– outstanding warrants issued by the Company	1,249,070	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	854,370,055	851,795,021

The calculation of diluted earnings per share for the year ended 31 December 2009 did not take into account the outstanding share options of a non-wholly owned subsidiary, EEIC as the exercise prices of the outstanding share options of EEIC were higher than the average market price during that year.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS AND BILLS RECEIVABLES

	31 December 2010 *HK$'000*	31 December 2009 *HK$'000*	1 January 2009 *HK$'000*
Trade receivables	5,159,244	4,400,602	3,985,533
Advance to suppliers	947,077	854,079	232,595
Other receivables and prepayments	1,852,190	991,101	772,189
	7,958,511	6,245,782	4,990,317

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

	31 December 2010 *HK$'000*	31 December 2009 *HK$'000*	1 January 2009 *HK$'000*
0 – 90 days	4,190,710	3,719,464	2,788,189
91 – 180 days	907,357	621,029	1,138,520
Over 180 days	61,177	60,109	58,824
	5,159,244	4,400,602	3,985,533

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

12. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

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

	31 December 2010 *HK$'000*	31 December 2009 *HK$'000*	1 January 2009 *HK$'000*
0 – 90 days	1,658,076	1,470,770	1,084,914
91 – 180 days	347,702	300,802	498,968
Over 180 days	191,247	285,294	165,795
	2,197,025	2,056,866	1,749,677

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

BUSINESS REVIEW

It is my great pleasure to report to our shareholders that Kingboard Chemical Holdings Limited (the "Group") delivered record-breaking results for the financial year ended 31 December 2010. The Group's revenue soared substantially by 42% to HK$33,891.5 million and underlying net profit (excluding non-recurring item) jumped by 57% to HK$3,509 million, basic earnings per share was HK$4.146. Backed by continued recovery of the global economy and robust economic growth in emerging markets especially China, the Group saw impressive results from all business segments. Demand for laminates and printed circuit board ("PCB") products continued to grow as a result of thriving demand for consumer electronic products especially smartphones as well as tablet PCs. The Group's laminate and PCB divisions posted remarkable earnings. Driven by buoyant demand for chemical products, the Group's chemical division delivered outstanding performance with spectacular growth in both turnover and profit. The Group's properties division generated stable rental income from our investment properties.

On the back of our solid financial strength and proven management team, the Group has consistently invested in new production facilities and now established more than 60 plants. With a sharp competitive edge through our vertically integrated business model and effective resources management, the Group was able to advance our market share and deliver another year of excellent returns for our shareholders. The Board proposed a final dividend of HK60 cents per share subject to shareholders' approval. Together with the interim dividend of HK50 cents per share paid in September 2010, this constitutes a total dividend per share of HK$1.1, representing a payout ratio of 26%.

Financial Highlights

	FY2010 *HK$'million*	**FY2009** *HK$'million*	**Change**
Revenue	33,891.5	23,863.4	+42%
EBITDA*	7,373.1	5,131.8	+44%
Underlying profit before tax*	5,010.0	3,098.5	+62%
Net profit attributable to owners of the Company			
– Underlying net profit*	3,509.0	2,239.0	+57%
– Reported net profit	3,620.8	2,396.0	+51%
Basic earnings per share			
– Based on underlying net profit*	HK$4.146	HK$2.651	+56%
– Based on reported net profit	HK$4.278	HK$2.837	+51%
Full-year dividend per share	HK110.0 cents	HK75.0 cents	+47%
– Interim dividend per share	HK50.0 cents	HK30.0 cents	+67%
– Proposed final dividend per share	HK60.0 cents	HK45.0 cents	+33%
Dividend payout ratio	26%	26%	
Net asset value per share	HK$30.3	HK$25.5	+19%
Net gearing	23%	22%	

* *Excluding:*

2010:	*(1)*	*gain on disposal of available-for-sale investments of HK$111.8 million (net of the portion shared by minority shareholders)*
2009:	*(1)*	*net loss on disposal of subsidiaries of HK$82.6 million*
	(2)	*gain on disposal of partial interests in subsidiaries of HK$340.0 million*
	(3)	*impairment loss on available-for-sale investments of HK$111.8 million (net of the portion shared by minority shareholders)*
	(4)	*discount on acquisition of HK$11.4 million (net of the portion shared by minority shareholders)*

PERFORMANCE

Bolstered by strong global demand for electronic products, the laminate division achieved remarkable performance in 2010. Key raw materials price showed a continued uptrend during the year under review which in turn translated into higher average selling price ("ASP") of laminates products compared to previous year. Chinese government implemented favourable policies to encourage domestic consumption. Domestic sales denominated in Renminbi ("RMB") increased compared to last year. Turnover (including inter-segment sales) for the laminate division was up 43% to HK$13,507.6 million while earnings before interest, tax, depreciation and amortisation ("EBITDA") increased 24% to HK$3,391 million. Volume sales increased around 15% against 2009 and average monthly shipment volume reached 9.29 million square metres.

