

BUSINESS REVIEW

It gives me great pleasure to report that Kingboard Chemical Holdings Limited (“the Group”) continues to grow from strength to strength. Our focus on core business and values has brought us another year of record-breaking turnover and profits in financial year 2005, for the third year in a row.

The integration of Elec & Eltek Group into the Group following our acquisition in last financial year end went on smoothly and effectively. Since April 2005, we have started supplying critical raw materials such as prepreg, copper foil, copper clad laminates and other essential materials to Elec & Eltek Group. In addition, the synergy brought by the alliance of all our printed circuit board (“PCB”) subsidiaries including Elec & Eltek Group has enabled us to enhance our technical capability and flexibility as well as to obtain better terms from suppliers. Besides, our business spectrum has further widened by taking over the other two business segments of Elec & Eltek Group, namely Liquid Crystal Display (“LCD”) and Magnetic Products. In short our enlarged business via this acquisition benefits from more new dynamic opportunities and synergy in core competencies, geographical presence, technology, customers and suppliers.

業務回顧

董事會欣然匯報，建滔化工集團（「集團」）業績再創輝煌。集團一貫專注於核心業務及價值的發展方針，令我們在二零零五年財政年度的營業額及盈利再創新高，亦標誌著集團連續第三年取得破記錄業績。

集團在上一個財政年度收購依利安達集團後的整合過程有效地順利進行。自二零零五年四月起，集團開始向依利安達集團供應半固化片、銅箔、覆銅面板等主要原材料及其他重要物料。此外，集團將旗下包括依利安達集團的各個印刷線路板公司聯盟整合，以發揮更佳協同效益，藉此增強集團的技術能力和生產彈性，並且向供應商爭取更佳的採購條件。藉著收購依利安達集團，集團亦進一步擴闊其業務組合至液晶顯示屏及磁電產品兩個新業務。總括而言，集團透過收購依利安達，不但令業務規模擴大，捕捉更多新商機，同時在核心競爭力、地區駐點、技術水平，以至與客戶及供應商層面上，發揮更大的協同效益。

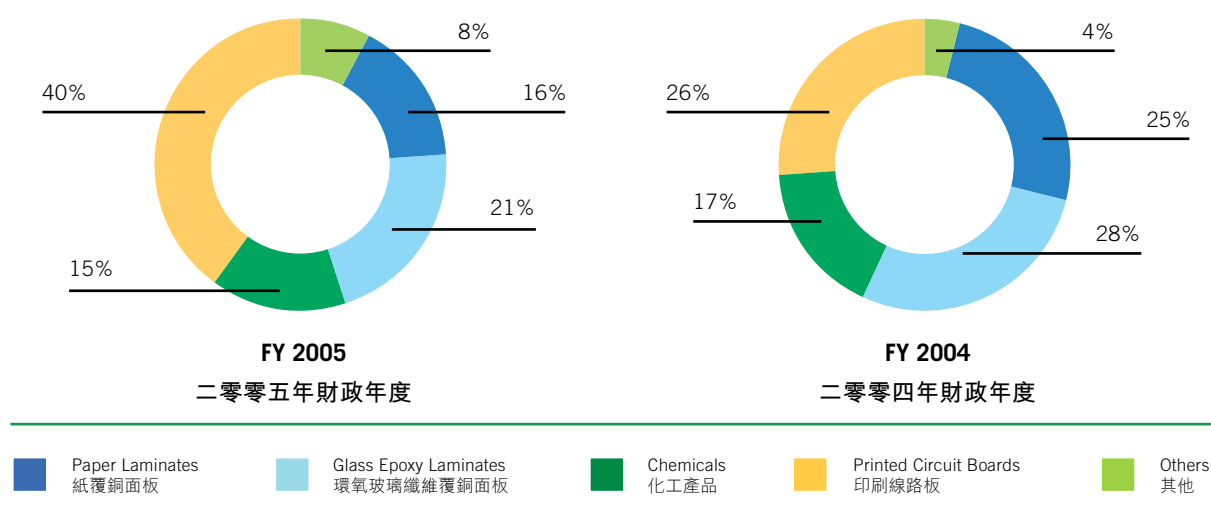
FINANCIAL HIGHLIGHTS

- Turnover exceeded HK\$10 billion to reach HK\$13.1 billion, up 85%
- Profit attributable to equity holders of the parent soared 30% to a record high of HK\$1,435.8 million
- Return on equity was healthy at 21%
- Proposed final dividend per share increased 40% to HK28 cents

