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 2012

FINANCIAL HIGHLIGHTS

	FY2012	FY2011	Change
	HK$'million	*HK$'million*	
Revenue	37,290.3	36,559.1	+2%
EBITDA	5,506.9	6,240.3	–12%
Profit before tax	2,927.0	3,719.6	–21%
Net profit attributable to owners of the Company	2,097.0	2,594.2	–19%
Basic earnings per share	HK$2.454	HK$3.039	–19%
Full-year dividend per share	HK52.0 cents	HK65.0 cents	–20%
– Interim dividend per share	HK10.0 cents	HK40.0 cents	–75%
– Proposed final dividend per share	HK42.0 cents	HK25.0 cents	+68%
Dividend payout ratio	21%	21%	
Net asset value per share	HK$35.9	HK$32.8	+9%
Net gearing	38%	40%	

\# *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 2012 together with the comparative figures for the year ended 31 December 2011 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	**2012** *HK$'000*	**2011** *HK$'000*
Revenue	*2*	37,290,319	36,559,072
Cost of sales and services rendered		(32,185,963)	(30,736,317)
Gross profit		5,104,356	5,822,755
Other income, gains and losses	*3*	372,683	829,564
Distribution costs		(915,402)	(903,585)
Administrative costs		(1,475,352)	(1,468,680)
Gain (loss) on disposal of available-for-sale investments		2,634	(30,161)
Gain on disposal of held-to-maturity investments		83,138	–
Share-based payments		(105,754)	(236,099)
Impairment loss on properties, plant and equipment		(12,847)	(136,738)
Impairment loss on available-for-sale investments	*4*	(35,002)	(83,878)
Gain on disposal of a subsidiary		9,822	34,592
Finance costs	*5*	(349,451)	(361,881)
Gain on deemed disposal of an associate		30,377	–
Share of results of associates		217,791	254,823
Share of results of jointly controlled entities		–	(1,075)
Profit before taxation		2,926,993	3,719,637
Income tax expense	*7*	(420,028)	(513,061)
Profit for the year		2,506,965	3,206,576
Profit for the year attributable to:			
Owners of the Company		2,097,031	2,594,142
Non-controlling interests		409,934	612,434
		2,506,965	3,206,576
Earnings per share	*9*		
Basic		HK$2.454	HK$3.039
Diluted		HK$2.454	HK$3.031

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
Profit for the year	2,506,965	3,206,576
Other comprehensive income:		
Cash flow hedge:		
Gain on cash flow hedges	4,766	50,571
Deferred tax recognised in relation to cash flow hedges	(2,270)	(3,310)
Investment revaluation reserve:		
Fair value changes of available-for-sale investments	511,124	(805,446)
Reclassification adjustment relating to disposal of available-for-sale investments	(2,634)	30,161
Reclassification adjustment relating to impairment loss on available-for-sale investments	35,002	83,878
Property revaluation reserve:		
Fair value changes on properties transferred to investment properties	163	691
Translation reserve:		
Exchange differences arising on translation of foreign operations and to presentation currency	77,748	1,087,554
Exchange reserve released upon disposal of subsidiary	(682)	–
Share of change in reserve of associates	(1,350)	28,296
Other comprehensive income for the year (net of tax)	621,867	472,395
Total comprehensive income for the year	3,128,832	3,678,971
Total comprehensive income attributable to:		
Owners of the Company	2,669,490	2,935,144
Non-controlling interests	459,342	743,827
	3,128,832	3,678,971

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2012

	Notes	**2012** *HK$'000*	**2011** *HK$'000*
Non-current assets			
Investment properties		5,743,663	3,505,610
Properties, plant and equipment		18,726,836	18,357,984
Prepaid lease payments		1,023,789	947,807
Other non-current assets		–	712,707
Goodwill		2,288,149	2,288,149
Interests in associates		649,317	746,359
Held-to-maturity investments		–	972,883
Available-for-sale investments		3,166,084	4,285,141
Non-current deposits		404,510	1,433,910
Deferred tax assets		5,398	14,342
		32,007,746	33,264,892
Current assets			
Inventories		3,448,609	2,926,128
Properties held for development		10,063,615	9,227,363
Trade and other receivables and prepayments	*10*	8,487,915	8,414,105
Bills receivables	*10*	2,209,153	2,120,683
Other current receivables		712,531	–
Prepaid lease payments		30,329	26,034
Taxation recoverable		59,643	42,580
Bank balances and cash		3,914,991	4,437,442
		28,926,786	27,194,335
Current liabilities			
Trade and other payables	*11*	4,959,412	5,023,154
Bills payables	*11*	874,954	1,001,947
Deposits received from pre-sale of residential units		379,156	1,423,679
Derivative financial instruments		–	13,761
Taxation payable		554,666	660,536
Bank borrowings		5,734,281	6,723,757
		12,502,469	14,846,834
Net current assets		16,424,317	12,347,501
Total assets less current liabilities		48,432,063	45,612,393

