

CHAIRMAN'S STATEMENT

主席報告

BUSINESS REVIEW

2006 was another successful year for Kingboard Chemical Holdings Limited (the "Group"). Benefited from the buoyant global economy, the Group's three core businesses, namely, laminate, chemical and printed circuit board ("PCB") had continued to enjoy strong growth. The Group achieved record revenue and profit for the fourth year in a row with consolidated sales reaching HK\$16.8 billion which was 28% higher than that of the previous year. The Group's earnings before interest and tax (excluding the gain from the spin off of laminate business and discount on acquisition) exceeded HK\$3,028.8 million which was 47% higher than the previous year.

Beyond the delivery of a solid financial performance, the Group reached another milestone following the spin off of the laminate business under the name Kingboard Laminates Holdings Limited ("Kingboard Laminates") on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 December 2006. The separate listing of Kingboard Laminates would enable investors to appraise and assess the potential and performance of the respective business units distinctly within the Group. In addition, the success of the initial public offering of Kingboard Laminates enables it to access to the international capital markets so as to capture additional growth opportunities as they arise. With a strong balance sheet, the Group is in a better position than it has ever been to seize future growth opportunities for both PCB and chemical divisions.

業務回顧

建滔化工集團（「集團」）在二零零六年再次成功取得驕人業績。在環球經濟蓬勃的有利條件下，集團旗下三大核心業務，覆銅面板、化工產品及印刷線路板，持續錄得強勁增長。集團連續第四年錄得破紀錄營業額及盈利，綜合營業額較上年度增加28%至一百六十八億港元。撇除分拆覆銅面板業務所得及收購折讓之收益，集團之扣除利息及稅項前之盈利超過三十億零二千八百八十萬港元，較上年度增加47%。

集團除了成功交出一份亮麗的業績外，更於二零零六年十二月七日，透過建滔積層板控股有限公司（「建滔積層板」）將旗下覆銅面板業務分拆，並在香港聯合交易所有限公司（「聯交所」）主板上市，為集團的發展歷程奠定另一里程碑。將建滔積層板分拆上市，除可讓投資者獨立評估及分析集團內各業務部門之表現及潛力，亦有助集團的覆銅面板業務成功進入國際資本市場，並捕捉各種進一步增長的機遇。由於資產負債表的狀況理想，促使集團處於一個前所未有的有利位置去抓緊印刷線路板及化工部門進一步增長的商機。



The listing ceremony of Kingboard Laminates Holdings Limited.
建滔積層板控股有限公司之上市儀式。

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As a diversified Group, Kingboard is mindful of the need for management control over a wide geographic span with myriad businesses, which in turn enhances corporate governance and shareholders' return. I shall now elaborate our continuous effort to sustain the Group's earnings growth.

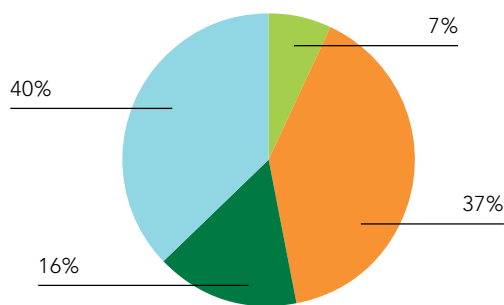
集團作為一家多元化的企業，深明對跨越不同地域的各種業務進行管理的重要性，並藉此提升股東回報及企業管治水平。本人謹此闡述管理層一直以來為保持集團盈利增長所作出的努力。

