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KINGBOARD LAMINATES HOLDINGS LIMITED

建滔積層板控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1888)

CONTINUING CONNECTED TRANSACTIONS WITH THE KBH GROUP

Reference is made to the announcement and the circular of the Company dated 26 October 2016 and 21 November 2016 respectively in relation to the Existing Agreements. On 25 October 2019, the Company and KBH entered into the New Agreements, and set out the Proposed Annual Caps thereof for the three years commencing on 1 January 2020 and ending on 31 December 2022 as more particularly set out in this announcement.

As at the date of this announcement, KBH, directly or indirectly, owns approximately 68.96% of the issued share capital of the Company. Accordingly, KBH is a connected person of the Company and the transactions contemplated under the New Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (under Chapter 14A of the Listing Rules) of the amount on an annual basis under the New Materials Purchase Framework Agreement for each of the three years ending 31 December 2020, 2021 and 2022 exceeds 0.1% but is lower than 5%, the transactions contemplated under the New Materials Purchase Framework Agreement are subject to compliance with the annual review, reporting and announcement requirements by the Company under Chapter 14A of the Listing Rules but exempted from the circular and the independent shareholders' approval requirements.

As one or more of the applicable percentage ratios (under Chapter 14A of the Listing Rules) of the amount on an annual basis under the New Supply and Service Framework Agreement for each of the three years ending 31 December 2020, 2021 and 2022 is/ are equal to or greater than 5%, the transactions contemplated under the New Supply and Service Framework Agreement are subject to compliance by the Company with the annual review, reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, among other things, (i) further details of the New Supply and Service Framework Agreement and transactions and the Proposed Annual Caps contemplated thereunder; (ii) the opinion from the independent financial adviser; (iii) the recommendation from the independent board committee (comprising the INEDs); and (iv) the notice of the EGM and other information as required under the Listing Rules is expected to be despatched by the Company to the Shareholders within 15 business days after the publication of this announcement.

BACKGROUND

Reference is made to the announcement and the circular of the Company dated 26 October 2016 and 21 November 2016 respectively in relation to the Existing Agreements. On 25 October 2019, the Company and KBH entered into the New Agreements, and set out the Proposed Annual Caps thereof for the three years commencing on 1 January 2020 and ending on 31 December 2022 as more particularly set out in this announcement.

NEW MATERIALS PURCHASE FRAMEWORK AGREEMENT

On 25 October 2019, KBH entered into the New Materials Purchase Framework Agreement with the Company in relation to the purchase of Chemicals by the Group from the KBH Group. Details of the New Materials Purchase Framework Agreement are set out below:

Date: 25 October 2019

Parties: (1) KBH
(2) the Company

Nature of transaction: The Group will purchase Chemicals from the KBH Group.

The amount of Chemicals to be purchased is not fixed but is to be determined and agreed between the parties from time to time. The Group will not be obligated to purchase a minimum amount of materials from the KBH Group and the KBH Group will not be obligated to sell any set quantity of Chemicals to the Group during the term of the New Materials Purchase Framework Agreement.

The actual quantity, specification and price (with reference to the prevailing market price) of Chemicals under the New Materials Purchase Framework Agreement will be subject to the individual orders placed by the Group with the KBH Group.

Term: Three years from 1 January 2020 to 31 December 2022, both days inclusive.

Consideration: The price at which the Chemicals are to be purchased will be at the then prevailing market prices, but in no event will the terms be less favourable to the Group than the terms available from independent third parties having regard to the quantity and other conditions of the purchase.

To facilitate the Group in determining the prevailing market price, the Group will consider the prices offered by independent third party suppliers of similar Chemicals (based on similar amount and similar specifications). In particular, where appropriate, the relevant purchasing department of the Group will obtain quotations from different suppliers (both the KBH Group and the independent third party suppliers) and will also monitor the movement of market price from time to time.

The KBH Group will grant a credit period of 30 days to the Group. The consideration will be settled in cash.

Historical figures, Existing Annual Caps and Proposed Annual Caps

The table below sets out the historical figures and the Existing Annual Caps in relation to the amounts payable by the Group to the KBH Group under the Existing Materials Purchase Framework Agreement and the Proposed Annual Caps under the New Materials Purchase Framework Agreement.