	2012	2011
	HK$'000	*HK$'000*
Non-current liabilities		
Deferred tax liabilities	258,118	167,194
Bank borrowings	12,024,799	11,450,813
	12,282,917	11,618,007
	36,149,146	33,994,386
Capital and reserves		
Share capital	85,467	85,467
Share premium and reserves	30,560,168	27,959,913
Equity attributable to owners of the Company	30,645,635	28,045,380
Non-controlling interests	5,503,511	5,949,006
Total equity	36,149,146	33,994,386

NOTES:

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred tax: Recovery of underlying assets; and
Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets

Except as described below, 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.

Amendments to HKAS 12 Deferred tax: Recovery of underlying assets

The Group has applied for the first time the amendments to HKAS 12 "Deferred tax: Recovery of underlying assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors of the Company ("directors") reviewed the Group's investment property portfolios and concluded that the investment properties located in Hong Kong and United Kingdom of carrying amount of approximately HK$1,342,320,000 and HK$1,261,980,000 at 31 December 2012 respectively (2011: located in Hong Kong and United Kingdom of approximately HK$25,780,000 and HK$575,640,000 respectively) and determined that the "sale" presumption is not rebutted through sales for the purpose of measuring deferred tax liabilities in respect of such properties.

However, the Group has rebutted the presumption that the Group's investment properties located in the People's Republic of China ("PRC") of carrying amount of approximately HK$3,139,363,000 (2011: HK$2,904,190,000) as such properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Accordingly, the adoption of amendments to HKAS 12 has no impact on the deferred tax liabilities in respect of properties located in the PRC.

The application of the amendments to HKAS 12 has resulted in the Group not recognising any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

The amendments to HKAS 12 have been applied retrospectively. However, in view of the insignificant increase in fair value changes in the Group's investment properties located in Hong Kong and United Kingdom as of 31 December 2011 and during the year ended 31 December 2011 and 2012, no restated financial statements and financial effects of the Group's financial performance and position are presented for prior year. Accordingly, no deferred tax will be recognised for the fair value changes of investment properties located in Hong Kong and United Kingdom for the year ended 31 December 2012.

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

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 service income, manufacture and sale of liquid crystal displays and magnetic products).

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 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, impairment loss on available-for-sale investments, gain or loss on disposal of available-for-sale investments, gain on disposal of held-to-maturity investments, gain on disposal of a subsidiary, gain on deemed disposal of an associate, income tax expenses, finance costs, share-based payments 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 2012							
Segment revenue							
External sales	10,749,477	7,253,301	16,844,545	1,835,317	607,679	–	37,290,319
Inter-segment sales	2,191,865	–	713,306	–	8,236	(2,913,407)	–
Total	12,941,342	7,253,301	17,557,851	1,835,317	615,915	(2,913,407)	37,290,319
Result							
Segment result	1,390,533	411,162	654,278	621,142	45,063		3,122,178
Gain on disposal of a subsidiary							9,822
Gain on deemed disposal of an associate							30,377
Impairment loss on available-for-sale investments							(35,002)
Gain on disposal of available-for-sale investments							2,634
Gain on disposal of held-to-maturity investments							83,138
Share-based payments							(105,754)
Unallocated corporate income							207,819
Unallocated corporate expenses							(256,559)
Finance costs							(349,451)
Share of results of associates							217,791
Profit before taxation							2,926,993