FINANCIAL HIGHLIGHTS	財務摘要
<ul style="list-style-type: none"> Revenue surged to a record high of HK\$16.8 billion – up 28% 	<ul style="list-style-type: none"> 營業額增加28%至一百六十八億港元新高
<ul style="list-style-type: none"> Profit attributable to equity holders of the Company grew by 53% to HK\$2.2 billion* 	<ul style="list-style-type: none"> 本公司權益持有人應佔溢利增長53%至二十二億港元*
<ul style="list-style-type: none"> Return on equity attributable to equity holders of the Company improved to 22.6%* (2005: 20.8%) 	<ul style="list-style-type: none"> 本公司權益持有人股本回報率改善至22.6%* (2005: 20.8%)
<ul style="list-style-type: none"> Solid financial position with net cash of HK\$715 million 	<ul style="list-style-type: none"> 財務狀況理想，擁有淨現金七億一千五百萬港元
<ul style="list-style-type: none"> Proposed final dividend per share up 36% to HK38 cents plus special dividend per share of HK62 cents 	<ul style="list-style-type: none"> 建議派發每股末期股息增加36%至三十八港仙和每股特別股息六十二港仙

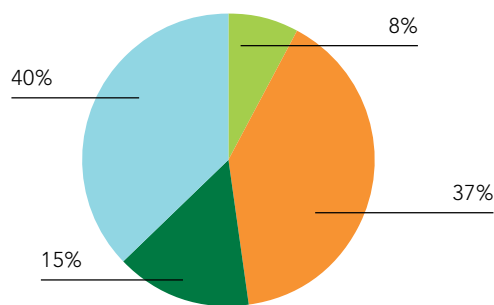
* excluding the gain from the spin off of laminate business of HK\$4.8 billion and discount on acquisition of HK\$49.7 million

* 不包括分拆覆銅面板業務所得之四十八億港元及收購折讓四千九百七十萬港元的收益

Revenue Breakdown by Product 營業額分佈



FY 2006
二零零六年財政年度



FY 2005
二零零五年財政年度

Laminates
覆銅面板

Chemicals
化工產品

Printed Circuit Boards
印刷線路板

Others
其他

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Performance

We reported excellent results for 2006. Given our persistent focus on capacity growth and capability upgrading in the last few years, the Group had successfully ridden on the robust global demand for the consumer electronics product. Being the largest laminate producer in the world, the Group was able to take full advantage of its vertically integrated business model with a competitive cost structure to continuously gain share in the global laminate market. As a result, revenue (including inter-segment sales) for the laminate division recorded a 40% growth to HK\$8,243.3 million. Earnings before interest and tax ("EBIT") rose even higher by 48.5% to HK\$1,807.4 million over previous year. Volume sales were up by around 14% with the average monthly shipment reaching 7.3 million square meters. Revenue growth had outpaced volume growth because of tight supply of upstream raw materials which resulted in higher average selling price of laminate in the year. In addition, the capacity expansion located in Fogang, Guangdong province with lower operational cost base had contributed positively to our margin expansion.

業務表現

集團在二零零六年取得輝煌業績。由於集團在過去數年一直專注於擴大產能及提升生產技能，故此能成功受惠於全球電子消費品的強勁需求。集團作為全球最大覆銅面板生產商，能有效利用垂直整合經營模式的優勢及具競爭力的成本架構於環球覆銅面板市場搶佔市場份額。故此，覆銅面板部門的營業額（包括分部間之銷售）較上年度增加40%至八十二億四千三百三十萬港元，未扣除利息及稅項之盈利更較上年度大幅上升48.5%至十八億零七百四十萬港元。銷售量增長約14%，每月的平均付運量達730萬平方米。由於上游原料供應緊張，令覆銅面板平均售價得以上調，因而使營業額的增幅大於銷售量的增幅。此外，集團在擁有低營運成本的廣東省佛岡廠房擴張產能亦有助集團的邊際利潤進一步提升。



Kingboard is the largest laminate manufacturer in the world.
建滔現時為全球最大之覆銅面板製造商。



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With regards to PCB division, we saw surging demand from most key market segments due to upturn in emerging market economies as well as the continuous business migration from other parts of the world to China. As a result, our major manufacturing sites had been operating near full capacities during the year. Backed by a global customer base, revenue for PCB division was up 25.8% to HK\$6,650 million. Though oil and commodities price increases had brought higher material costs, EBIT had increased in tandem to HK\$686.2 million as compared to previous financial year. The outstanding performance of Kingboard PCB division clearly demonstrated our unequivocal position as the largest PCB manufacturer in China and one of the top ten PCB manufacturers in the world.