Year ended 31 December 2017		Year ended 31 December 2018		Year ending 31 December 2019			31 December 2020	Year ending 31 December 2021	31 December 2022
Annual cap (HKD'000)	Actual amount	Annual cap (HKD'000)	Actual amount	Annual cap	Actual amount (up to 30 September 2019) (HKD'000)	Estimated amount (up to 31 December 2019) (Note)	Proposed annual cap (HKD'000)	Proposed annual cap (HKD'000)	Proposed annual cap (HKD'000)
800,000	603,701	880,000	725,796	968,000	409,899	546,532	800,000	880,000	968,000

Note: This is an estimated figure by straight-line multiplication from the actual purchase during the nine months ended 30 September 2019.

The Proposed Annual Caps under the New Materials Purchase Framework Agreement were determined with reference to the internal projection of the purchases to be incurred having regard to (i) the historical amount of purchase of the Chemicals by the Group from the KBH Group; (ii) the anticipated demand on the Chemicals by the Group for the three years ending 31 December 2022 (taking into account the expected demand and sales of the Group's products and the corresponding production capacity and production volume of the Group); (iii) the anticipated trend of the market price of the Chemicals; and (iv) inflation.

The Proposed Annual Caps for the New Materials Purchase Framework Agreement for the years ending 31 December 2020, 2021 and 2022 are same as the Existing Annual Caps for the years ended 2017, 2018 and 2019 respectively based on the business plan and operational needs of the Group, the potential fluctuation of the crude oil prices and taking into account the abovementioned factors. The Directors (including the INEDs) are of the view that the Proposed Annual Caps under the New Materials Purchase Framework Agreement are fair and reasonable.

NEW SUPPLY AND SERVICE FRAMEWORK AGREEMENT

On 25 October 2019, KBH entered into the New Supply and Service Framework Agreement with the Company in relation to the supply of laminates and related upstream component materials and provision of drilling services by the Group to the KBH Group. Details of the New Supply and Service Framework Agreement are set out below:

Date: 25 October 2019

Parties: (1) KBH
(2) the Company

Nature of transaction: The Group will supply laminates and related upstream component materials and provide drilling services to the KBH Group.

The amount of laminates and related upstream component materials to be supplied and the drilling services to be provided are not fixed but are to be determined and agreed between the parties from time to time. The Group will not be obligated to supply a minimum amount of laminates and related upstream component materials or to provide drilling services to the KBH Group and the KBH Group will not be obligated to purchase any set quantity of laminates and related upstream component materials or drilling services from the Group during the term of the New Supply and Service Framework Agreement.

The actual quantity, specification and price (with reference to the prevailing market price) of laminates and related upstream component materials and the drilling services to be provided under the New Supply and Service Framework Agreement will be subject to the individual orders placed by the KBH Group with the Group.

Term: Three years from 1 January 2020 to 31 December 2022, both days inclusive.

Consideration: The materials will be supplied and drilling services will be provided at the then prevailing market prices, but in no event will the terms be less favourable to the Group than the terms available to independent third parties having regard to the quantity and other conditions of the sale and services.

To facilitate the Group in determining the prevailing market price, the Group will consider the prices offered to independent third party customers of similar products or services (based on similar amount and similar specifications). In particular, where appropriate, the relevant sales department of the Group will compare the selling price offered to different customers (both the KBH Group and the independent third party customers) (based on similar amount and similar specifications) and will also monitor the movement of market price from time to time.

The Group will grant a credit period of 90 days to the KBH Group. The consideration will be settled in cash.

Historical figures, Existing Annual Caps and Proposed Annual Caps

The table below sets out the historical figures and the Existing Annual Caps and Proposed Annual Caps in relation to the amounts payable by the KBH Group to the Group under the Existing Supply and Service Framework Agreement and the New Supply and Service Framework Agreement:

Year ended 31 December 2017		Year ended 31 December 2018		Year ending 31 December 2019			31 December 2020	Year ending 31 December 2021	31 December 2022
Annual cap (HKD'000)	Actual amount	Annual cap (HKD'000)	Actual amount	Annual cap	Actual amount (up to 30 September 2019) (HKD'000)	Estimated amount (up to 31 December 2019) (Note)	Proposed annual cap (HKD'000)	Proposed annual cap (HKD'000)	Proposed annual cap (HKD'000)
1,900,000	1,835,757	2,090,000	2,065,525	2,299,000	1,617,849	2,202,465	2,753,000	2,945,000	3,151,000

Note: This is an estimated figure by proportionate adjusted multiplication from the actual sale amount during the nine months ended 30 September 2019.