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

	Laminates *HK$'000*	PCBs *HK$'000*	Chemicals *HK$'000*	Properties *HK$'000*	Others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Year ended 31 December 2011							
Segment revenue							
External sales	11,178,410	8,116,138	16,268,851	236,874	758,799	–	36,559,072
Inter-segment sales	2,661,214	–	807,853	–	11,530	(3,480,597)	–
Total	13,839,624	8,116,138	17,076,704	236,874	770,329	(3,480,597)	36,559,072
Result							
Segment result	1,724,292	514,379	1,359,734	593,127	59,532		4,251,064
Gain on disposal of a subsidiary							34,592
Impairment loss on available-for-sale investments							(83,878)
Loss on disposal of available-for-sale investments							(30,161)
Share-based payments							(236,099)
Unallocated corporate income							194,591
Unallocated corporate expenses							(302,339)
Finance costs							(361,881)
Share of results of associates							254,823
Share of results of jointly controlled entities							(1,075)
Profit before taxation							3,719,637

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

The Group's operations are located in the PRC and Thailand.

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

	2012 *HK$'000*	**2011** *HK$'000*
The PRC (country of domicile)	32,934,809	32,091,302
Other Asian countries (including Thailand, Japan, Korea and Singapore)	2,586,637	2,683,453
Europe	1,142,648	1,227,246
America	626,225	557,071
	37,290,319	36,559,072

No single external customer of the Group contributed over 10% of the Group's revenue for each of the years ended 31 December 2011 and 2012.

3. OTHER INCOME, GAINS AND LOSSES

	2012 *HK$'000*	2011 *HK$'000*
Other income, gains and losses include:		
Dividends from available-for-sale investments	109,432	121,113
Gain on fair value changes of investment properties	28,915	412,361
Interest income from bank balances and cash	65,451	30,150
Interest income on held-to-maturity investments	78,655	81,582
Interest income on available-for-sale investments	48,122	19,338
Net exchange gain	30,857	85,191
Claim compensation	–	62,680

4. IMPAIRMENT LOSS ON AVAILABLE-FOR-SALE INVESTMENTS

During the year ended 31 December 2012, impairment loss on available-for-sale investments of HK$35,002,000 (2011: HK$83,878,000) was recognised as a result of significant or prolonged decline in fair values of certain of the Group's listed equity investments and listed bond securities below their costs.

5. FINANCE COSTS

	2012 *HK$'000*	2011 *HK$'000*
Interest on bank borrowings		
– Wholly repayable within five years	344,515	315,103
– Not wholly repayable within five years	6,649	–
Interest paid in relation to the interest rate swap contracts	5,803	55,219
	356,967	370,322
Less: Amount capitalised in the cost of qualifying assets	(7,516)	(8,441)
	349,451	361,881

Borrowing costs capitalised during the year arose on the general borrowing pool and were calculated by applying a capitalisation rate of 1.2% (2011: 1.1%) per annum to expenditures on qualifying assets.

6. DEPRECIATION

During the year, depreciation of approximately HK$2,200.0 million (2011: HK$2,134.7 million) was charged in respect of the Group's properties, plant and equipment.

7. INCOME TAX EXPENSE

	2012 *HK$'000*	2011 *HK$'000*
The amount comprises:		
Hong Kong Profits Tax		
Charge for the year	4,017	6,078
Under provision in previous years	496	322
	4,513	6,400
PRC Enterprise Income Tax		
Charge for the year	355,741	390,366
PRC Land Appreciation Tax ("LAT")		
Charge for the year	21,985	–
Taxation arising in other jurisdictions		
Charge for the year	11,900	2,839
Deferred taxation		
Charge for the year	14,374	104,232
Withholding tax on distributed profits of a PRC associate	11,515	9,224
	420,028	513,061

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.