Similarly, the PCB division also achieved excellent performance. Turnover for PCB division rose by 20% to HK$8,704.9 million and EBITDA increased 39% to HK$1,622.4 million. High density interconnect ("HDI") PCB performed extremely well for the division. Demand for HDI PCB was robust owing to strong sales of smartphones and high-end communication devices. Monthly capacity from our two dedicated HDI PCB plants in Kunshan, Jiangsu province and Kaiping, Guangdong province expanded from 600,000 square feet in 2009 to around 1,000,000 square feet by the end of 2010. HDI PCB sales doubled against that in 2009, accounting for 12% of total PCB sales and adding extra growth impetus to the division.

Ongoing economic growth and industrialisation in China continued to boost the selling prices and demand for chemical products in 2010. Our phenol/acetone plant in Huizhou, Guangdong province achieved outstanding performance on the back of strong demand. The Group's other chemical projects including chemical refinery plant in Yangzhou, Jiangsu province and coke/methanol plant in Xingtai, Hebei province as well as caustic soda plant in Hengyang, Hunan province also delivered attractive earnings for the Group. Turnover for the chemical division jumped 52% to HK$14,465.5 million and EBITDA rose substantially by 100% to HK$1,995.2 million. Share of associates results (bulk of which contributed by our natural gas based methanol joint venture with China BlueChemical Limited) was up sharply by 212% to HK$200.9 million as a result of higher methanol selling prices in 2010.

With regards to our properties division, as at 31 December 2010, the Group had a land bank of approximately 2.6 million square metres with investment properties and residential projects located at prime locations in eastern and southern China. Our investment properties, including Shanghai Kingboard Modern Plaza and Guangzhou Zhan Wang Digital Plaza, located at prime location with easy access and enjoyed good occupancy rate. Total rental income for the Group increased 38% to HK$125.7 million from HK$90.8 million in 2009.

LIQUIDITY AND CAPITAL RESOURCES

Our financial and liquidity position continued to be solid. As at 31 December 2010, net current assets and current ratio of the Group were approximately HK$11,274.2 million (31 December 2009 – HK$9,151.9 million) and 1.90 (31 December 2009 – 1.97) respectively.

The net working capital cycle shortened from 80 days as at 31 December 2009 to 65 days as at 31 December 2010 on the following key metrics:

– Inventories, in terms of stock turnover days, decreased to 55 days (31 December 2009 – 67 days) as the Group consumed lower costs inventories strategically stocked up in 2009 as a result of much higher revenue in 2010.

– Trade receivables, in terms of debtors turnover days, reduced to 56 days (31 December 2009 – 67 days).

– Trade and bills payables, in terms of creditors turnover days, reduced to 46 days (31 December 2009 – 54 days).

The Group's net gearing ratio (ratio of interest bearing borrowings net of cash and cash equivalents to total equity) was approximately 23% (31 December 2009: 22%). The proportion of bank borrowings between short term and long term stood at 43%:57% (31 December 2009: 34%:66%). During the year under review, the Group invested around HK$1,744 million and HK$3,229 million in new production capacity and property developments projects respectively. With a seasoned and professional management team coupled with our concrete business foundation and robust balance sheet, the Group is confident that these investments will generate stable and attractive returns to our shareholders in the future. About 8% of the Group's bank borrowings was denominated in RMB and the rest in Hong Kong or US dollars.

The Group continued to adopt prudent financial management policy including the use of interest rate swap contract to minimize exposure to fluctuation in interest rates movement. As at 31 December of 2010, outstanding notional amount of interest rate swap agreements stood at HK$3.4 billion with a weighted average duration and interest rate of 0.49 year and 2.96% respectively. The Group also entered into commodity forward contracts so as to minimize its exposure to fluctuation in commodity prices. The fair value of these contracts amounted to HK$33.5 million. Other than derivative financial instruments in connection with our daily operations as mentioned above, the Group had not entered into any other material derivative financial instruments throughout 2010. There was no material foreign exchange exposure to the Group during the year under review. The Group's revenue, mostly denominated in Hong Kong dollars, RMB and US dollars, was fairly matched with the currency requirement of operating expenses.

