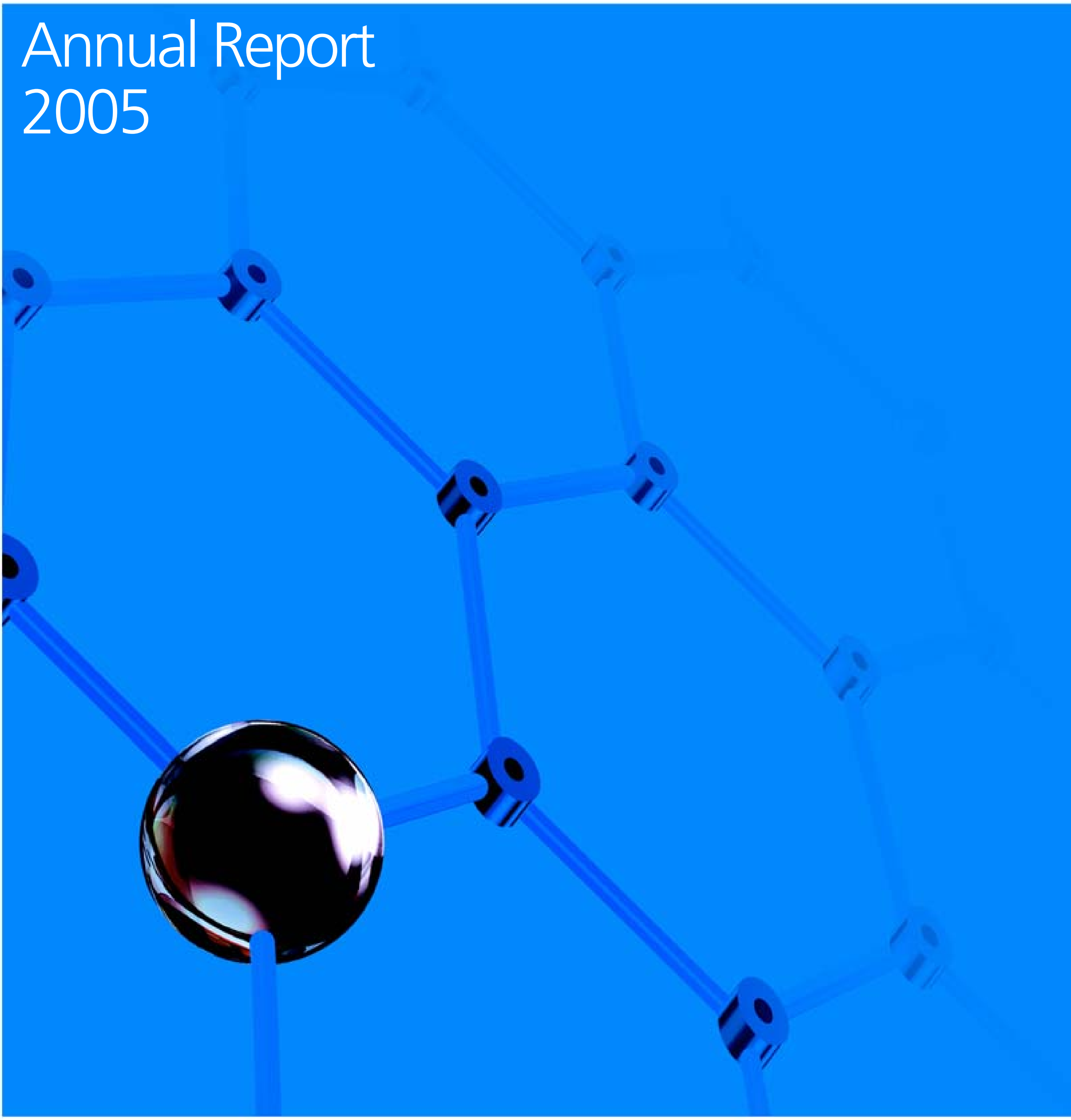
Annual Report 2005



KINGBOARD COPPER FOIL HOLDINGS LIMITED

Contents

Corporate Information

BOARD OF DIRECTORS
Cheung Kwok Wing *(Chairman)*
Chan Wing Kwan *(Managing Director)*
Cheung Kwok Ping
Ho Yin Sang
Lai Chung Wing, Robert
Ong Tiong Wee

COMPANY SECRETARIES
Ira Stuart Outerbridge III
FCIS
Chow Yew Kee
CPA

AUDIT COMMITTEE
Lai Chung Wing, Robert *(Chairman)*
Ong Tiong Wee
Cheung Kwok Ping

NOMINATING COMMITTEE
Lai Chung Wing, Robert *(Chairman)*
Ong Tiong Wee
Cheung Kwok Ping

REMUNERATION COMMITTEE
Lai Chung Wing, Robert *(Chairman)*
Ong Tiong Wee
Cheung Kwok Ping

AUDITORS
Deloitte & Touche
Certified Public Accountants
6 Shenton Way #32-00
DBS Building Tower Two
Singapore 068809

Audit partner in charge: William Lim Choon Hock
Appointed on May 26, 2003

SOLICITORS
Bermuda
Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central, Hong Kong

Singapore
Shook Lin & Bok
1 Robinson Road #18-00
AIA Tower
Singapore 048542

PRINCIPAL BANKERS
Citibank N.A.
47th Floor Citibank Tower
Citibank Plaza
3 Garden Road
Central, Hong Kong

Standard Chartered Bank
10th Floor, Standard Chartered Bank Building
4-4A Des Voeux Road, Central
Hong Kong

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM II
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Tel no: (441) 295 1422
Fax no: (441) 292 4720
Email: info@conyersdillandpearman.com

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
5th Floor, Block J
Valiant Industrial Centre
2-12 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

BERMUDA REGISTRAR AND SHARE TRANSFER OFFICE
Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

SINGAPORE SHARE TRANSFER AGENT
Compact Administrative Services Pte Ltd
6 Shenton Way #28-09
DBS Building Tower Two
Singapore 068809

Five Year Financial Summary

OPERATING RESULTS OF THE GROUP

(HK$'000)	Year Ended March 31 2002	1.4.2002 to 31.12.2002	Year Ended December 31 2003	2004	**2005**
Turnover	484,264	379,467	698,005	1,032,924	**1,484,713**
Profit before taxation	100,101	43,146	83,499	108,072	**161,756**
Taxation	(6,524)	(207)	(9,507)	(2,977)	**(14,738)**
Profit attributable to the Group	93,577	42,939	73,992	105,095	**147,018**
Earnings per Share (cents)[(1)]	13.97	5.96	10.24	14.55	**20.35**

FINANCIAL POSITION OF THE GROUP

(HK$'000)	At March 31 2002	At December 31 2002	2003	2004 (Restated)	**2005**
Property, plant and equipment	570,734	554,248	562,596	841,083	**941,211**
Prepaid land use right (non-current)	–	–	–	18,836	**36,257**
Other investments	6,782	6,782	6,782	15,782	**–**
Available-for-sale investments	–	–	–	–	**9,000**
Current assets	798,287	846,652	841,136	844,056	**1,028,577**
Current liabilities	(197,602)	(133,934)	(79,073)	(308,709)	**(466,698)**
Net current assets	600,685	712,718	762,063	535,347	**561,879**
	1,178,201	1,273,748	1,331,441	1,411,048	**1,548,347**
Shareholders' equity	1,178,201	1,273,748	1,331,441	1,411,048	**1,548,347**
Net tangible assets per Share (cents) [(1)]	175.85	176.30	184.28	195.30	**214.30**

Note:–

(1) For FY2002, the number of shares used in the calculation of Earnings per Share and Net tangible assets per Share was 670,000,000 Shares. For the 9 months period ended December 31, 2002, the number of shares used in the calculation of Earnings per Share and Net tangible assets per Share was 720,453,000 Shares (being the weighted average number of shares in issue throughout the financial period) and 722,500,000 Shares (being the number of shares in issue at the end of the financial period) respectively. For FY2003, FY2004 and FY2005, the number of shares used in the calculation of Earnings per Share and Net tangible assets per Share was 722,500,000 Shares.

Chairman's Statement

RESULTS

On behalf of the Board of Directors, I am pleased to inform our shareholders that Kingboard Copper Foil Group achieved double-digit growth in revenue and earnings for the financial year ended December 31, 2005 ("FY2005") due to the continuing support of our customers, increasing market acceptance of our quality products and the dedicated work and commitment of management and staff. Our financial position continued to be healthy.

Financial Summary

- Turnover amounted to HK$1,485 million, an increase of 44% over previous financial year
- Profit attributable to shareholders was up by 40% to HK$147 million
- Earnings per share were HK20.35 cents, up 40%
- Final dividend per share is proposed at HK3.0 cents, an increase of 20% over previous year's HK2.5 cents

BUSINESS REVIEW

The electronics industry continued to perform well in year 2005. In spite of the challenge of interest rate hikes and rising oil prices, the Group has been able to harvest the fruits planted in previous years. The first, second and third stages of Phase One of the Lianzhou copper foil plant with a monthly capacity of 270 tonnes each have been operating smoothly and efficiently in year 2005, this explained the increase in our copper foil sales in FY2005 over previous year.

Following a transaction mandate approved by the shareholders of Elec & Eltek International Company Limited in April 2005, the Group started to supply copper foil to Elec & Eltek PCB group of companies ("EEIC Group"). EEIC Group is one of the leading PCB manufacturers in the region producing higher value-added and higher layer count PCBs for its multi-national customers. As the Group has allocated a sizeable portion of the production capacity to meet the demand of EEIC Group and the parent company, our sales to external customers accounted for approximately 16% of the total sales (FY2004: 13%), which was lower than the original 20% sales target. In dollar terms, sales to external customers hit another record high to reach approximately HK$237 million.