8. DIVIDENDS

	2012 *HK$'000*	2011 *HK$'000*
Dividends declared and paid		
Interim dividend for the year ended 31 December 2012 of HK10 cents (2011: HK40 cents) per ordinary share	85,467	341,867
Final dividend for the year ended 31 December 2011 of HK25 cents (2011: final dividend for 2010 of HK60 cents) per ordinary share	213,667	512,800
	299,134	854,667
Dividend proposed		
Proposed final dividend for the year ended 31 December 2012 of HK42 cents (2011: HK25 cents) per ordinary share	358,960	213,667

The final dividend of HK42 cents per ordinary share in respect of the year ended 31 December 2012 has been proposed by the Directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

The Board has recommended to make a bonus issue of two new shares credited as fully paid for every ten shares held by shareholders of the Company. The proposed bonus issue is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

9. 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:

	2012 *HK$'000*	2011 *HK$'000*
Earnings for the purpose of calculating basic earnings per share	2,097,031	2,594,142
Less: Adjustment to the share of profit of Elec & Eltek International Company Limited and its subsidiaries based on dilution of their earnings per share	–	(103)
Earnings for the purpose of calculating diluted earnings per share	2,097,031	2,594,039

	Number of shares 2012	2011
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	854,666,793	853,625,108
Add: Effect of dilutive potential ordinary shares relating to: – outstanding warrants issued by the Company	–	2,104,142
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	854,666,793	855,729,250

The calculation of diluted earnings per share for the years ended 31 December 2012 and 2011 does not take into account the outstanding share options of the Company and Kingboard Laminates Holdings Limited ("KLHL"), a listed subsidiary of the Group in Hong Kong, as the exercise prices of the outstanding share options of the Company and KLHL were higher than the average market prices of the Company's and KLHL shares during that year.

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS AND BILLS RECEIVABLES

	2012	**2011**
	HK$'000	*HK$'000*
Trade receivables	5,214,158	5,203,420
Advance to suppliers	1,034,257	1,052,656
Deposits paid for acquisition of properties held for development	558,858	–
Prepayment and deposits	580,002	981,017
Value added tax ("VAT") recoverable	879,225	815,339
LAT on pre-sale properties	9,951	123,297
Other receivables	211,464	238,376
	8,487,915	8,414,105

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

	2012	**2011**
	HK$'000	*HK$'000*
0-90 days	3,862,697	3,923,013
91-180 days	1,289,311	1,223,439
Over 180 days	62,150	56,968
	5,214,158	5,203,420

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

11. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

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

	2012	**2011**
	HK$'000	*HK$'000*
0-90 days	2,077,403	2,191,413
91-180 days	503,700	592,294
Over 180 days	157,555	184,450
	2,738,658	2,968,157

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 satisfactory results for the financial year ended 31 December 2012. The business operating environment was extremely challenging for the Group during the year. Against the strong headwind caused by the European sovereign debt crisis and the slow US economic recovery, global demand for electronic products remained soft in 2012. As a result, the business performance of the laminate and printed circuit board ("PCB") divisions was dampened by market sentiment. Meanwhile, chemical prices were dragged down by slower domestic demand in China. However, the new phenol/acetone plant, in Yangzhou, Jiangsu province delivered profitable earnings upon commencement of production which fueled growth for the chemical division in the second half of 2012. With regards to the property division, sales revenue from our first residential development project – Shanghai Kingboard Yu Garden was recognized by the Group in 2012. Our investment properties continued to bring in rental income increase for the Group. Hence, property division's contribution achieved remarkable growth in 2012.

On the back of our solid financial strength and proven management team, the Group has built up an excellent business model with a balanced portfolio yielding diverse income streams. All core business divisions continued to deliver profitable results. Group revenue increased by 2% to HK$37,290.3 million while net profit declined by 19% to HK$2,097 million, basic earnings per share was HK$2.454. The Group maintained our robust financial position. The Board proposed a final dividend of HK42 cents per share, together with the interim dividend of HK10 cents per share paid in September 2012, constitutes a total dividend per share of HK52 cents, representing a payout ratio of 21%.

Financial Highlights

	FY2012 *HK$'million*	**FY2011** *HK$'million*	**Change**
Revenue	37,290.3	36,559.1	+2%
EBITDA	5,506.9	6,240.3	–12%
Profit before tax	2,927.0	3,719.6	–21%
Net profit attributable to owners of the Company	2,097.0	2,594.2	–19%
Basic earnings per share	HK$2.454	HK$3.039	–19%
Full-year dividend per share	HK52.0 cents	HK65.0cents	–20%
– Interim dividend per share	HK10.0 cents	HK40.0cents	–75%
– Proposed final dividend per share	HK42.0 cents	HK25.0cents	+68%
Dividend payout ratio	21%	21%	
Net asset value per share	HK$35.9	HK$32.8	+9%
Net gearing	38%	40%	