財務摘要

- 營業額突破一百億港元，高達一百三十一億港元，增長85%
- 本公司權益持有人應佔溢利創十四億三千五百八十萬港元新高，增長30%
- 股東資金回報率維持在21%之穩健水平
- 建議派發末期股息每股二十八港仙，增加40%

Turnover Breakdown by Product 營業額分佈



With a good spread of businesses across the core product segments, our performance for the year reflects the Group's resilience through challenging times and the importance of maintaining a balanced business portfolio. We have also raised the standards of our internal business processes and internal controls which will certainly put us in good stead as we move forward.

In late 2005 for the six consecutive years the Group was named by the Forbes magazine as one of the world's best small companies. It may be the last time for us to receive this honour as the Group's sales is now beyond the entry criteria of annual sales being less than US\$1 billion.

Amidst the many challenges in the present volatile world economy, 2005 was a year of excellent performance for the Group.

集團在各個核心產品部門間維持一個均衡的業務分佈，本年的業績表現正好引證集團於充滿挑戰的營商環境中仍具備非凡實力，同時亦突顯了集團銳意維持均衡業務組合的重要性。集團亦已積極提升內部營運流程和內部監控水平，藉此幫助集團進一步向前邁進。

二零零五年末，集團連續六年獲福布斯雜誌評選為全球『最佳小型企業』之一，是次可能是集團最後一次獲得此項殊榮，因為集團現時的營業額已超過獎項所訂企業每年營業額不超過十億美元之規定。

儘管現時全球經濟甚為波動，而且挑戰重重，集團於二零零五年依然取得驕人業績。

Including the contribution from Elec & Eltek Group, the Kingboard Group's revenue and earnings before interest and tax ("EBIT") rose 85% and 53% to HK\$13.1 billion and HK\$2,063.2 million respectively. Profit for the year attributable to equity holders of the parent, despite adversely impacted by higher interest expenses, effective tax rate, and profit sharings with minority interests, increased by 30% to reach HK\$1,435.8 million in the financial year just ended.

Excluding contribution from Elec & Eltek Group, the Group recorded a 42% improvement in revenue to HK\$9,519.2 million and, after deducting the interest expenses incurred for the acquisition of Elec & Eltek Group, a 15% increase in net profit to HK\$1,251.6 million.

連同依利安達集團的貢獻，建滔化工集團的營業額增加85%至一百三十一億港元，未扣除利息及稅項之盈利則上升53%至二十億六千三百二十萬港元。雖然受到利息開支和實質稅率增加，加上少數股東權益的利潤攤分增加所影響，本公司權益持有人應佔溢利在剛完結的財政年度仍然上升30%至十四億三千五百八十萬港元。

若扣除依利安達集團的貢獻，並扣減因收購依利安達集團所需要的利息開支後，集團之營業額增加42%至九十五億一千九百二十萬港元，純利則上升15%至十二億五千一百六十萬港元。



Kingboard becomes the largest PCB manufacturer in China via the acquisition of Elec & Eltek Group.
建滔化工集團成功收購依利安達後，成為全中國最大的印刷線路板生產商。

PERFORMANCE

All key business segments experienced different patterns of fluctuation in order booking throughout the year. This reflects the inherent value of the Group's balanced business portfolio.