Sales of the 18 microns and below thickness copper foil accounted for approximately 30% of the total sales (FY2004: 27%) while 35 microns and above thickness copper foil, accounted for 70% (FY2004: 73%). The sustained sales of the 18 microns and below thickness copper foil was again supported by the robust demand from multi-layer PCB manufacturers as well as higher sales on copper foil for batteries related products.

FINANCIAL POSITION

The Group continued to adopt a prudent financial management policy. As at December 31, 2005, net current assets and current ratio were approximately HK$562 million and 2.2 respectively. The current assets included cash of HK$103 million, trade receivables of HK$564 million, other receivables and prepayments of HK$101 million and inventories of HK$260 million. The increase in inventory in FY2005 was primarily due to the commissioning of the third and fourth stages of Phase One of the Lianzhou copper foil plant and PVB film plant in year 2005 and more raw materials were procured to meet the production schedule. Addition to fixed assets in FY2005 amounted to HK$179 million with a majority proportion of which were for the fourth and fifth stage of Phase One of the Lianzhou copper foil plant. As at December 31, 2005, no significant assets have been pledged.

Distribution costs increased by 57% to HK$18 million in FY2005 and was in line with increased business activities. Finance costs were HK$6 million and the Chinese bank loan raised in March 2005 has been repaid early in July 2005. Despite higher copper prices throughout the financial year 2005, the Group's pre-tax profit margin maintains at around 11%. This clearly demonstrated the success of the Group's ongoing efforts on cost management at all levels within the Group.

The appreciation of Renminbi against the US dollars 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.

PROSPECT

The Group expects overall business environment to remain challenging due to keen regional competition. The possible impact of sustained high oil prices and the lingering concerns on future interest rate movement may have an impact on the future world economies. These will inevitably affect the electronics industry and consumer sentiment. Amid this challenging environment, the Group will continue to focus on improving its product quality, broadening its market share, especially in mainland China and streamlining its cost structure in order to stay competitive and attain growth momentum.

The fourth stage of Phase One of the Lianzhou copper foil plant commenced trial production in December 2005 with a monthly capacity of 270 tonnes and the fifth stage of Phase One also started operation in end-February 2006. These two stages will contribute a further capacity of 540 tonnes to our monthly capacity. To satisfy the growing internal and external demand, the Board is contemplating to invest in Phase Two of the Lianzhou copper foil plant. The targeted monthly capacity of Phase Two of the Lianzhou copper foil plant will be 900 tonnes divided into three stages. The PVB film plant is still in its ramp up stage and has incurred start up losses of approximately HK$4 million. The Group will allocate more resources to improve the production techniques and product quality in the current year.

Barring any unforeseen circumstances, the Directors expect the Group to continue to remain profitable in the current year.

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express my gratitude to our shareholders. customers, banks, the management and employees for their continued support in last financial year.

Cheung Kwok Wing
Chairman

Hong Kong, February 23, 2006

Directors and Senior Management's Profile

DIRECTORS

Mr. CHEUNG Kwok Wing, aged 50, is an Executive Director and Chairman of the Company and its subsidiaries ("KBCF Group"). He is also the group chairman and co-founder of the "Kingboard Group" – Kingboard Chemical Holdings Limited ("KCHL"), being the ultimate holding company of the Company incorporated in the Cayman Islands and listed on The Stock Exchange of Hong Kong Limited and the Chairman of Elec & Eltek International Company Limited ("EEIC"), a fellow subsidiary of the Company. Mr. Cheung has had over 26 years' experience in the production and sales of laminates for use by manufacturers of PCBs and electronic products and is responsible for the overall strategic planning of the KBCF Group and sets the general direction and goals for the KBCF Group. He was awarded the Young Industrialist Award of Hong Kong 1993 by the Federation of Hong Kong Industries.

Mr. CHAN Wing Kwan, aged 60, is an Executive Managing Director of the KBCF Group, the managing director and co-founder of the Kingboard Group and a non-executive director of EEIC. He acquired a degree of Doctor of Business Science from Pacific Western University in L.A.. Mr. Chan has had over 28 years' experience in the sale and distribution of electronic components, as well as upstream products such as PCBs, laminates and copper foil. Mr. Chan is responsible for the overall implementation of the strategic plans and goals of the KBCF Group and supervises the management in the day-to-day operations of the KBCF Group.

Mr. CHEUNG Kwok Ping, aged 45, is an Executive Director of the Company. He has had over 22 years' experience in the field of marketing. He is also a director of the Kingboard Group and is mainly responsible for the Group's marketing operations.

Mr. HO Yin Sang, aged 51, an Executive Director of the Company and Factory Manager of Fogang Kingboard Industry Ltd, a subsidiary of the Company. He joined the Kingboard Group in 1989. He has had over 16 years' experience in copper foil production. Mr. Ho is in charge of overall operations and enterprise management in the KBCF Group.

Mr. LAI Chung Wing, Robert, aged 58, was appointed to the Board of the Company on November 29, 1999 as an Independent Non-Executive Director. He holds a Bachelor-of-Laws (Honours) degree from the University of London and is currently involved in business consultancy work in the Asia-Pacific region. He has had extensive experience in trading and investment. He was previously the managing director of Seaunion Holdings Ltd (now known as South Sea Petroleum Holdings Limited), an oil and gas company listed on The Stock Exchange of Hong Kong Limited. In June 2004, he was appointed as an independent non-executive director of Kee Shing (Holdings) Limited, a company listed on The Stock Exchange of Hong Kong Limited.

Mr. ONG Tiong Wee, aged 65, was appointed to the Board of the Company on November 16, 2001 as an Independent Non-executive Director. He graduated with a Bachelor of Commerce from the University of New South Wales, Australia, and is a member of the Institute of Chartered Accountants in Australia. Mr. Ong has run his own public accounting firm for over 20 years in Singapore. Prior to that, he had 12 years' experience with 2 of the top 4 international auditing firms and 5 years' accounting and finance experience with a multinational company in Australia.

SENIOR MANAGEMENT

Mr. LO Ka Leong, aged 32, the Financial Controller, joined the Kingboard Group in May 1999. Prior to that, he was an accountant at an international accounting firm. He holds a Bachelor in Professional Accountancy from The Chinese University of Hong Kong. He is in charge of the financial management of the KBCF Group.

Report of the Directors

The Directors present their report together with the audited consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company for the financial year ended December 31, 2005.

1 DIRECTORS

The Directors of the Company in office at the date of this report are:

Mr. Cheung Kwok Wing
Mr. Chan Wing Kwan
Mr. Cheung Kwok Ping
Mr. Ho Yin Sang
Mr. Lai Chung Wing, Robert
Mr. Ong Tiong Wee

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate except for the options and warrants mentioned below.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The Directors of the Company holding in office at end of the financial year had no interest in the shares and debentures of the Company and related corporations except as follows:

	Shareholdings registered in the names of Directors		Shareholdings in which Directors are deemed to have an interest	
	At beginning of financial year	At end of financial year	At beginning of financial year	At end of financial year
The Company				
Ordinary shares of US$0.10 each				
Mr. Cheung Kwok Wing	–	–	441,072,000	446,553,000
Mr. Lai Chung Wing, Robert	72,000	72,000	–	–
The ultimate holding company				
– Kingboard Chemical Holdings Limited				
Ordinary shares of HK$0.10 each				
Mr. Cheung Kwok Wing	1,805,060	1,699,060	234,635,800	242,997,400
Mr. Chan Wing Kwan	1,608,400	1,056,600	–	–
Mr. Cheung Kwok Ping	1,815,260	1,427,300	–	–
Mr. Ho Yin Sang	203,200	340,800	–	–

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (Cont'd)

	Shareholdings registered in the names of Directors		Shareholdings in which Directors are deemed to have an interest	
	At beginning of financial year	At end of financial year	At beginning of financial year	At end of financial year
Options to acquire ordinary shares of HK$0.10 each				
Mr. Cheung Kwok Wing	3,055,000	2,091,400	–	–
Mr. Chan Wing Kwan	3,981,000	3,499,200	–	–
Mr. Cheung Kwok Ping	4,318,000	3,836,200	–	–
Mr. Ho Yin Sang	4,543,000	4,061,200	–	–
Warrants to acquire ordinary shares of HK$0.10 each				
Mr. Cheung Kwok Wing	371,506	371,506	23,463,580	7,963,580
Mr. Chan Wing Kwan	210,840	210,840	–	–
Mr. Cheung Kwok Ping	201,526	201,526	–	–
Mr. Ho Yin Sang	68,020	–	–	–
A fellow subsidiary – Elec & Eltek International Company Limited Ordinary shares of S$0.80 each				
Mr. Cheung Kwok Wing	–	177,600	81,495,387	125,525,165
Options to acquire ordinary shares of S$0.80 each				
Mr. Cheung Kwok Wing	–	973,200	–	–
Mr. Chan Wing Kwan	–	973,200	–	–

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (Cont'd)

The Directors' interests as at January 21, 2006 were the same as those at the end of the financial year except as follows:

	Shareholding registered in the names of the Directors	Shareholdings in which the Directors are deemed to have an interest
The Company Ordinary shares of US$0.10 each		
Mr. Cheung Kwok Wing	–	447,006,000
The ultimate holding company – Kingboard Chemical Holdings Limited Ordinary shares of HK$0.10 each		
Mr. Cheung Kwok Wing	1,629,060	242,997,400

4 DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no Director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except as disclosed in the financial statements and except that certain Directors have received remuneration from related corporations in their capacity as Directors and/or executives of those related corporations.