The Proposed Annual Caps under the New Supply and Service Framework Agreement were determined with reference to the internal projection of the transactions to be made having regard to (i) the historical transaction amount of sales to the KBH Group; (ii) the anticipated demand for the laminates and related upstream component materials and drilling services by the KBH Group for the three financial years ending 31 December 2022; (iii) the anticipated increase in market price of the goods and services; and (iv) inflation.

Having considered the above and the estimated demand for laminates and related upstream component materials and drilling services by the KBH Group for each of the financial years ending 31 December 2020, 2021 and 2022, and on the assumption that there will be an annual growth rate of 25% in 2020 and 7% in 2021 and 2022, in respect of the supply of laminates and related upstream component materials and drilling services to KBH Group, the Directors (other than the INEDs who will give their views after considering the opinion from the independent financial adviser) are of the view that the Proposed Annual Caps for the New Supply and Service Framework Agreement are fair and reasonable.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW AGREEMENTS

The Group is engaged in, among other things, the manufacturing and sale of laminates and related products, which require materials such as the Chemicals for its production.

The New Supply and Service Framework Agreement provides flexibility for the Group to supply laminates and related upstream component materials and provide drilling services to the KBH Group. While the Group does not rely on the KBH Group for the sale of laminates and related upstream component materials and provision of drilling services, given that the Group has established a close working relationship with the KBH Group, the Company believes that transactions under the New Supply and Service Agreement will enhance the revenue of the Group through increased sales and thus benefit the Company and the Shareholders as a whole.

The Group has to purchase materials such as the Chemicals for the production of laminates. The purchase of the Chemicals by the Group from the KBH Group under the New Materials Purchase Framework Agreement secures a steady supply of the materials from the KBH Group, which facilitates the Group's production of laminates. Although the Group does not rely on the KBH Group for the purchase of Chemicals since such Chemicals are readily available from independent third parties at comparable prices and terms, the purchase of Chemicals from the KBH Group allows the Group to benefit from the economies of scale of the KBH Group. Further, the Group considers that the KBH Group is a reliable business cooperation partner and such co-operation is beneficial to the business of the Group.

The Group has been operating its laminates business as principal business. The Group anticipates that materials such as the Chemicals for the manufacture of laminates will be required for it to further expand its business. Taking into account a range of factors including the reduction in transportation costs, the quality and the price of the Chemicals supplied by the KBH Group for the production of laminates, the Group considers that the purchase of materials under the New Materials Purchase Framework Agreement is necessary to facilitate its business plan and will improve the competitiveness and the quality of the laminates manufactured by the Group.

The transactions contemplated under the New Agreements are to be of a recurrent revenue nature to be occurred on a regular and continuing basis in the ordinary and usual course of business of the Group. The New Agreements provide a framework for purchases and supplies (as the case may be) from time to time on a non-exclusive basis and regulate the business relationship among the Group and the KBH Group in relation to the transactions thereunder.

In light of the above, the Directors (including the INEDs in respect of the New Materials Purchase Framework Agreement and other than the INEDs who will give their views after considering the opinion from the independent financial adviser in respect of the New Supply and Service Framework Agreement) are of the view that the New Agreements are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The terms of the New Agreements were arrived at after arm's length negotiation between the relevant parties.

LISTING RULES IMPLICATIONS

As at the date of this announcement, KBH, directly or indirectly, owns approximately 68.96% of the issued share capital of the Company. Accordingly, KBH is a connected person of the Company and the transactions contemplated under the New Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (under Chapter 14A of the Listing Rules) of the amount on an annual basis under the New Materials Purchase Framework Agreement for each of the three years ending 31 December 2020, 2021 and 2022 exceeds 0.1% but is lower than 5%, the transactions contemplated under the New Materials Purchase Framework Agreement are subject to compliance with the annual review, reporting and announcement requirements by the Company under Chapter 14A of the Listing Rules but exempted from the circular and the independent shareholders' approval requirements.

As one or more of the applicable percentage ratios (under Chapter 14A of the Listing Rules) of the amount on an annual basis under the New Supply and Service Framework Agreement for each of the three years ending 31 December 2020, 2021 and 2022 is/are equal to or greater than 5%, the transactions contemplated under the New Supply and Service Framework Agreement are subject to compliance by the Company with the annual review, reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The following Directors have abstained from voting at the Board meeting approving the New Agreements and the Proposed Annual Caps as they are shareholders of KBH and directors and/or shareholders of Hallgain: (i) Mr. Cheung Kwok Wa; (ii) Mr. Cheung Kwok Keung; (iii) Mr. Cheung Kwok Ping; (iv) Mr. Lam Ka Po; and (v) Mr. Cheung Ka Ho.