HUMAN RESOURCES

As at 31 December 2010, the Group had a global workforce of over 47,300 (31 December 2009: 45,400). The increase in headcount was in line with increased business volume compared to last year. In addition to offering competitive salary packages, the Group grants share options and discretionary bonuses to eligible employees based on our overall financial achievement and their individual performance. The Group's continued success relies on a comprehensive human resources strategy. Kingboard Institute of Management was established with a vision to focus on management training of middle and senior management for the Group. Over the years, this institute has successfully trained approximately 100 deputy general manager grade or above employees for our Group. In addition, the Group also worked with Kowloon Federation of Associations in 2010 on a Summer Internship Scheme for university students in Hong Kong. The Group recruits fresh graduates from both mainland China and Hong Kong each year in search for talents for the Group. In future, we will continue our effort to identify and develop staff via management training schemes in order to rejuvenate our management team to support the long term development of the Group.

PROSPECTS

Ongoing global economic recovery with steady growth momentum is expected to further foster demand for electronic products. The ASP of laminates products continued to show an uptrend as raw material prices persisted at a high level in the first two months of 2011. In order to meet strong laminate demand for multilayer and HDI PCBs, the Group is working on capacity expansion for thin laminate production capacity in Jiangmen laminate plant. In addition, construction plans are also underway to set up a new glass fabric plant and a new glass yarn plant in Changzhou, Jiangsu province over the next two years. These new capacities will help to secure key upstream materials supply for our laminate production in eastern China and further reinforce our vertically integrated business model.

Leveraging on our cost effective operation, the Group is constructing a new PCB facility with phase I monthly capacity of 1 million square feet in Yi Zheng Industrial Park, Yangzhou, Jiangsu province. Furthermore, our two dedicated HDI PCB plants in Kunshan, Jiangsu province and Kaiping, Guangdong province as well as our Thailand PCB plant are expected to expand production capacity in 2011 with an aim to capture further market share gain.

For the chemical division, phase II expansion plan for our chemical refinery plant in Yangzhou, Jiangsu province is on track to add a new catalytic cracking unit with annual capacity of 2 million metric tonnes. Downstream capacity will further be enhanced through building a new phenol/acetone plant with annual capacity of 300,000 metric tonnes. As a result of resource sharing among these two facilities, feedstock supply is secured for the new phenol/acetone plant. Meanwhile, capability enhancement plans for the existing phenol/acetone plant in Huizhou, Guangdong province are currently in the pipeline and expected to be completed in 2011. Our successful acquisition of the Hengyang caustic soda plant in 2003 has brought excellent returns to the Group and accumulated valuable experience and technical expertise in this sector. Growth potential for caustic soda is enormous in China. In early 2011 we acquired another caustic soda plant in Gaomi, Shangdong province with an annual capacity of 60,000 metric tonnes. Planning is also underway to expand the production capacity of the Hengyang caustic soda plant over the next few years.

Renovation for Guangzhou Dong Zhao Building has been completed with inspection approval from government authorities. We have started leasing negotiations with prospective tenants and additional rental income is expected from this property in 2011. Our first residential project – Shanghai Yu Garden in Kunshan, Jiangsu province has pre-sold over 90% of units with cash receipt over RMB900 million. Earnings in connection with this project are expected to be booked in the FY2011. In addition, construction of another residential project – Qiandeng Kingboard Yu Garden in Kunshan has commenced and pre-sale for this project is expected in 2011.

Looking ahead, the operating landscapes for the Group in 2011 remain challenging as we are facing headwinds of rising costs, wage increase and RMB appreciation. Nevertheless, with our diversified business portfolio and our experienced management team, the Group will respond promptly to changes in the market with decisive action. We are confident that the Group will continue to deliver attractive returns to our shareholders in future.

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 Directors have resolved to recommend a final dividend of HK60 cents per ordinary share for the financial year ended 31 December 2010 to be payable on or around 12 May 2011 to the Company's shareholders whose names appear on the register of members of the Company on 3 May 2011 subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 28 April 2011 to Tuesday, 3 May 2011 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for receiving the final 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 Wednesday, 27 April 2011.

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 proposed final 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 Wednesday, 27 April 2011.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2010, save for the deviation that the independent non-executive Directors are not appointed for specific terms pursuant to paragraph A.4.1 of the Code. 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 compliance with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the "Model Code"). Following a specific enquiry, each Director has confirmed that he or she has complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the year ended 31 December 2010.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent for the purposes of Rule 3.13 of the Listing Rules.

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 2010.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2010 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, 7 March 2011

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