PERFORMANCE

The global electronics market was highly competitive in 2012. Although shipment volume and capacity utilization of laminates improved marginally for the laminates division against last year but the average selling price of laminates products showed a downtrend due to softer copper prices. The Laminates division successfully expanded in the China domestic market with sales denominated in Renminbi ("RMB") accounting for 50% of the division's total revenue. Turnover (including inter-segment sales) for the laminate division decreased 6% against the previous year to HK$12,941.3 million. Volume sales increased 1% from last year and average monthly shipment reached 8.57 million square metres. Earnings before interest, tax, depreciation and amortisation ("EBITDA") decreased 16% to HK$2,104.5 million.

Similar to the laminates division, the performance of the PCB division was also affected by weaker demand for electronic products. Turnover for the PCB division declined by 11% to HK$7,253.3 million and EBITDA decreased 8% to HK$971.9 million. The Group has allocated additional resources to expand its high density interconnect ("HDI") PCB production capacity, and gain market share in this market segment by ongoing technology and capability enhancement. HDI PCB sales accounted for 21% (2011:17%) of PCB division sales and generated good earnings contribution to the division.

Despite lower chemical products prices during the year, our new phenol/acetone plant at Yangzhou, Jiangsu province with an annual capacity of 300,000 metric tonnes generated profit contribution for the Group in the second half of 2012, and the Huizhou phenol/acetone plant in Guangdong province continued to deliver excellent performance. The Group's other chemical projects including Xingtai coke/methanol plant in Hebei province as well as Hengyang caustic soda plant in Hunan province also delivered stable earnings for the Group. Turnover (including inter-segment sales) for the chemical division increased 3% to HK$17,557.8 million while EBITDA decreased by 28% to HK$1,519.7 million. Share of associates results (the bulk of which was contributed by our natural gas based methanol joint venture with China BlueChemical Limited) decreased by 17% to HK$215.5 million as a result of lower methanol selling prices against last year.

The property division started to deliver attractive returns. The key investment properties in eastern and southern China continued to bring in steady rental income growth. Total rental income for the Group jumped 69% to HK$401.1 million in 2012. Together with recognition of sales income of HK$1,434.2 million from the Shanghai Yu Garden project, division revenue reached HK$1,835.3 million. The Group acquired Delta House, a commercial building located at Shatin, Hong Kong in May 2012. In addition, the acquisition of a commercial property – 90 Fenchurch Street with a gross floor area ("GFA") of approximately 8,000 square metres located at central London, England was completed in October 2012. These two investments are expected to bring in additional HK$100 million annual rental income for the Group. As at 31 December 2012, the Group owned an investment properties portfolio with a GFA of about 210,000 square meters with properties across mainland China, Hong Kong and London. Moreover, the Group also built up a land bank of over 5 million square meters GFA located at prime locations mainly in Shanghai, Kunshan and Guangzhou. The property business is expected to generate steady and attractive returns to the Group in future.

LIQUIDITY AND CAPITAL RESOURCES

Our financial and liquidity position continued to be solid. As at 31 December 2012, net current assets and current ratio of the Group were approximately HK$16,424.3 million (31 December 2011 – HK$12,347.5 million) and 2.31 (31 December 2011 – 1.80) respectively.

The net working capital cycle increased from 40 days as at 31 December 2011 to 49 days as at 31 December 2012 on the following key metrics:

– Inventories, in terms of stock turnover days, increased to 39 days as the Group's chemical production capacity increased (31 December 2011 – 35 days).

– Trade receivables, in terms of debtors turnover days, reduced to 51 days (31 December 2011 – 52 days).

– Trade and bills payables, in terms of creditors turnover days, reduced to 41 days (31 December 2011 – 47 days).

The Group's net gearing ratio (ratio of interest bearing borrowings net of cash and cash equivalents to total equity) was approximately 38% (31 December 2011: 40%). The proportion of bank borrowings between short term and long term stood at 32%:68% (31 December 2011: 37%: 63%). During the year under review, the Group invested around HK$2.2 billion and HK$1.9 billion in new production capacity and property developments projects respectively. In addition, the Group also invested HK$2 billion to acquire two investment properties in Hong Kong and London. With a professional and seasoned 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 6% of the Group's bank borrowings was denominated in RMB and the rest in Hong Kong or US dollars.