Despite a slow start in 2005 the electronics industry was considered to perform well in most part of 2005 amidst the interest rate hikes and rising oil price. We continued to broaden our market share in both paper and glass epoxy laminate businesses. The laminate division recorded 41% growth in revenue to HK\$5,884.8 million, and 16% increase in EBIT to HK\$1,217.3 million in this financial year. Volume sales were up by around 25% with monthly shipment hitting 6.4 million sq. meters, indicating our continued momentum to gain market share. EBIT margin fell slightly to 20.7%. The new glass yarn capacities coming on stream worldwide during the first half of 2005 had been gradually absorbed by the emerging market demand, allowing more balanced supply and demand of glass yarn and hence reversing the down-trend of glass epoxy laminate prices. Paper laminate market conditions were favorable throughout the year. Our unrivaled and leading position in the paper laminate industry continued to enable the Group to enjoy a satisfactory return.

業務表現

集團各個主要業務在年度內皆面對不同形式的訂單量變化，正好突顯集團銳意維持均衡業務組合的價值所在。

電子業於二零零五年開始時雖然表現略為呆滯，年內亦受到利率攀升和油價上漲的影響，但二零零五年大部分時間的表現仍達理想水平。集團繼續擴大在紙覆銅面板及環氧玻璃纖維覆銅面板行業的市場佔有率。覆銅面板部門的營業額在財政年度內錄得41%的升幅，達五十八億八千四百八十萬港元。未扣除利息及稅項盈利增加16%至十二億一千七百三十萬港元。銷售量增長約25%，每月的付運量達六百四十萬平方米，顯示集團一直保持擴大市場佔有率的動力。未扣除利息及稅項的邊際盈利率則微降至20.7%。二零零五年上半年全球增加的玻璃絲產能於後期已逐漸被新興市場的需求所吸納，令玻璃絲的供求轉趨平衡，繼而扭轉了環氧玻璃纖維覆銅面板價格的跌勢。紙覆銅面板的市場環境年度內一直利好。集團在紙覆銅面板行業之領導地位，為紙覆銅面板業務取得理想回報。



"Kingboard" stands for quality brandname and products in trade exhibitions.

集團於展銷會中積極推廣「建滔」品牌及優質產品。





Kingboard has more than 40 plants in the PRC and Thailand to support our strong business growth.

集團在中國及泰國擁有超過40間廠房，以支持其強大的業務發展。

With positive growth in the global PCB demand, coupled with continuous outsourcing of components in China, the Group becomes a clear beneficiary of this expanding regional business opportunity. Bolstered in part by the successful integration with Elec & Eltek Group, the Group achieved a 188% increase in revenue in this financial year to HK\$5,284.2 million and EBIT margin improved to 10.7%. Excluding contribution from Elec & Eltek Group, the PCB business of the Group posted a 23% solid revenue growth. The growth was broad based across all of major applications with particular strength noted in the consumer electronics.

全球對印刷線路板的需求正處於增長期，加上於中國內地進行的元件委外採購活動持續活躍，集團顯著受惠於此區內市場增長機遇。印刷線路板業務之營業額在本財政年度內增長188%，至五十二億八千四百二十萬港元，未扣除利息及稅項的邊際盈利率改善至10.7%，業績改善部份主要受到順利整合了依利安達集團的相關業務所帶動。若扣除依利安達集團的貢獻，印刷線路板業務的營業額亦錄得23%的理想增長。業務增長範圍涵蓋各個主要應用產品範疇，在電子消費品行業上尤其強勁。





Our chemical business is one of the prime focus of our development plan.
化工業務是集團未來重點發展項目之一。

The Group's investment in the chemicals division in the previous years continued to bear fruits in 2005. Leveraging on economies of scale, the Group managed to absorb the escalating feedstock and energy costs without an adverse impact on profitability. The caustic soda plant in Hengyang of Hunan province completed its expansion in August 2005 and the increased output has been fully taken up by its customers in the southern China region. Revenue for the chemicals division, excluding contribution from Coke, rose to HK\$2,472.3 million in 2005, 32% higher than last financial year. EBIT margin improved to 8.4% from 6.1% a year ago. Including the contribution from Coke, revenue for the chemicals division surged by 70% to HK\$3,195.3 million and EBIT margin reduced to around 5.3%. The coke-methanol plant, adversely affected by the delayed ramping up and start-up costs of methanol production facilities, incurred losses in the financial year but has become profitable in the first two months of the current year.