印刷線路板部門方面，各主要市場的需求受新興市場蓬勃的經濟所帶動而持續攀升，加上世界各地的業務持續遷移至中國。因此，年內集團主要生產設施的產能均已接近飽和。印刷線路板部門受惠於遍佈全球的客戶網絡，營業額增加25.8%至六十六億五千萬港元。雖然原油及商品價格上升導致原材料成本增加，部門之未扣除利息及稅項之盈利仍較上年度有所增加，達六億八千六百二十萬港元。印刷線路板部門的出色表現，正好突顯部門作為中國最大印刷線路板生產商及全球十大印刷線路板生產商之一的非凡地位。



The chemical division achieved revenue and EBIT growth of 25.5% to HK\$4,011.4 million and 102.5% to HK\$342.0 million respectively in 2006. Benefited from increasing economies of scale and the significant cost advantages we had by being an early mover in certain chemical project investments, our EBIT margin expanded by 3.2% to 8.5% in spite of higher feedstock costs. The newly completed projects such as the caustic soda plant expansion at Hengyang, Hunan province and the coke/methanol plant in Hebei province had performed more profitably than previous year. Our joint venture with China BlueChemical Limited in Hainan province started commercial production in December 2006 and, with its strategic location, is exporting methanol to south-east Asian countries such as Malaysia in addition to domestic sales.

集團化工部門的營業額上升25.5%至四十億一千一百四十萬港元，未扣除利息及稅項之盈利則增長102.5%至三億四千二百萬港元。集團受惠於持續擴大的規模經濟效益及早著先機地投資於某些化工項目的成本優勢，化工部門未扣除利息及稅項之邊際溢利率增加3.2%至8.5%。湖南省衡陽的燒碱廠及河北省焦炭／甲醇廠等新竣工項目，盈利表現已較去年更為理想。集團與中海石油化學股份有限公司在海南省的合營項目已在二零零六年十二月進行規模生產，除了本地銷售外，也憑藉策略性的地理位置出口甲醇至馬來西亞等東南亞國家。

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Our methanol projects will be one of the key revenue growth drivers in the next few years.
本集團之甲醇項目將成為未來數年營業額增長之主要動力之一。

LIQUIDITY AND CAPITAL RESOURCES

The Group's consolidated financial position changed distinctly following the successful listing of Kingboard Laminates on the Stock Exchange on 7 December 2006. The Group received net proceeds of approximately HK\$6 billion from the spin off exercise of Kingboard Laminates. In addition, the Group received about HK\$854.6 million from the conversion of around 42.7 million warrants to new shares of the Company. As a result, the Group had net cash of HK\$715 million as at 31 December 2006 which was contrary to last financial year's net gearing ratio (ratio of interest bearing borrowings net of cash to total equity) of 58%. Furthermore, the retained group (excluding Kingboard Laminates and Elec & Eltek International Company Limited) was at a net cash position of HK\$3,060.3 million.

流動資金及財務狀況

集團在二零零六年十二月七日成功分拆旗下建滔積層板在聯交所主板上市後，綜合財政狀況出現重大變化。集團透過分拆建滔積層板上市，取得集資淨額約六十億港元。此外，本公司因認股權證獲行使而發行四千二百七十萬股新股，所得款項約為八億五千四百六十萬港元。因此，集團於二零零六年十二月三十一日擁有淨現金七億一千五百萬港元，有別於上財政年度58%的淨負債比率（扣除現金後之附息借貸與資本總額比率）。此外，不包括建滔積層板及依利安達集團有限公司的保留集團更持有淨現金三十億六千零三十萬港元。

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The net working capital cycle improved from 103 days as at 31 December 2005 to 96 days as at 31 December 2006 on the following key metrics:

- Inventories, in terms of stock turnover days, increased to 73 days as a result of more raw material being purchased for the expanded production capacity across the core businesses (31 December 2005 – 66 days)
- Trade receivables, in terms of debtors turnover days, improved to 97 days (31 December 2005 – 106 days)
- Trade and bills payable, in terms of creditors turnover days, improved to 74 days (31 December 2005 – 69 days)

As at 31 December 2006, net current assets and current ratio of the Group were HK\$9,467.1 million (31 December 2005 – HK\$2,857.3 million) and 2.90 (31 December 2005 – 1.56), respectively. The mix of bank borrowings between short term and long term bank borrowings stood at 24%:76% (31 December 2005 – 33%:67%). Around 2% of the bank borrowings was denominated in Renminbi and the rest in Hong Kong or US dollars.

Our recurrent operating cash inflow was strong and positive even after funding working capital requirement, capital expenditure and payment of interest and tax during the year. In 2006, the Group had invested HK\$2,393.2 million in new production facilities across core businesses so as to ride on new business opportunities.

The Group continued to adopt prudent financial management policy including the use of interest rate swap contract to minimize the exposure to fluctuation in interest rates movement. There is no material foreign exchange exposure to the Group during the year under review. The Group's revenue, mostly dominated in Hong Kong dollars, Renminbi and US dollars, was fairly matched with the currency requirement of operating expenses.

淨營運資金週轉期由二零零五年十二月三十一日的103日，改善至二零零六年十二月三十一日的96日，細分如下：

- 由於各個核心業務均擴大了生產能力，原材料採購亦隨之增加，存貨週轉期略為延長至73日（二零零五年十二月三十一日：66日）
- 貿易應收款項的週轉期改善至97日（二零零五年十二月三十一日：106日）
- 貿易及票據應付帳款的週轉期改善至74日（二零零五年十二月三十一日：69日）

於二零零六年十二月三十一日，集團流動資產淨值為九十四億六千七百一十萬港元（二零零五年十二月三十一日：二十八億五千七百三十萬港元），流動比率則為2.90（二零零五年十二月三十一日：1.56）。短期與長期借貸的比例為24%：76%（二零零五年十二月三十一日：33%：67%）。集團的借貸約有2%以人民幣訂立，其餘的則以港元或美元訂立。

集團的經常性營運現金流在扣除營運資金、資本性開支以及支付利息及稅項後，依然錄得正數，表現強勁。集團於二零零六年投資了二十三億九千三百二十萬港元，為各個核心業務添置新的生產設施，迎接新商機。

集團繼續採取穩健的財務政策，包括利用利率掉期合約，以減低利率波動所帶來的風險。在回顧年度內，集團並無面對重大的外匯風險。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。

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HUMAN RESOURCES

As at 31 December 2006, the Group had a global workforce of over 42,900 (31 December 2005 – 37,600). The increase in headcount was in line with our ongoing expansion blueprint. Other than offering competitive salary package, the Group grants share options and discretionary bonuses to eligible employees based on our financial achievement and individual's performance.

PROSPECTS

Our remarkable operating performance has put the Group in an excellent position to invest in future earnings growth. Nevertheless, the Group is not complacent and will continue its relentless effort on cost management and efficiency improvements.

人力資源

截至二零零六年十二月三十一日，集團在全球合共聘用員工約42,900人（二零零五年十二月三十一日：37,600人），員工人數增加主要為配合集團業務擴展之步伐。集團除了提供具競爭力的薪酬待遇外，亦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

集團卓越的營運表現，使集團處於一個極有利的位置去部署未來的盈利增長。管理層並不會因此而自滿，並將繼續專注於加強成本管理以及改善營運效率。



Our Chairman, Mr. Cheung Kwok Wing, was the winner of the DHL/SCMP Hong Kong Business Award, accredited with the Owner-Operator Award in 2006.

本公司主席張國榮先生榮獲二零零六年DHL／南華早報香港商業獎之東主營運獎。

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After some brief softness in demand for laminates at the start of 2007 due to seasonal effect of Chinese Lunar New Year, our laminate order book has picked up since March 2007 and our plants are operating near full capacity. The Group plans to further expand production capacity of laminates and upstream component materials so as to increase our market share and capture new business opportunities in the global market place. Our plant expansion in Fogang, Guangdong province and Jiangyin, Jiangsu province would increase the glass epoxy laminate monthly production capacity by 29% by the end of 2007.