5 OPTIONS TO TAKE UP UNISSUED SHARES

During the financial year, no option to take up unissued shares of the Company or any corporation in the Group was granted.

6 OPTIONS EXERCISED

During the financial year, there were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

7 UNISSUED SHARES UNDER OPTION

At the end of the financial year, there were no unissued shares of the Company or any corporation in the Group under option.

8 AUDIT COMMITTEE

The Audit Committee comprises Messrs. Lai Chung Wing, Robert, Ong Tiong Wee and Cheung Kwok Ping. The Audit Committee is chaired by Mr. Lai Chung Wing, Robert. Mr. Cheung Kwok Ping is an Executive Director of the Company and Messrs. Lai Chung Wing, Robert and Ong Tiong Wee are independent non-executive Directors of the Company.

The Audit Committee meets periodically to discuss and review the following:

a) the audit plan, the system of internal accounting controls and the audit report in conjunction with the external auditors;

b) the assistance given by the Company's officers to the external auditors;

c) the financial statements of the Company and the consolidated financial statements of the Group; and

d) all interested party transactions entered into by the Group.

The Audit Committee recommended to the Board of Directors the re-appointment of Deloitte & Touche as external auditors at the forthcoming annual general meeting of the Company.

9 AUDITORS

The auditors, Deloitte & Touche, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE BOARD

Cheung Kwok Wing
Chairman

Chan Wing Kwan
Managing Director

February 23, 2006

Corporate Governance

The Board of Directors ("the Board") of Kingboard Copper Foil Holdings Limited fully supports the Code of Corporate Governance as recommended by Singapore Corporate Governance Committee. For effective corporate governance, the Company has in place various self-regulatory and monitoring mechanisms.

BOARD MATTERS

Board Composition and Balance

The Board comprises six members, two of whom are independent non-executive directors.

The Board is of the view that the current Board size of six directors is appropriate for effective decision-making, taking into account the nature and scope of the operations of the Company.

The Board comprises of directors who collectively provide core competencies, sales and marketing experience in copper foil, technical knowledge in manufacturing of copper foil, administration and management experience in PRC factories, as well as in-house advice to comply with international laws and regulations.

Chairman and Chief Executive Officer

The Board of the Company is headed by a Chairman whose role differs from that of the Managing Director of the Company.

The duties of Chairman include (but not limited to) the following:–

- schedule meetings that enable the Board to perform its duties responsibly while not interfering with the flow of the Company's operations;
- prepare meeting agenda in consultation with the Managing Director;
- exercise control over quality, quantity and timeliness of the flow of information between Management and the Board; and
- assist in ensuring compliance with the Company's guidelines on corporate governance.

The Managing Director is mainly responsible for the overall strategic planning, and day-to-day management of the Group.

BOARD MATTERS (Cont'd)

Board's Conduct of its Affairs

The Board is entrusted with the responsibility to supervise the management of the business and the affairs of the Group. The Group has adopted internal guidelines in setting forth matters that require board approval. Apart from its statutory responsibilities, the Board approves the Group's strategic plan, annual budget, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks. These functions are carried out by the Board directly or through committees of the Board which have been set up to support its work.

The Board meets regularly and as warranted by particular circumstances. The Bye-Laws of the Company has provisions for telephone and video-conference meetings. The executive directors normally meet on an informal basis every two weeks, while the non-executive independent directors will participate in meetings where the interim and final results are reviewed and approved.

Directors' attendance at Board and Board Committee meetings during the financial year are as follows:–

Name of Director	Board Meeting No. of Meetings Attended	Audit Committee No. of Meetings Attended	Nominating Committee No. of Meetings Attended	Remuneration Committee No. of Meetings Attended
Cheung Kwok Wing (Chairman)	4	–	–	–
Chan Wing Kwan (Managing Director)	4	–	–	–
Cheung Kwok Ping (Executive)	4	4	1	1
Ho Yin Sang (Executive)	4	–	–	–
Lai Chung Wing, Robert (Non-executive Independent)	4	4	1	1
Ong Tiong Wee (Non-executive Independent)	4	4	1	1

BOARD MATTERS (Cont'd)

Access to Information

The Management of the Company has an obligation to furnish the Board with complete and adequate information in a timely manner. The Board is also given separate and independent access to the Company's senior management. Notice of board meetings and the relevant meeting papers are sent to individual directors well before the meetings, informing them of the background and giving explanation on matters to be brought before the Board.

All the Directors are given separate and independent access to the company secretary, whose role includes ensuring that board procedures are observed and followed through and that applicable rules and regulations are complied with. The company secretary or his representative attends all the meetings of the Company.

The Board has a procedure for Directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the Company's expense.

Effective formal and informal communication channels are in place between the Board and the Management which enable newly appointed directors to familiarize themselves with the operation, business and corporate governance practices of the Company without the need for formal training programme. Nevertheless the newly-appointed directors, with their profound commercial experience and relevant academic qualifications, are able to keep abreast with the relevant new laws, regulations and changing commercial risks.

NOMINATING COMMITTEE ("NC")

The Nominating Committee of the Company comprises of three members, two of whom, inclusive of the Chairman, are independent non-executive directors. The major terms of reference of the NC include:–

- regularly review the structure, size and composition of the Board and make recommendations to the Board with regard to any adjustments that are deemed necessary;

- annually review whether or not a director is independent, in accordance with paragraph 2.1 of the Code of Corporate Governance and other salient factors;

- be responsible for identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise;

- keep up to date with strategic issues and commercial changes affecting the Company and the market in which it operates;

- assess the effectiveness of the Board as a whole and the contribution by each individual director to the effectiveness of the Board; and

- be responsible for re-nomination having regard to the director's contribution and performance, including, if applicable, as an independent director.

NOMINATING COMMITTEE ("NC") (Cont'd)

Board Membership

The Board has power from time to time and at any time to appoint a person as a Director to fill a casual vacancy or as an addition to the Board. Any new Director appointed during the year shall hold office only until the next Annual General Meeting ("AGM") and submit themselves for re-election and shall not be taken into account in determining the Director who are to retire by rotation at the meeting.

All the directors, except the Chairman and Managing Director, submit themselves for re-nomination and re-election at regular intervals of at least once every three years. At the Company's annual general meeting, a director appointed during the year and at least one-third of the remaining directors shall retire from office.

Board Performance

The NC is of the opinion that the multiple Board representations held by the Directors do not hinder them in carrying out their duties to the Company. When a director has multiple board representations, he will ensure that sufficient time and attention is given to the affairs of each company. The NC will decide whether or not a director is able to and has been adequately carrying out his/her duties as director of the Company.

REMUNERATION COMMITTEE ("RC")

Level and mix of remuneration

The Remuneration Committee of the Company comprises three members, of whom two, inclusive of the Chairman, are independent non-executive directors. The major terms of reference of the RC include:–

- determine and agree with the Board the framework or board policy for the remuneration of the Company's Board and key executives, and to determine specific remuneration packages for each executive director and the Chief Executive Officer and such other members of the executive management as it is designated to consider;

- in determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;

- determine targets for any performance relating to pay schemes operated by the Company, taking into account; pay and employment conditions within the industry and in comparable companies;

- within the terms of the agreed policy, determine the total individual remuneration package of each executive director and executive manager including, where appropriate, allowances, bonuses, benefits in kind, incentive payments, and share options, if any;

- determine the policy for and scope of service agreements for the executive management team, termination payments and compensation commitments, including fixing appointment period for the directors; and

- determine the remuneration of non-executive directors, taking into account factors such as effort, time spent and responsibilities.

The Code of Corporate Governance requires the remuneration of at least top 5 key executives who are not also directors to be disclosed within bands of S$250,000. The Company is of the opinion that, given the highly competitive industry conditions, disclosure of the remuneration of these executives is not advantageous to its business interests.

REMUNERATION COMMITTEE ("RC") (Cont'd)

Disclosure of Remuneration

Director's Remuneration (For the financial year ended December 31, 2005)

Remuneration Band & Name of Director	Directors' Fees %	Basic Salary %	Bonuses %	Total compensation %
S$500,000 and above	–	–	–	–
S$250,000 to S$499,999				
Ho Yin Sang	–	86	14	100
Below S$250,000				
Lai Chung Wing, Robert	100	–	–	100
Ong Tiong Wee	100	–	–	100

Apart from the above mentioned executive director who is paid remuneration, the rest of the executive directors are not paid any remuneration by the Company. However, the Company pays a management fee to its parent company, inter alias, for the services rendered by the other executive directors who are also directors of the parent company.

All non-executive directors are paid a fixed director's fee only, taking into account their efforts and time rendered, as well as contribution to the growth of the Company.

AUDIT COMMITTEE ("AC")

Accountability

The Board of Directors is accountable to the Shareholders while the Management of the Company is accountable to the Board. From year 2003 onwards, the Company announces its results on a quarterly basis, providing the shareholders with a balanced and understandable assessment of the Company's performance, position and prospect.

Audit Committee

The AC of the Company comprises three members, of whom two, inclusive of the Chairman, are independent non-executive Directors.