The Group continued to adopt a prudent financial management policy including the use of interest rates swap contract to minimize exposure to fluctuation in interest rates. All outstanding contracts were closed during the year. The Group had not entered into any other type of derivative financial instruments in 2012. 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 2012, the Group had a global workforce of over 43,400 (31 December 2011: 43,200). 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. The Group recruits fresh graduates from both mainland China and Hong Kong each year in its search for talents. 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

Customers order intake showed signs of positive momentum at the onset of 2013. Management is confident of the growth prospects of the domestic market in China. The Chinese government continues to encourage domestic consumption and push ahead with re-engineering the economic growth model by accelerating urbanization in China. Demand for electronic products, especially smart-phones and high-end consumer products, is expected to maintain robust growth. This would definitely be a positive driver for laminates demand. We will continue to invest in product mix enhancement and business development in the domestic China market in order to advance our market share. Plans are underway to expand laminates production capacity in both eastern and southern China this year to capture business opportunities for thin and high-performance laminates.

For the PCB division, we will continue to ramp up the production capacity of our new PCB production sites at Yi Zheng Industrial Park, Yangzhou, Jiangsu province in the current year. Furthermore, our two dedicated HDI PCB plants in Kunshan, Jiangsu province and Kaiping, Guangdong province also plan to expand production capacity in 2013 to meet customer demand.

For the chemical division, our Hebei coke/methanol plant has shown outstanding performance for the first two months of this year. Meanwhile, capacity enhancement plan for Huizhou phenol/acetone plant, Guangdong province is currently scheduled for the end of 2013. The Hengyang caustic soda plant in Hunan province is also ramping up output volume in the current year.

With regard to the properties division, renovation work for Guangzhou Kingboard Plaza at Zhujiang Xincheng, Guangzhou is in progress with target completion date scheduled for mid 2013. Pre-sale for Qiandeng Kingboard Yu Garden Phase I in Kunshan, Jiangsu province has made good progress. Construction work of the residential portion of this project is expected to be completed within 2013.

The operating landscape for the Group this year remains challenging. Nevertheless, our experienced management team will maintain a prudent financial management strategy and continue to sharpen the competitive edge of our core businesses. The Group will respond promptly to changes in the market and any business opportunities 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 proposed final dividend of HK42 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, 6 May 2013 ("2013 AGM"), is to be payable on Wednesday, 22 May 2013 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 14 May 2013. The Board has recommended to make a bonus issue of two new shares credited as fully paid for every ten shares held by shareholders of the Company. The proposed bonus issue is subject to approval by the shareholders at the 2013 AGM. For further details, please refer to the separate announcement for the Company relating to the bonus issue dated 8 March 2013.

CLOSURE OF REGISTER OF MEMBERS

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

(i) From Friday, 3 May 2013 to Monday, 6 May 2013, 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 2013 AGM. In order to be eligible to attend and vote at the 2013 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Thursday, 2 May 2013; and

(ii) From Friday, 10 May 2013 to Tuesday, 14 May 2013, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Thursday, 9 May 2013.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange has made various amendments to the Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 of the Listing Rules, and the revised code, namely the "Corporate Governance Code and Corporate Governance Report" (the "Revised Code"), became effective on 1 April 2012. In the opinion of the Directors, the Company has been in compliance with relevant provisions of the Former Code from 1 January 2012 to 31 March 2012 and the Revised Code from 1 April 2012 to 31 December 2012, save for the deviation that the non-executive Director and independent non-executive Directors are not appointed for specific terms pursuant to paragraph A.4.1 of the Former Code and the Revised Code (as the case may be). Notwithstanding the aforesaid deviation, all the Directors (including the non-executive Director and independent non-executive Directors) are subject to retirement by rotation and re-election at the Company's annual general meeting in compliance with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Former Code and the Revised Code (as the case may be).

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Following a specific enquiry, each Director has confirmed that he or she has complied with the required standard set out in the Model Code and the code of conduct regarding director's securities transactions adopted by the Company throughout the year ended 31 December 2012.

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 2012.

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 2012 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, 8 March 2013

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.