APPROVAL BY INDEPENDENT SHAREHOLDERS

The Company will seek independent Shareholders' approval at the EGM for the New Supply and Service Framework Agreement and the transactions and the Proposed Annual Caps contemplated thereunder. Karl Thomson Financial Advisory Limited has been appointed as the independent financial adviser to advise the independent board committee (comprising the INEDs) and the independent Shareholders in relation to the relevant transactions.

A circular containing, among other things, (i) further details of the New Supply and Service Framework Agreement and transactions and the Proposed Annual Caps contemplated thereunder; (ii) the opinion from the independent financial adviser; (iii) the recommendation from the independent board committee (comprising the INEDs); and (iv) the notice of the EGM and other information as required under the Listing Rules is expected to be despatched by the Company to the Shareholders within 15 business days after the publication of this announcement.

GENERAL

KBH is an investment holding company. The KBH Group is principally engaged in the manufacture and sale of, among other things, PCBs, chemicals and magnetic products, and property development and investment. As of the date of this announcement, KBH, a company of which the shares are listed on the main board of the Stock Exchange, are interested in approximately 68.96% of the issued share capital of the Company and is therefore the controlling shareholder of the Company.

The Company is an investment holding company. The Group is principally engaged in the manufacture and sale of laminates and related upstream component materials.

DEFINITIONS

In this announcement, unless otherwise indicated or the context otherwise requires, the following expressions shall have the following meanings:

“Chemicals”	chemicals including methanol, formalin, phenol, acetone, phenol resin and caustic soda
“Company”	Kingboard Laminates Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting to be held by the Company to approve, among other things, the New Supply and Service Framework Agreement and the Proposed Annual Caps contemplated thereunder
“Existing Agreements”	the Existing Materials Purchase Framework Agreement and Existing Supply and Service Framework Agreement
“Existing Annual Caps”	the annual caps for the Existing Agreements for the three years ending 31 December 2019

“Existing Materials Purchase Framework Agreement”	the agreement dated 26 October 2016 entered into between KBH and the Company for the purchase of Chemicals by the Group from the KBH Group, details of which were disclosed in the announcement and the circular of the Company dated 26 October 2016 and 21 November 2016, respectively
“Existing Supply and Service Framework Agreement”	the agreement dated 26 October 2016 entered into between KBH and the Company for the supply of laminates and related upstream component materials and provision of drilling services by the Group to the KBH Group, details of which were disclosed in the announcement and the circular of the Company dated 26 October 2016 and 21 November 2016, respectively
“Group”	the Company and its subsidiaries
“Hallgain”	Hallgain Management Limited, a company incorporated in the British Virgin Islands with limited liability
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“INEDs”	the independent non-executive Directors
“KBH”	Kingboard Holdings Limited (stock code: 148), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“KBH Group”	KBH and its subsidiaries, excluding the Group
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Agreements”	the New Materials Purchase Framework Agreement and the New Supply and Service Framework Agreement
“New Materials Purchase Framework Agreement”	the agreement dated 25 October 2019 entered into between the Company and KBH for the purchase of Chemicals by the Group from the KBH Group for a term of three years from 1 January 2020 to 31 December 2022

“New Supply and Service Framework Agreement”	the agreement dated 25 October 2019 entered into between the Company and KBH for the supply of laminates and related upstream component materials and provision of drilling services by the Group to the KBH Group for a term of three years from 1 January 2020 to 31 December 2022
“PCB(s)”	acronym for printed circuit board, a flat panel composite with alternating layers of printed conductors and electrical insulation, typically interconnected by conductive holes; PCBs provide platforms to connect semiconductors and other electronic, optical or mechanical devices to form a circuit or functional system
“Proposed Annual Caps”	the proposed annual caps for the transactions contemplated under each of the New Agreements
“Share(s)”	ordinary share(s) of nominal value of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By Order of the board of directors
Kingboard Laminates Holdings Limited
Lam Ting Hin
Company Secretary

Hong Kong, 25 October 2019

As at the date of this announcement, the board of directors of Kingboard Laminates Holdings Limited consists of Messrs. Cheung Kwok Wa, Cheung Kwok Keung, Cheung Kwok Ping, Lam Ka Po, Cheung Ka Ho, Liu Min and Zhou Pei Feng, being the executive directors, Mr. Lo Ka Leong, being the non-executive director, and Messrs. Leung Tai Chiu, Ip Shu Kwan, Stephen, Zhang Lu Fu and Lau Ping Cheung, Kaizer, being the independent non-executive directors.