The major terms of reference of the AC include the following:–

- review with the external auditors, the audit plan;
- review with the external auditors, their evaluation of the system of internal accounting controls;
- review the scope and results of the internal audit procedures;
- review the balance sheet and profit and loss account of the Company and the consolidated balance sheet and profit & loss account and submit them to the Board;
- nominate persons as auditors;

AUDIT COMMITTEE ("AC") (Cont'd)

Audit Committee (Cont'd)

- review with the internal and external auditors their findings on their evaluation of the Company's system of internal controls for the purpose of assisting the Board in developing policies that would enhance the controls and operating systems of the Company; and

- review of interested person transactions as part of the standard procedures while examining the adequacy of internal controls of the Group.

The Board will ensure that the members of the AC are appropriately qualified to discharge their responsibilities. At least two members have accounting and related financial management expertise or experience.

The duties of the AC include keeping under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the external auditors. Where the auditors also supply a substantial volume of non-audit services to the Company, the Committee will keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.

The AC can have access to the internal auditors and external auditors at any time, as and when they think necessary, needless to first refer to the Company's Management.

The AC will review the independence of the external auditors, the resources and adequacy of the internal audit function, at least once a year.

The AC had undertaken a review of all the **non-audited services** provided by the auditors and concluded that in their opinion, such services did not affect the independence of the auditors.

In addition, the AC is authorized:–

- to investigate any matter within its terms of reference;

- to have full access to and co-operation by the Management;

- to have full discretion to invite any director or executive officer to attend its meetings; and

- to have reasonable resources to enable it to discharge its functions properly.

There were four AC meetings held in the financial year ended December 31, 2005. The Directors' attendance at those meetings is as follows:–

Director	No. of Meetings Attended
Lai Chung Wing, Robert (Non-executive Independent)	4
Ong Tiong Wee (Non-executive Independent)	4
Cheung Kwok Ping (Executive)	4

Internal Controls

The Group has in place a system of internal controls, the key elements of which are as follows:–

- formal policies and procedures are in place, including the documentation of key processes, procedures and rules relating to the delegation of authorities. These allow the monitoring of controls and restrict the unauthorized use of the Group assets;

AUDIT COMMITTEE ("AC") (Cont'd)

Internal Controls (Cont'd)

- experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance;

- monthly business and financial reports are prepared, providing relevant, timely, reliable and up-to-date financial and other information; budget variances are investigated as appropriate; and

- an internal audit function, which reports directly to the AC, is in place to determine whether the above procedures are properly carried out.

The Board is satisfied that, based on the information supplied, coupled with its own observations and with the assistance of the AC, the present internal controls and risk management processes are satisfactory for the nature and size of the Group's operations and business.

COMMUNICATION WITH SHAREHOLDERS

The Company's Annual General Meeting (AGM) and Special General Meeting (SGM) provide good opportunities for shareholders to air their views and ask Directors and Management questions regarding the Company. All shareholders of the Company receive the annual report, circular and notice of AGM and SGM. The notice is also advertised in the newspapers. Separate resolutions are required at general meetings on each distinct issue. Shareholder is permitted to appoint one or two proxies to attend and vote in his stead. The chairpersons of the audit, nomination and remuneration committees will be required to be present and available to address questions at general meetings. The external auditors are also required to be present to assist the Directors in addressing any relevant queries by shareholders.

SECURITIES TRANSACTIONS

The Company has adopted a Code on Dealings in Securities to provide guidance to its directors and employees with regard to dealings in the Company's securities in compliance with the Best Practices Guide issued by SGX-ST. The code prohibits securities dealings by directors and employees while in possession of price-sensitive information, and during the period commencing one month before the announcement of the full year results and two weeks before release of the quarterly (Q1, Q2 & Q3) results.

MATERIAL CONTRACTS

There was no material contracts of the Company and any related companies involving the interests of the chief executive officers, each director or controlling shareholder, either still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

INTERESTED PERSON TRANSACTIONS

The Company has adopted an internal policy with respect to any transactions with interested persons and has set out the procedures for review and approval of the Company's interested person transactions.

During the financial year, the AC carried out periodic reviews to ensure that the Guidelines and Procedures for Interested Person Transacions ("IPT") was as mandated in the last Annual General Meeting. An IPT mandate will be sought at the forthcoming general meeting.

INTERESTED PERSON TRANSACTIONS (Cont'd)

The aggregate value of all interested person transactions entered into during the financial year ended December 31, 2005 pursuant to Rule 920(1)(a)(ii) of the SGX-ST Listing Manual is as follows:–

Name of Interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)
	HK$	*HK$*
Kingboard Laminates Limited	9,339,000	613,250,000
Ease Ever Investments Limited	10,944,000	–
Kingboard Laminates (MCO) Limited	–	128,540,000
Jamplan Marketing Limited	–	1,377,000
Kingboard Laminates (Kunshan) Company Limited	–	120,482,000
Kingboard Laminates (Jiangmen) Company Limited	–	87,905,000
Kunshan Yattao Chemical Company Limited	–	152,477,000
Techwise (MCO) Circuits Limited	–	16,621,000
King Board (Panyu) Chemical Company Limited	–	4,522,000
Hengyang Kingboard Chemical Co. Ltd.	–	1,380,000
Nanjing Elec & Eltek Electronic Company Limited	–	2,253,000
Elec & Eltek (Guangzhou) Electronic Company Limited	–	9,969,000
Guangzhou Elec & Eltek High Density Interconnect Technology No. 1 Co., Ltd.	–	6,649,000
Guangzhou Elec & Eltek Microvia Technology Co., Ltd.	–	1,184,000
Elec & Eltek Company Limited	–	700,000
Elec & Eltek (Thailand) Limited	–	12,299,000
Pacific Insulating Material (Thailand) Limited	–	19,470,000
Shenzhen Pacific Insulating Material Company Limited	–	60,781,000
Kaiping Pacific Insulating Material Co., Ltd.	–	579,000
Kai Ping Elec & Eltek Company Limited	–	4,881,000
Kaiping Elec & Eltek No. 2 Company Limited	–	7,158,000
Kaiping Elec & Eltek No. 3 Company Limited	–	7,262,000
Total	20,283,000	1,259,739,000

Note: All the above named companies are subsidiaries of Kingboard Chemical Holdings Limited, a substantial shareholder of the Company listed on The Stock Exchange of Hong Kong Limited.

Auditors' Report

AUDITORS' REPORT TO THE MEMBERS OF
KINGBOARD COPPER FOIL HOLDINGS LIMITED

We have audited the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of Kingboard Copper Foil Holdings Limited (the "Company") for the year ended December 31, 2005 set out on pages 20 to 46. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with Singapore Financial Reporting Standards ("FRS") so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2005 and of the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Deloitte & Touche
Certified Public Accountants
Singapore

William Lim Choon Hock
Partner
Appointed on May 26, 2003

February 23, 2006

Balance Sheets

At December 31, 2005

		Group		Company	
	Notes	**2005** **HK$'000**	2004 *HK$'000* (Restated)	**2005** **HK$'000**	2004 *HK$'000*
ASSETS					
Current assets:					
Cash and bank balances	*6*	**103,247**	118,631	**–**	–
Trade receivables	*7*	**564,154**	471,605	**–**	–
Other receivables and prepayments	*8*	**100,737**	99,447	**26,238**	22,563
Prepaid land use rights (current)	*9*	**788**	421	**–**	–
Inventories	*10*	**259,651**	153,952	**–**	–
Total current assets		**1,028,577**	844,056	**26,238**	22,563
Non-current assets:					
Subsidiaries	*11*	**–**	–	**394,165**	394,165
Due from a subsidiary	*11*	**–**	–	**455,498**	455,488
Property, plant and equipment	*12*	**941,211**	841,083	**–**	–
Prepaid land use rights (non-current)	*9*	**36,257**	18,836	**–**	–
Available-for-sale investments	*13*	**9,000**	–	**9,000**	–
Other investments	*14*	**–**	15,782	**–**	9,000
Total non-current assets		**986,468**	875,701	**858,663**	858,653
Total assets		**2,015,045**	1,719,757	**884,901**	881,216
LIABILITIES AND EQUITY					
Current liabilities:					
Bank borrowings	*15*	**365,134**	213,959	**–**	–
Trade payables	*16*	**79,217**	80,434	**75**	–
Income tax payable		**22,347**	14,316	**–**	–
Total current liabilities		**466,698**	308,709	**75**	–
Capital and reserves:					
Issued capital	*18*	**560,200**	560,200	**560,200**	560,200
Reserves		**988,147**	850,848	**324,626**	321,016
Total equity		**1,548,347**	1,411,048	**884,826**	881,216
Total liabilities and equity		**2,015,045**	1,719,757	**884,901**	881,216

See accompanying notes to financial statements.

Consolidated Profit and Loss Statement

Financial year ended December 31, 2005

	Notes	Group 2005 HK$'000	Group 2004 HK$'000
Revenue	*19*	**1,484,713**	1,032,924
Cost of sales		**(1,269,509)**	(875,002)
Gross profit		**215,204**	157,922
Other operating income	*20*	**19,872**	15,304
Distribution costs		**(18,155)**	(11,536)
Administrative expenses		**(45,431)**	(47,506)
Other operating expenses		**(3,664)**	(2,839)
Finance costs - interest expenses paid to non-related companies		**(6,070)**	(3,273)
Profit before tax	*21*	**161,756**	108,072
Income tax	*22*	**(14,738)**	(2,977)
Profit for the year		**147,018**	105,095
		HK cents	*HK cents*
Earnings per share			
Basic and fully diluted earnings per share	*23*	**20.35**	14.55

See accompanying notes to financial statements.