集團過往數年於化工部門的投資，在二零零五年持續取得理想回報。憑藉擴大規模經濟效益，集團成功抵銷原材料及能源價格上升對利潤的負面影響。在湖南衡陽的燒鹼廠擴產計劃已於二零零五年八月順利完成，新增產能已被華南地區之客戶需求悉數吸收。若扣除焦炭業務的貢獻，化工部門的營業額增加至二十四億七千二百三十萬港元，較上財政年度上升32%。未扣除利息及稅項的邊際盈利率由一年前的6.1%改善至8.4%。若計入焦炭業務的貢獻，化工部門之營業額攀升70%至三十一億九千五百三十萬港元，未扣除利息及稅項的邊際盈利率則下降至5.3%。受到甲醇廠的生產延誤和開辦費用入帳所影響，焦炭甲醇廠於本財政年度內出現虧損，惟該廠在今年首兩個月已錄得盈利。

LIQUIDITY AND CAPITAL RESOURCES

Our consolidated financial position continued to be healthy. As at 31 December 2005, net current assets and current ratio of the Group were approximately HK\$2,857.3 million (31 December 2004 – HK\$206 million) and 1.56 (31 December 2004 – 1.03) respectively.

Net working capital cycle increased slightly from 102 days as at 31 December 2004 to 103 days as at 31 December 2005 on the following key metrics:

- Inventories, in terms of stock turnover days, shortened to 66 days (31 December 2004 – 80 days)
- Trade receivables, in terms of debtors turnover days, improved to 106 days (31 December 2004 – 107 days)
- Trade and bills payables, in terms of creditors turnover days, decreased to 69 days (31 December 2004 – 85 days)

The Group's ratio of interest bearing borrowings net of cash to equity attributable to equity holders of the parent ("net gearing ratio") decreased to 67% (31 December 2004 – 96%) and further dropped to 58% if excluding bank borrowings of EEIC on non-recourse basis. This improvement was achieved mostly through a mix of the issuance of 40 million new shares to institutional investors and the conversion of around 20.0 million warrants to new shares, raising the net proceeds of more than HK\$1.27 billion.



流動資金及財務狀況

集團的綜合財政狀況繼續保持穩健。於二零零五年十二月三十一日，流動資產淨值約為二十八億五千七百三十萬港元（二零零四年十二月三十一日：二億零六百萬港元），流動比率則為1.56（二零零四年十二月三十一日：1.03）。

淨營運資金週期由二零零四年十二月三十一日的102日輕微增加至二零零五年十二月三十一日的103日，細分如下：

- 存貨週轉期縮短至66日（二零零四年十二月三十一日：80日）
- 貿易應收款項的週轉期改善至106日（二零零四年十二月三十一日：107日）
- 貿易及票據應付帳款的週期縮短至69日（二零零四年十二月三十一日：85日）

集團扣除現金後之附息借貸與本公司權益持有人應佔權益比率（「淨負債比率」）下降至67%（二零零四年十二月三十一日：96%），若扣除依利安達集團有限公司（「EEIC」）不附帶追索權之貸款，此比率將進一步下降至58%。借貸比率改善，主要由於集團向機構投資者配售了四千萬股新股，並且約有二千萬股認股權證獲行使而發行新股，合共集資超過十二億七千萬港元。

Periodic meetings are held to introduce our latest development to institutional investors, analysts and business associates.

建滔定期舉行會議向投資者、分析及業務夥伴推介集團最新發展情況。

The Group's borrowings portfolio has shifted towards long-term based funding after refinancing one-year bridging loan facilities with 5-year term loan and revolving loan facilities in June 2005. The mix of short term and long term bank borrowings was 33%: 67% (31 December 2004 – 53%: 47%). Approximately 1% of the bank borrowings were denominated in Renminbi and the rest in Hong Kong or US dollars. The Group has entered into interest rate swap agreements, covering more than 65% of the Group's borrowings, to manage the increasing interest rates with a weighted average duration of 1.8 years at the end of December 2005.