For the PCB division, management experienced slower market demand from the computer and peripherals segment over the first two months of 2007 due to post-festival inventory correction while demand from other business segments remained healthy. Although the Group enjoys a significant presence in the single side to 6-layer count product segment, we are now proactively planning to extend our core competence into the higher profit margin product segment including HDI and higher layer count PCB. We plan to expand our multi-layer PCB production capacity by about 20% in 2007. The co-operation and alliance of different PCB shops within the Group, among others, will remain one of the key objectives to move forward.

受農曆新年假期的季節性影響，覆銅面板需求在二零零七年頭兩個月略為放緩，然而訂單自二零零七年三月已重上軌道，而集團各廠之產能亦已接近飽和。集團計劃進一步擴大覆銅面板以至上游物料的產能，藉此擴大集團的市場佔有率，捕捉全球市場之商機。集團在廣東省佛岡及江蘇省江陰的擴展計劃，預期可在二零零七年底額外增加環氧玻璃纖維覆銅面板產能29%。

印刷線路板方面，電腦及電腦周邊產品市場需求在過去兩個月因節日後的庫存調整而出現放緩現象，而其他行業市場的需求則依然保持穩健。雖然印刷線路板部門在單面至六層印刷線路板產品市場享有顯著地位，管理層現正積極擴展邊際利潤較高的高精密度及多層數的印刷線路板市場，並計劃在二零零七年內擴大多層線路板的產能約20%。聯盟整合旗下不同的印刷線路板廠將仍是集團未來的其中一個重要目標。



The phenol/acetone plant in Huizhou, Guangdong province further enhances our vertical integration development.
位於廣東省惠州之苯酚及丙酮廠，進一步提升集團之垂直整合發展。

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The Group will continue to expand the chemical division. The methanol project in Chongqing has progressed smoothly and expects to be completed by end of 2007 which will provide an additional methanol output of 37,500 tonnes per month. The other two joint venture methanol projects in Shanxi province will add another 16,700 tonnes monthly production by first half of 2008. With the huge success of phase one of the coke/methanol plant in Hebei province, we have recently commenced construction of phase two with similar production capacity as phase one and expect it to be operational in 2008. To capitalize on the lower cost structure of caustic soda plant in Hengyang, Hunan province, capacity expansion is underway with a targeted completion date by the first half of 2008. In addition, the phenol/acetone plant in Huizhou, Guangdong province shall commence operation in year 2007. With all these chemical expansion projects coming on stream, the Group is well poised to seize further growth opportunities in the chemical division which will contribute greater value to the Group.

集團銳意不斷擴大旗下的化工部門。在重慶的甲醇項目，工程正如期進行中。預計於二零零七年底竣工，每月可額外生產37,500噸甲醇。集團在山西的兩個甲醇合營項目，將可在二零零八年上半年額外增加每月16,700噸甲醇的產能。由於集團在河北省焦炭／甲醇廠第一期取得顯著成功，現已動工興建第二期，產能與第一期相若，預計可於二零零八年初投產。為善用燒碱廠低成本架構的優勢，湖南省衡陽燒碱廠之擴展工程正在進行中，預計於二零零八年上半年竣工。此外，在廣東省惠州的苯酚及丙酮廠，亦將在二零零七年內投產。隨著以上化工項目陸續投產，集團化工部門將可抓緊未來增長商機，為集團創造佳績。



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APPRECIATION

Finally, on behalf of the board of Director ("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.

CHEUNG Kwok Wing

Chairman

Hong Kong, 29 March 2007

致謝

最後，本人謹代表董事會（「董事會」）藉此機會向各位股東、客戶、銀行、管理人員及員工對本集團毫無保留的支持致以衷心感謝。

主席

張國榮

香港，二零零七年三月二十九日