Statements of Changes in Equity

Financial year ended December 31, 2005

	Notes	Issued capital HK$'000	Share premium HK$'000	Capital reserves HK$'000	Proposed dividend HK$'000	Currency translation reserves HK$'000	Accumulated profits HK$'000	Total HK$'000
Group								
Balance at January 1, 2004		560,200	296,573	6,275	14,450	3,600	450,343	1,331,441
Profit for the financial year		–	–	–	–	–	105,095	105,095
Dividend paid	*24*	–	–	–	(14,450)	–	–	(14,450)
Interim dividend paid	*24*	–	–	–	–	–	(10,838)	(10,838)
Proposed final dividend	*24*	–	–	–	18,063	–	(18,063)	–
Exchange translation		–	–	–	–	(200)	–	(200)
Balance at December 31, 2004		560,200	296,573	6,275	18,063	3,400	526,537	1,411,048
Profit for the financial year		–	–	–	–	–	147,018	147,018
Dividend paid	*24*	–	–	–	(18,063)	–	–	(18,063)
Interim dividend paid	*24*	–	–	–	–	–	(14,450)	(14,450)
Proposed final dividend	*24*	–	–	–	21,675	–	(21,675)	–
Exchange translation		–	–	–	–	22,794	–	22,794
Balance at December 31, 2005		**560,200**	**296,573**	**6,275**	**21,675**	**26,194**	**637,430**	**1,548,347**

Statements of Changes in Equity

Financial year ended December 31, 2005

	Notes	Issued capital HK$'000	Share premium HK$'000	Capital reserves HK$'000	Proposed dividend HK$'000	Accumulated profits HK$'000	Total HK$'000
Company							
Balance at January 1, 2004		560,200	296,573	6,275	14,450	103	877,601
Profit for the financial year		–	–	–	–	28,903	28,903
Dividend paid	24	–	–	–	(14,450)	–	(14,450)
Interim dividend paid	24	–	–	–	–	(10,838)	(10,838)
Proposed final dividend	24	–	–	–	18,063	(18,063)	–
Balance at December 31, 2004		560,200	296,573	6,275	18,063	105	881,216
Profit for the financial year		–	–	–	–	36,123	36,123
Dividend paid	24	–	–	–	(18,063)	–	(18,063)
Interim dividend paid	24	–	–	–	–	(14,450)	(14,450)
Proposed final dividend	24	–	–	–	21,675	(21,675)	–
Balance at December 31, 2005		**560,200**	**296,573**	**6,275**	**21,675**	**103**	**884,826**

See accompanying notes to financial statements.

Consolidated Cash Flow Statement

Financial year ended December 31, 2005

	2005 HK$'000	2004 HK$'000 (Restated)
Cash flows from operations:		
Profit before tax	**161,756**	108,072
Adjustments for:		
Depreciation expense	**98,506**	74,874
Amortisation of prepaid land use rights	**514**	397
Allowance for slow moving inventories	**6,896**	–
Interest expense and finance charges	**6,070**	3,273
Interest income	**(8,887)**	(10,967)
Dividend income	**–**	(230)
Gain on disposal of available-for-sale investments	**(4,162)**	–
(Gain) / Loss on disposal of property, plant and equipment	**(1)**	24
Operating profit before working capital changes	**260,692**	175,443
Trade receivables	**(92,549)**	8,949
Other receivables and prepayments	**(1,290)**	(72,481)
Inventories	**(112,595)**	(68,685)
Trade payables	**(1,217)**	16,727
Cash generated from operations	**53,041**	59,953
Dividend received	**–**	230
Income tax paid	**(6,707)**	(29,749)
Dividends paid *(Note 24)*	**(32,513)**	(25,288)
Interest paid	**(6,070)**	(3,273)
Interest received	**8,887**	10,967
Net cash from operating activities	**16,638**	12,840
Cash flows from investing activities:		
Proceeds from disposal of property, plant and equipment	**2**	–
Prepayment of land use rights	**(17,671)**	–
Proceeds from disposal of other investments	**10,944**	–
Purchase of property, plant and equipment	**(178,965)**	(331,856)
Investment in unquoted equity shares	**–**	(9,000)
Net cash used in investing activities	**(185,690)**	(340,856)
Cash flows from financing activities:		
Increase in bank borrowings	**151,175**	212,700
Net cash generated from financing activities	**151,175**	212,700
Effects of consolidating foreign subsidiaries	**2,493**	(996)
Decrease in cash and bank balances	**(15,384)**	(116,312)
Cash and bank balances at beginning of financial year	**118,631**	234,943
Cash and bank balances at end of financial year	**103,247**	118,631

See accompanying notes to financial statements.

1 GENERAL

The Company (Registration No. 26998) is incorporated in Bermuda with its registered office at Clarendon House, 2 Church Street, Hamiton HM11, Bermuda and principal place of business at 5th Floor, Block J, Valiant Industrial Centre, 2–12 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong. The Company is listed on the Main Board of the Singapore Exchange Securities Trading Limited ("SGX–ST"). The financial statements are expressed in Hong Kong dollars, which is the functional currency of the Company.

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiaries are stated in Note 11 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company for the financial year ended December 31, 2005 were authorised for issue by the Board of Directors on February 23, 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING – The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below, and are drawn up in accordance with Singapore Financial Reporting Standards ("FRS").

In the current financial year, the Group has adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") issued by the Council on Corporate Disclosure and Governance that are relevant to its operations and effective for annual periods beginning on or after January 1, 2005. The adoption of these new/revised FRSs and INT FRSs has no material effect on the financial statements except as disclosed below and in the notes to financial statements.

(a) FRS 39 – Financial Instruments: Recognition and Measurement

FRS 39 sets out the requirements for the recognition and measurement of financial assets and liabilities. The new accounting standard moves measurement from a cost base to a fair value base for certain categories of financial assets and liabilities. The change in accounting policy has been accounted for prospectively in accordance with the transitional provisions of FRS 39. The adoption of FRS 39 has resulted in the re–classification of other investments to available–for–sale investments in the current year. The available–for–sale investments are stated at cost less impairment losses with reference to the net asset value of the unquoted investments because the fair value of the unquoted investments cannot be determined reliably as at year end.

As the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2004 and prior periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) FRS 17 – Leases

Under FRS 17 "Leases", the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. A characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not substantially bear all of the risks and receive all rewards incidental to ownership. As such, leasehold land in the People's Republic of China is classified as prepaid land use rights (current and non–current portions), and measured at cost and amortised over the lease term on a straight–line basis.

Under the revised accounting policy, the Group has re–classified leasehold land from property, plant and equipment to prepaid land use rights (as current and non–current assets) and retrospectively restated the 2004 comparative amounts. There has been no effect on the current year and prior year income statements because the amortisation of the prepaid land use rights has been made in accordance with the lease term of 50 years which is the same lease term originally used to amortise the leasehold land in prior years.

At the date of authorisation of these financial statements, the following FRSs and INT FRSs were issued but not effective:

FRS 40	–	Investment Property
FRS 106	–	Exploration for and Evaluation of Mineral Resources
FRS 107	–	Financial Instruments: Disclosures
INT FRS 104	–	Determining whether an Arrangement contains a Lease
INT FRS 105	–	Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
INT FRS 106	–	Liabilities arising from Participating in a Specific Market–Waste Electrical and Electronic Equipment
INT FRS 107	–	Applying the Restatement Approach under FRS 29 Financial Reporting in the Hyperinflationay Economy

Amendments to FRS 1 Presentation of Financial Statements on Capital Disclosures.

Amendments to FRS 21 The Effects of Changes in Foreign Exchange Rates on net investment in a foreign operation.

Amendments to FRS 39 Financial Instruments: Recognition and Measurement on hedge accounting provisions, fair value option and financial guarantee contracts.

Amendments to FRS 101 First–time Adoption of Financial Reporting Standards on comparative disclosures for FRS 106 Exploration for and Evaluation of Mineral Resources.

Amendments to FRS 104 Insurance Contracts on financial guarantee contracts.

Consequential amendments were also made to various standards as a result of these new/revised standards.

The directors anticipate that the adoption of the above FRSs and INT FRSs that were issued but not yet effective until future periods will not have a material impact on the financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

BASIS OF CONSOLIDATION – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to December 31 each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other members of the Group.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

In the Company's financial statements, investments in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in the profit and loss statement.

BUSINESS COMBINATIONS – The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 are recognised at their fair values at the acquisition date, except for non–current assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 *Non–Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated profit and loss statement.

FINANCIAL INSTRUMENTS – Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Available–for–sale investments

Available–for–sale investments are measured at cost less impairment loss, if any, with reference to the net asset value of the investment as the fair value of the unquoted investment cannot be determined reliably and reasonably as at year end.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest–bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see below).

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

LEASES – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight–line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight–line basis over the lease term.

INVENTORIES – Inventories are measured at the lower of cost (weighted average method) or net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less estimated costs to completion and costs to be incurred in marketing, selling and distribution.

PROPERTY, PLANT AND EQUIPMENT – Property, plant and equipment are carried at cost, less accumulated depreciation and any impairment losses.

Assets under construction are stated at cost. No depreciation is provided until the construction is completed and the assets are put into use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Depreciation is charged so as to write off the cost of other assets, less residual value, if appropriate, over their estimated useful lives, using the straight line method at the following rates per annum:

Plant and equipment	–	10 to 20%
All other assets	–	20%

Fully depreciated assets still in use are retained in the financial statements.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in the profit and loss statement.

PREPAID LAND USE RIGHTS – The cost of leasehold properties and improvements in the People's Republic of China ("PRC") are classified as prepaid land use right and are amortised on a straight line basis over the period for which the relevant land use rights have been granted to the Group.