The appreciation of Renminbi against the US dollars had posed minimum impact on the Group's performance since the Group's revenue are substantially denominated in Hong Kong dollars, US dollars and Renminbi in a proportion closely matching with the Group's operational expenses.

HUMAN RESOURCES

As at 31 December 2005, the Group had a global staff force of over 37,600 (31 December 2004: 31,600). The increase in the number of employees was mainly due to our continuous business growth. Apart from the competitive salary package, share options and discretionary bonuses are also granted to eligible employees based on the Group's financial achievement and individual's performance.

PROSPECTS

2006 looks set to be another exciting year as the current macro-indicators are still auguring well for the Group's business developments, and all manufacturing facilities within the Group have been operating near full capacity since the beginning of the current year.

集團於二零零五年六月將一項一年期的過渡性貸款進行再融資，轉為一項五年期的借貸及循環貸款，從而令集團的借貸組合進一步傾向長期借貸。短期與長期借貸的比例為33%：67%（二零零四年十二月三十一日：53%：47%）。集團的借貸約有1%以人民幣訂立，其餘的則以港元及美元訂立。於二零零五年十二月三十一日，集團超過65%的銀行借貸以加權平均數1.8年年期的利息掉期合約作對沖。

由於集團的收入主要以港元、美元及人民幣結算，與營運開支的貨幣要求比例大致相符，故人民幣對美元升值對集團的表現影響甚微。

人力資源

集團於二零零五年十二月三十一日止共聘用員工約37,600人（二零零四年十二月三十一日：約31,600人），員工人數增加主要為配合集團業務的持續增長所需。集團除了提供具競爭力的薪酬待遇，並會根據公司的財政狀況和個別員工的表現，發放優先購股權及特別獎金予合資格員工。

前景

展望二零零六年，前景仍是充滿挑戰，現時宏觀數據對集團的業務發展而言，仍然屬於正面樂觀的信息。自今年初，集團旗下所有的生產設施，產能運作已接近飽和。

Robust demand for both paper and glass epoxy laminates remains unabated. The Group stands ready to capitalize on our leading market position established over the past years. We will further expand our production capacity of glass epoxy laminate in Fogang, Guangdong province and will soon start the construction of a new glass epoxy laminate factory in Jiangyin, Jiangsu province. In addition, the installation of new paper laminate production line in Kunshan, Jiangsu province and the relocation of paper laminate facilities from Shenzhen to Fogang, Guangdong province are expected to complete by the first half of year 2006. These new capacities will enable the Group to ride on more business opportunities in China as well as overseas markets including the fast growing Indian market.

Demand for PCB manufactured in China is expected to continuously grow faster than the rest of the world, as the PCB facilities located in high cost countries such as North America, Europe and Japan have become less competitive. Our established global footprint supported by the Group's combined PCB production facilities being the largest in China will warrant us to be the prime beneficiary of the current globalization trend. New production line installation at various plant locations is on schedule and projected to add an additional monthly capacity of 1.4 million square feet by the end of 2006. In addition we will continue to focus on strengthening the alliance of different PCB shops under the Group in order to take advantage of the economies of enlarged scale.

紙覆銅面板及環氧玻璃纖維覆銅面板的強勁需求依然持續，集團正在充分善用過去幾年在市場所建立的領導地位。集團將進一步擴大在廣東省佛崗的環氧玻璃纖維覆銅面板產能，並將於短期內在江蘇省江陰開始興建一家環氧玻璃纖維覆銅面板廠。此外，在江蘇省昆山新增的一條紙覆銅面板生產線和以及從深圳遷至佛崗的紙覆銅面板生產設施預計會在二零零六年上半年完成組裝。此等新設施將有助集團在中國爭取更多新商機，以至開拓更多海外市場，包括印度此新興市場。