IMPAIRMENT OF TANGIBLE ASSETS – At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash–generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash–generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash–generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash–generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash–generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

BORROWING COSTS – Borrowing costs are recognised as an expense in the period in which they are incurred.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION – The individual financial statements of each Group entity are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the balance sheet of the Company are presented in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the date of the transaction. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non–monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non–monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non–monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non–monetary items in respect of which gains and losses are recognised directly in equity. For such non–monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet dates. Income and expense items (including comparatives) are translated at the average exchange rates for the periods, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings designated as hedges of such investments, are taken to the foreign currency translation reserve.

PROVISIONS – Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

REVENUE RECOGNITION – Revenue from sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer and the amount of revenue and costs of the transaction (including future costs) can be measured reliably.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the applicable interest rate, on an effective yield basis.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

RETIREMENT BENEFIT COSTS – Payments to the state–sponsored pension scheme operated by the PRC government, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

EMPLOYEE LEAVE ENTITLEMENTS – Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

INCOME TAX – Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted in countries where the subsidiaries operate by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNDERTAINTY

Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 2, the management is of the opinion that any instances of application of judgements are not expected to have a significant effect on the amounts recognised in the financial statements (apart from those involving estimates).

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for diminution in valuation of inventories

Determining whether a provision is necessary in the valuation of inventories is based on a comparison of whether the historical value of the inventories is greater than their estimated selling price less all the related costs related to the selling process. In addition, a detailed physical examination and quality tests are also carried out in order to derive their present values. Once the carrying value of the inventories is lower than their book values, a provision for diminution in value will be made so that the book value of inventories would not be lower than their net realisable values in the open market. A provision of HK$6,896,000 was made for diminution in the value of the inventories of the Group in respective of the year ended December 31, 2005 on the above basis. The cumulative provision as at that date was HK$8,096,000.

Impairment in value of available–for–sale investments

Determining whether available–for–sale investments are impaired requires an estimation of the value in use of the investments. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash–generating unit using a suitable discount rate in order to calculate net present value. The estimated carrying amount of available–for–sale investments at the balance sheet date was HK$9,000,000 and no provision for impairment loss was considered necessary.

4 FINANCIAL RISKS AND MANAGEMENT

i) Credit risk

The Group's credit risk is primarily attributable to receivables from related companies which management considers as low risk. The Group has adopted guidelines on extending credit terms to external customers, including monitoring the process and using related industry's practices as reference. This includes assessing and evaluating the customer's credit reliability and periodic review of their financial status to determine credit limits to be granted.

Cash and cash equivalents are placed with creditworthy financial institutions.

The Group has no significant concentration of credit risk.

ii) Foreign exchange risk

The Group's foreign currency exposure arises mainly from the exchange rate movements of the United States dollar ("USD"), the Renminbi ("RMB") and Hong Kong dollar ("HK$"). These exposures are managed primarily by using natural hedges by matching foreign currency cashflows.

4 FINANCIAL RISKS AND MANAGEMENT (Cont'd)

iii) Interest rate risk

The Group's primary interest rate risk relates to its borrowings from banks. The interest rate and term of repayment of the bank borrowings are disclosed in Note 15 to the financial statements.

iv) Liquidity risk

The Group has sufficient working capital to fund its operations.

v) Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities recorded in the financial statements, determined in accordance with the accounting policies disclosed in Note 2 to the financial statements, approximate their respective fair values except for the unquoted investments whose fair values are disclosed in Note 13. These instruments are shown at cost subject to impairment in value.

5 HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

The Company is a subsidiary of Jamplan (BVI) Limited, incorporated in the British Virgin Islands. The Company's ultimate holding company is Kingboard Chemical Holdings Limited, incorporated in the Cayman Islands. Related companies in these financial statements refer to members of the ultimate holding company's group of companies.

Many of the Company's transactions and arrangements are between members of the Group and the effect of these on the bases determined between the parties are reflected in these financial statements. The balances are unsecured, interest–free and repayable on demand unless otherwise stated.

Significant intercompany transactions with fellow subsidiaries:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Revenue – sales of goods	**(1,248,826)**	(901,555)
Interest income	**(8,396)**	(10,019)
Rental income	**(943)**	(1,358)
Disposal of available–for–sale investments	**(10,944)**	–
Management fee expense	**5,011**	10,057
Purchase of goods	**5,902**	11,291

6 CASH AND BANK BALANCES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Cash at bank	**102,916**	118,056
Cash on hand	**331**	575
Total	**103,247**	118,631

Cash and bank balances comprise of cash held by the Group. The carrying amounts of these assets approximate their fair values.

The Group's cash and bank balances that are not denominated in the functional currencies of the respective entities are as follow:

	Group	
	2005	2004
	HK$'000	*HK$'000*
United States dollars	**24,948**	38,509
Hong Kong dollars	**13**	13

7 TRADE RECEIVABLES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Fellow subsidiaries *(Note 5)*	**488,435**	403,616
Outside parties	**75,719**	67,989
	564,154	471,605

Included in trade receivables from fellow subsidiaries are receivables amounting to HK$182,783,000 (2004: HK$220,771,000) which bear effective interest at rates ranging from 2.81% to 5.06% (2004: 1.73% to 4.94%) per annum.

The Group's trade receivables that are not denominated in the functional currencies of the respective entities are as follow:

	Group	
	2005	2004
	HK$'000	*HK$'000*
United States dollars	**121,794**	45,367

8 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Subsidiaries *(Note 11)*	**–**	–	**21,738**	18,063
Fellow subsidiaries *(Note 5)*	**–**	24,075	**–**	–
Prepayments	**81,890**	59,346	**–**	–
Deposits	**6,236**	10,109	**–**	–
Outside parties	**12,611**	5,917	**4,500**	4,500
	100,737	99,447	**26,238**	22,563

9 PREPAID LAND USE RIGHTS

	Group
	HK$'000
Cost:	
At January 1, 2004	–
Effect of adoption of FRS 17	21,036
As restated	21,036
Currency realignment	40
At January 1, 2005	21,076
Additions	17,671
Currency realignment	678
At December 31, 2005	39,425
Accumulated amortisation:	
At January 1, 2004	–
Effect of adoption of FRS 17	1,419
As restated	1,419
Amortisation during the year	397
Currency realignment	3
At January 1, 2005	1,819
Amortisation during the year	514
Currency realignment	47
At December 31, 2005	2,380
Carrying amount:	
At December 31, 2004	19,257
At December 31, 2005	37,045

9 PREPAID LAND USE RIGHTS (Cont'd)

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current	**788**	421
Non–current	**36,257**	18,836
	37,045	19,257

Prepaid land use rights were previously classified as part of the cost of leasehold land and buildings in property, plant and equipment. Upon adopting the revised FRS 17 – Leases, the Group has re–classified these prepaid land use rights and restated the 2004 comparative amounts [see Note 2(b)].

10 INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
At cost		
Raw materials	**223,197**	62,186
Less: allowance for slow moving raw materials	**(2,723)**	–
	220,474	62,186
Work in progress	**21,375**	76,085
Finished goods	**23,175**	16,881
Less: allowance for slow moving finished goods	**(5,373)**	(1,200)
	17,802	15,681
Net	**259,651**	153,952

11 SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unquoted equity shares, at cost	**394,165**	394,165

The details of the significant subsidiaries are as follows:

Name of subsidiary and country of incorporation/ registration and operations	**Principal activities**	**Equity interest held by the Group**	
		2005	2004
		%	*%*
Hong Kong Copper Foil Limited (British Virgin Islands)	Investment holding	**100**	100
Capital Project Group Ltd (British Virgin Islands)	Trading in copper foil	**100**	100
Fogang Kingboard Industry Ltd *(Note a)* (People's Republic of China)	Manufacture of copper foil	**100**	100
Kingboard Chemical Investment Limited *(Note a)* (British Virgin Islands)	Investment holding	**100**	100
Kingboard Copper Foil (MCO) Limited *(Note a)* (Macau)	Trading in copper foil	**100**	–
Kingboard (Fogang) Specialty Resins Limited *(Note b)* (People's Republic of China)	Manufacture of specialty resins and related products	**100**	100
Kingboard (Lianzhou) Copper Foil Ltd *(Note a)* (People's Republic of China)	Manufacture of copper foil	**100**	100

The above subsidiaries are audited by member firms of Deloitte Touche Tohmatsu.

Notes:

(a) Shares held by Hong Kong Copper Foil Limited.
(b) Shares held by Kingboard Chemical Investment Limited.

The amount due from a subsidiary is unsecured, non–interest bearing and is repayable at the sole discretion of the directors of the subsidiary.