市場對在中國內地生產的印刷線路板之需求增長預期仍繼續遠超於全球其他地方，此乃由於位於高成本國家如北美、歐洲及日本等地的印刷線路板生產商相對地變得缺乏競爭力。集團在全球各地的業務網絡以及按印刷線路板設施總計產量為中國境內最大生產商等條件均確保集團能最先受惠於現時全球一體化的趨勢。集團在多個廠房的生產線增設計劃正如期進行，預計於二零零六年底可額外提供每月一百四十萬平方呎產能。此外，集團將專注於加強旗下各印刷線路板公司之間的配合，藉此加強擴大規模後所帶來的經濟效益。



Mr. Huang Hua Hua, the Governor of the Guangdong province, as our guest in the plants' tour. Mr. Wang Hong Ju, the Mayor of Chongqing, attended the foundation-laying ceremony of our methanol project in Chongqing.

廣東省省長黃華華先生參觀建滔廠房。重慶市市長王鴻舉先生參加集團重慶甲醇項目奠基儀式。

The Group's chemicals division continues to anticipate substantial growth over the next few years. A new epoxy resin plant alongside the planned glass epoxy laminate factory will be set up in Jiangyin, Jiangsu province. The construction of the methanol plant by our joint venture with CNOOC's chemical division in Hainan province is on schedule with trial production target in the third quarter of 2006. The setting up of the methanol plant in Chongqing and the phenol and acetone plant in Huizhou, Guangdong province is underway and both plants will commence operation in 2007. In furtherance, the Group is exploring the opportunity to utilize our know-how of coke-based methanol production process to manufacture methanol in Shanxi province.

The electronic components business comprising LCD and magnetic products is expected to deliver another set of favorable performance in the current year. The Group will continue to build on our strong partnership with customers by aligning our new product design closely with customers' technology roadmaps as well as offering breakthrough process capabilities. On this front our new production facilities in Qingyuan and Luoding, Guangdong province for our LCD and magnetic products respectively will help meet the growth of customer demand.

集團化工部門預期在未來幾年將繼續取得顯著增長。集團計劃在江蘇省江陰的環氧玻璃纖維覆銅面板廠附近增設一家環氧樹脂廠。集團與中國海洋石油總公司旗下的化工部門在海南島合資興建的甲醇廠，工程現正如期進行，試產將訂於二零零六年第三季實行。集團現正在重慶設立甲醇廠及在廣東惠州設立苯酚及丙酮化工廠，兩家新廠預計可於二零零七年投產。此外，集團正物色機會，利用以焦炭為基礎的甲醇生產技術在山西省生產甲醇。

集團旗下包括液晶顯示屏及磁電產品的電子元件業務預期在來年可再次取得理想業績。集團將繼續緊密配合客戶的技術發展進程，為他們提供新產品設計配套，及嶄新的產品開發技能。集團液晶顯示屏及磁電產品業務分別於廣東省清遠及羅定新建的廠房將可滿足客戶持續增長的需求。



The methanol project in Hainan province is new impetus to our business growth.
海南省的甲醇項目為集團業務發展注入新動力。



The Group has over 37,600 employees who are fully committed to the future success of the Group.
逾37,600名員工致力為集團未來發展作出貢獻。

ACKNOWLEDGMENTS

It has been a challenging yet fulfilling mission to keep the Group at the forefront of the industry on the global platform. For that I, on behalf of the Board, would like to express gratitude to our shareholders, customers, and business associates for their continuous support. In addition I would like to thank our employees for their passion and dedication in preparing the Group for future growth. Last, but not the least, I personally wish to thank our fellow Board members for their invaluable contributions to the Group.

CHEUNG Kwok Wing

Chairman

Hong Kong, 28 March 2006

致謝

要鞏固建滔化工集團在全球行業的領先位置，是一項既有挑戰性又具滿足感的工作。本人謹代表董事會，對集團股東、客戶及業務夥伴的支持，以及全體員工一直以來為集團未來發展所作出的投入和努力，致以衷心感謝。最後，本人謹衷心致謝董事會內各董事成員為集團所作出之寶貴貢獻。

主席

張國榮

香港，二零零六年三月二十八日