12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties and improvements HK$'000	Plant and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Group					
Cost:					
At January 1, 2004	141,146	649,811	7,388	34,667	833,012
Effect of adoption of FRS 17	(21,036)	–	–	–	(21,036)
As restated	120,110	649,811	7,388	34,667	811,976
Additions	2,498	145,003	1,362	223,380	372,243
Disposals	–	(5)	(154)	–	(159)
Transfer	41,607	3,278	–	(44,885)	–
Currency realignment	188	1,054	13	(86)	1,169
At January 1, 2005	164,403	799,141	8,609	213,076	1,185,229
Additions	1,791	26,598	505	150,071	178,965
Disposals	–	(858)	–	–	(858)
Transfer	31,512	243,108	–	(274,620)	–
Currency realignment	4,041	20,451	194	3,246	27,932
At December 31, 2005	**201,747**	**1,088,440**	**9,308**	**91,773**	**1,391,268**
Accumulated depreciation:					
At January 1, 2004	20,926	244,801	4,689	–	270,416
Effect of adoption of FRS 17	(1,419)	–	–	–	(1,419)
As restated	19,507	244,801	4,689	–	268,997
Depreciation during the year	6,103	67,869	902	–	74,874
Disposals	–	(5)	(130)	–	(135)
Currency realignment	32	370	8	–	410
At January 1, 2005	25,642	313,035	5,469	–	344,146
Depreciation during the year	9,065	88,438	1,003	–	98,506
Disposals	–	(857)	–	–	(857)
Currency realignment	677	7,455	130	–	8,262
At December 31, 2005	**35,384**	**408,071**	**6,602**	**–**	**450,057**
Carrying amount:					
At December 31, 2004 (restated)	138,761	486,106	3,140	213,076	841,083
At December 31, 2005	**166,363**	**680,369**	**2,706**	**91,773**	**941,211**

12 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Details of the leasehold properties held by the Group as at December 31, 2005 are set out below:

Location	Description	Tenure of land use rights
Shijiao Town, Fogang, PRC	Staff quarters (Area: 8,981 sq m)	70 years from 1994
Shijiao Town, Fogang, PRC	Factory building (Area: 18,413 sq m)	50 years from 1994
Shijiao Town, Fogang, PRC	Factory building (Area: 27,332 sq m)	50 years from 1993
Shijiao Town, Fogang, PRC	Factory building (Area: 71,846 sq m)	50 years from 2001
Shijiao Town, Fogang, PRC	Factory building (Area: 168,033 sq m)	50 years from 2004
Tangtang Town, Huanghuahu Development Area, Fogang, PRC	Staff quarters (Area: 666 sq m)	70 years from 1997
Lianzhou Town, Lianzhou, PRC	Factory building (Area: 563,843 sq m)	50 years from 2005

13 AVAILABLE–FOR–SALE INVESTMENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of year	**–**	–	**–**	–
Transfer from other investments on adopting of FRS 39	**15,782**	–	**9,000**	–
Disposal	**(6,782)**	–	**–**	–
At end of year	**9,000**	–	**9,000**	–

The unquoted equity share represent 10% equity investment in Linkfit Investments Holdings Limited, incorporated in Samoa.

The unquoted equity shares are stated at cost at the balance sheet date because the fair value of the unquoted equity shares cannot be reliably measured.

14 OTHER INVESTMENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of year:				
Unquoted equity shares, at cost	**9,000**	9,000	**9,000**	9,000
Quoted equity shares, at cost	**6,782**	6,782	**–**	–
	15,782	15,782	**9,000**	9,000
Transfer to available-for-sale investments on adopting of FRS 39	**(15,782)**	–	**(9,000)**	–
At end of year	**–**	15,782	**–**	9,000
Market value of quoted equity shares	**–**	10,944	**–**	–

15 BANK BORROWINGS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Bills payable	**53,169**	71,209
Trust receipt loans	**311,965**	142,750
	365,134	213,959

These unsecured bank borrowings bear effective interest ranging from 0.95% to 1% (2004: 0.95% to 1.125%) above HIBOR per annum and are repayable within the next 12 months. The repayment period ranges from 30 days to 360 days (2004: 30 days to 360 days) depending on the credit terms agreed with the creditors and banks.

The Group's bank borrowings that are not denominated in the functional currencies of the respective entities are as follow:

	Group	
	2005	2004
	HK$'000	*HK$'000*
United States dollars	**314,528**	154,050
Euro	**–**	314
Japanese Yen	**50,606**	59,595

16 TRADE PAYABLES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Outside parties	**22,318**	15,209
Accrued operating expenses	**56,899**	65,225
	79,217	80,434

Trade payables principally comprise trade creditors arising from purchases of copper cathode, the main ingredient of copper foil.

The Group's trade payables that are not denominated in the functional currencies of the respective entities are as follow:

	Group	
	2005	2004
	HK$'000	*HK$'000*
United States dollars	**376**	805
Japanese Yen	**1,256**	–

17 RETIREMENT BENEFIT OBLIGATIONS

Employees of subsidiaries in the PRC are members of the state–sponsored pension scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

18 SHARE CAPITAL

	Group and Company			
	2005	2004	**2005**	2004
	'000	*'000*	***HK$'000***	*HK$'000*
	Number of ordinary shares of US$0.10 each			
Authorised	**2,000,000**	2,000,000	**1,550,000**	1,550,000
Issued and fully paid:				
At beginning and end of financial year	**722,500**	722,500	**560,200**	560,200

19 REVENUE

Revenue for the Group represents amounts received and receivable from the sale of manufactured goods.

20 OTHER OPERATING INCOME

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest income from non–related companies	**491**	948
Interest income from fellow subsidiaries *(Note 5)*	**8,396**	10,019
Rental income from a fellow subsidiary *(Note 5)*	**943**	1,358
Subcontracting fee income	**–**	409
Dividend income from quoted other investments	**–**	230
Gain on disposal of available–for–sale investments *(Note 5)*	**4,162**	–
Foreign exchange gains, net	**3,039**	2,248
Sales of scrap material	**694**	68
Gain on disposal of raw material	**720**	–
Miscellaneous	**1,427**	24
	19,872	15,304

21 PROFIT BEFORE TAX

	Group	
	2005	2004
	HK$'000	*HK$'000*
Auditors' remuneration:		
Auditors of the Company	**180**	180
Auditors of subsidiaries	**320**	320
Non–audit fees paid to auditors:		
Auditors of the Company	**110**	200
Auditors of subsidiaries	**–**	–
Directors' remuneration:		
Directors of the Company		
– Fees	**188**	110
– Other emoluments	**1,820**	1,638
Staff costs (including directors' remuneration)	**23,129**	19,942
Costs of defined contribution plans included in staff costs	**1,146**	936
(Gain)/Loss on disposal of property, plant and equipment	**(1)**	24
Minimum lease payments under operating leases for rental of factory premises	**68**	25

21 PROFIT BEFORE TAX (Cont'd)

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Short–term employee benefits	**2,789**	2,255

The remuneration of directors and key management is determined by the remuneration committee having regard to the performance of the individuals and market trends.

22 INCOME TAX

Income tax comprises taxation payable on the Group's operations in the PRC. Fogang Kingboard Industry Ltd ("FKI"), the manufacturing arm of the Group, is a foreign investment enterprise established in the PRC. FKI has successfully applied to the relevant tax authorities in the PRC for a two–year tax holiday and a three–year tax reduction period to be granted to each of its three distinct phases of production. Consequently, in respect of the first completed phase of production, FKI was exempted from state income tax in respect of the profits earned in 1996 and 1997 and enjoyed a 50% reduction in state income tax liability for the 3 years up to December 31, 2000. In respect of the profits derived from the second phase of production, FKI was exempted from state income tax for the years 1999 and 2000 and enjoyed a 50% reduction in state income tax liability for the 3 years up to December 31, 2004. In respect of the profits derived from the third phase of production, FKI was exempted from state income tax for the years 2001 and 2002 and enjoyed a 50% reduction in state income tax liability for the 3 years up to December 31, 2005. Kingboard (Lianzhou) Copper Foil Limited ("LZCF"), another principal subsidiary of the Company, is a foreign investment enterprise established in the PRC. LZCF has successfully applied to the relevant tax authorities in the PRC for a two–year tax holiday and a three–year tax reduction period. Consequently, LZCF was exempted from state income tax in respect of the profits earned in 2004 and 2005 and enjoyed a 50% reduction in state income tax liability for the 3 years up to December 31, 2008.

The Company does not have a place of business in Singapore and is not a tax resident for Singapore tax purpose. Accordingly, there is no income tax payable in Singapore. The Group's tax expenses is derived as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current	**13,623**	10,172
Under/(Over) provision in prior years	**1,115**	(7,195)
Net income tax expense	**14,738**	2,977

22 INCOME TAX (Cont'd)

During the year ended December 31, 2004, the ultimate holding company of the Group and the Hong Kong Inland Revenue Department reached a compromised settlement in relation to the Hong Kong tax affairs of certain subsidiaries including a subsidiary of the Group for the Years of Assessment from 1997/1998 to 2004/2005. The tax liabilities of the Group for the said Years of Assessment amounted to approximately HK$23,292,000 which were fully provided for in prior years and which were settled as at December 31, 2004.

The income tax expense varied from the amount of income tax expense determined by applying the PRC income tax rate of 33% (2004: 33%) to profit before income tax as a result of the following differences:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Income tax expense at statutory rate	**53,378**	35,664
Non–allowable items	**3,434**	14,041
Income taxed at concessionary rate	**(28,387)**	(17,535)
Tax effect of profit not subject to income tax	**(14,802)**	(21,998)
Under/(Over) provision in prior years	**1,115**	(7,195)
Net income tax expense	**14,738**	2,977

23 EARNINGS PER SHARE

The basic and fully diluted earnings per share is calculated by dividing the Group's profit attributable to shareholders of HK$147,018,000 (2004: HK$105,095,000) by 722,500,000 (2004: 722,500,000) being the number of shares in issue during the financial year.

24 DIVIDENDS

	Group and Company	
	2005	2004
	HK$'000	*HK$'000*
a) Dividends paid		
December 31, 2003 final dividend of HK$0.02 per share	**–**	14,450
December 31, 2004 interim dividend of HK$0.015 per share	**–**	10,838
December 31, 2004 final dividend of HK$0.025 per share	**18,063**	–
December 31, 2005 interim dividend of HK$0.02 per share	**14,450**	–
	32,513	25,288
b) Proposed dividend		
Final dividend of HK$0.03 (2004: HK$0.025) per share	**21,675**	18,063

25 SEGMENT INFORMATION

The Group's revenue and profit before income tax are substantially derived from sales in Hong Kong/the PRC, of which 84% (2004: 87%) are to related companies within the ultimate holding company's group of companies. The Group is principally engaged in the manufacture and sale of copper foil and most of the assets, liabilities and capital expenditure of the Group are employed in the PRC.

Hence, the geographical and business segment information are as presented in these financial statements.

26 CONTINGENT LIABILITIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees (unsecured) given to banks in respect of bank facilities utilised by the subsidiaries	**–**	–	**919,251**	340,600

The maximum estimated amount to which the Group and the Company could become liable is as shown above.

27 COMMITMENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Capital expenditure				
Capital expenditure contracted but not provided for in the financial statements in respect of acquisition of property, plant and equipment	**27,836**	8,048	**–**	–
Authorised but not yet contracted for in respect of acquisition of property, plant and equipment	**–**	4,308	**–**	–

27 COMMITMENTS (Cont'd)

The Group as lessee

	Group	
	2005	2004
	HK$'000	*HK$'000*
Minimum lease payments under operating leases recognised as an expense in the year	**68**	25

As at the balance sheet date, the Group has outstanding commitments under non–cancellable operating leases, which will fall due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**73**	–

Operating lease payments represent rentals payable by the Group for certain of its factory premises. Leases are negotiated for two years and rentals are fixed for two years.

28 RECLASSIFICATIONS AND COMPARATIVE FIGURES

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements and following the Group and Company's adoption of the FRSs that became effective during the year. As a result, certain line items have been amended on the face of the balance sheet, profit and loss statement, statement of changes in equity and cash flow statements, and the related notes to the financial statements. Comparative figures have been adjusted to conform with the current year's presentation.

The items were reclassified as follows:

	Group	
	Previously reported	**After reclassification**
	2004	**2004**
	HK$'000	*HK$'000*
Prepaid land use rights (current)	–	421
Property, plant and equipment	860,340	841,083
Prepaid land use rights (non–current)	–	18,836
	860,340	860,340

Statement of Directors

In the opinion of the Directors of the Company, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company as set out on pages 20 to 46 are drawn up so as to present fairly the state of affairs of the Group and of the Company as at December 31, 2005, of the results of the Group, equity changes of the Company and of the Group and cash flows of the Group for the financial year then ended and at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

ON BEHALF OF THE BOARD

Cheung Kwok Wing
Chairman

Chan Wing Kwan
Managing Director

February 23, 2006

Shareholdings

SHAREHOLDERS AS AT MARCH 15, 2006

Issued share capital	:	US$72,250,000
Number of shares	:	722,500,000
Class of shares	:	ordinary shares
Voting rights	:	one vote per share

SIZE OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	Percentage	No. of Shares Held	Percentage
1 – 999	4	0.03%	391	0.00%
1,000 – 10,000	10,272	84.58%	39,452,164	5.46%
10,001 – 1,000,000	1,852	15.25%	77,567,000	10.74%
1,000,001 and above	17	0.14%	605,480,445	83.80%
	12,145	100%	722,500,000	100%

SUBSTANTIAL SHAREHOLDERS

As shown in the Register of Substantial Shareholders

		No. of Shares	
	Name of Shareholders	Direct Interest	Deemed Interest
1	Jamplan (BVI) Limited	409,000,000	
2	Hallgain Management Limited		447,006,000
3	Kingboard Chemical Holdings Limited	20,349,000	426,657,000
4	Cheung Kwok Wing		447,006,000

Jamplan (BVI) Limited ("Jamplan") is a wholly owned subsidiary of Kingboard Chemical Holdings Limited ("KCHL").

Hallgain Management Ltd ("HML") has approximately 31% shareholding interest in KCHL, and in turn Mr. Cheung Kwok Wing has approximately 22% shareholding interest in HML.

By virtue of the aforesaid, HML and Mr Cheung Kwok Wing are deemed to have an interest in the shares held by Jamplan, KCHL and the nominees of KCHL and its subsidiaries.

By virtue of the aforesaid, KCHL is deemed to have an interest in the shares held by Jamplan and the nominees of KCHL and its subsidiaries.

Shareholdings

TOP TWENTY SHAREHOLDERS AS AT MARCH 15, 2006

S/No.	Name	No. of Shares	Percentage
1	JAMPLAN (BVI) LIMITED	265,750,000	36.78%
2	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	146,069,714	20.22%
3	DBS NOMINEES PTE LTD	99,397,000	13.76%
4	HSBC (SINGAPORE) NOMINEES PTE LTD	25,519,000	3.53%
5	KINGBOARD CHEMICAL HOLDINGS LIMITED	20,349,000	2.82%
6	RAFFLES NOMINEES PTE LTD	13,888,000	1.92%
7	CLSA SINGAPORE PTE LTD	10,778,000	1.49%
8	DB NOMINEES (S) PTE LTD	6,879,000	0.95%
9	PHILLIP SECURITIES PTE LTD	3,311,731	0.46%
10	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	2,467,000	0.34%
11	KIM ENG SECURITIES PTE. LTD.	2,333,000	0.32%
12	DBSN SERVICES PTE LTD	2,000,000	0.28%
13	OCBC SECURITIES PRIVATE LTD	1,656,000	0.23%
14	CITIBANK CONSUMER NOMINEES PTE LTD	1,411,000	0.20%
15	UOB KAY HIAN PTE LTD	1,389,000	0.19%
16	LEE MING SAN	1,200,000	0.17%
17	MERRILL LYNCH (SINGAPORE) PTE LTD	1,083,000	0.15%
18	SUPREME DEPARTMENTAL STORE (PTE) LTD	1,000,000	0.14%
19	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	943,000	0.13%
20	MCCALLUM JOHN CHARLES	910,000	0.13%
		608,333,445	84.21%

SHAREHOLDING HELD BY THE PUBLIC

Based on information available to the Company as at March 15, 2006, approximately 38.13% of the issued ordinary shares of the Company is held by the public and, therefore, Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited is complied with.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of **KINGBOARD COPPER FOIL HOLDINGS LIMITED** will be held at 5th Floor, Block J, Valiant Industrial Centre, 2-12 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong on Thursday, April 27, 2006 at 9.30 a.m. to transact the following business:–

As Ordinary Business

1. To consider and adopt the Directors' Report and Financial Statements for the year ended December 31, 2005 together with the Auditors' Report thereon. **Resolution 1**

2. To declare a Final Gross Dividend of HK3.0 cents per share in cash for the year ended December 31, 2005. **Resolution 2**

3. To approve the payment of Directors' Fees of HK$188,000/- for the year ended December 31, 2005. (2004: HK$110,000/-) **Resolution 3**

4. To re-elect Mr. Lai Chung Wing, Robert the Director retiring pursuant to Bye-law 86(1) of the Company's Bye-laws. **Resolution 4**
   [see note 3]

5. To re-appoint Messrs. Deloitte & Touche as Auditors and to authorise the Directors to fix their remuneration. **Resolution 5**

As Special Business

To consider and, if thought fit, to pass the following Resolution No. 6 as Ordinary Resolution with or without modifications:–

6. THAT authority be and is hereby given to the Directors to issue shares in the capital of the Company (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued pursuant to this resolution shall not exceed fifty per cent (50%) of the issued share capital of the Company at the time of passing of this resolution, of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed twenty per cent (20%) of the issued share capital of the Company; and unless revoked or varied by the Company in general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company. **Resolution 6**
   [see statement under the heading Resolution 6]

7. To transact any other business.

BY ORDER OF THE BOARD
CHOW YEW KEE
Company Secretary

Singapore, April 11, 2006

Notes:

1. With the exception of The Central Depository (Pte) Limited who may appoint more than two proxies, a member who holds two or more shares and entitled to attend and vote at this meeting is entitled to appoint not more than two proxies to attend and vote in his stead. The instrument appointing a proxy must be deposited at the office of the Share Transfer Agent of the Company in Singapore, at **6 Shenton Way #28-09 DBS Building Tower Two, Singapore 068809**, not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting. A proxy need not also be a member.

2. **Persons holding shares in the capital of the Company through The Central Depository (Pte) Limited are reminded that the Proxy Forms appointing themselves as proxies must similarly be deposited not less than 48 hours before the time of the meeting in order for such persons to be able to attend and/or vote at such meeting.**

3. Mr. Lai Chung Wing, Robert will, upon re-election, continue to serve as Chairman of the Audit Committee, Remuneration Committee and Nominating Committee of the Company. Mr. Lai is a non-executive Director of the Company and is considered independent for the purpose of Rule 704(8) of the Listing Manual of the SGX-ST.

STATEMENTS PURSUANT TO BYE-LAW 58(2) OF THE COMPANY'S BYE-LAWS

Resolution 6

The proposed ordinary Resolution no. 6, if passed, will empower the Directors of the Company to issue new shares in the capital of the Company, subject to the limits and in the manner as described therein. This authority shall, unless revoked or varied at a general meeting, expire at the conclusion of the next general meeting of the Company or the date by which the next annual general meeting of the Company is required by law or by the Bye-laws of the Company to be held, whichever is earlier.

The percentage of issued share capital is based on the Company's issued capital at the time of passing of the resolution approving the mandate after adjusting for (a) new shares arising from the conversion or exercise of convertible securities, (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of the resolution approving the mandate, and (c) any subsequent consolidation or subdivision of shares.

KB KINGBOARD COPPER FOIL HOLDINGS LIMITED

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