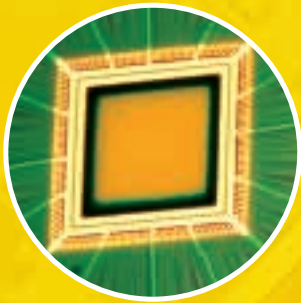
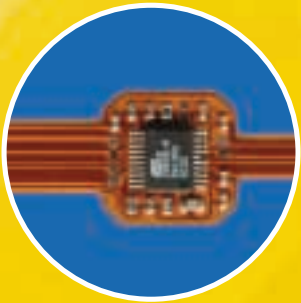




AKM Industrial Company Limited

安捷利實業有限公司

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)



Annual Report

2004

Characteristics of the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of AKM Industrial Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

Board of Directors

Executive directors

XIONG Zheng Feng (*Chairman*)
CHAI Zhi Qiang
LI Ying Hong

Non-executive director

HAN Li Gang

Independent non-executive directors

LI Kung Man
LIANG Zhi Li
WANG Heng Yi

Compliance Officer

LI Ying Hong

Company Secretary

LAM Sau Yan, FCCA

Authorised Representatives

XIONG Zheng Feng
LI Ying Hong

Qualified Accountant

LAM Sau Yan, FCCA

Audit Committee

LI Kung Man (*Committee Chairman*)
LIANG Zhi Li
WANG Heng Yi

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Legal Adviser

Fong & Ng
*(in association with King & Wood,
PRC Lawyers and Goodmans)*

Principal Place of Business in China

Yinli Industrial Building
Huangge Town
Panyu District
Guangzhou City
the People's Republic of China

Registered Office

Room 903, 9th Floor
Blissful Building
243-247 Des Voeux Road Central
Hong Kong

Hong Kong Share Registrar & Transfer Office

Computershare Hong Kong Investor
Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

Chiyu Banking Corporation Ltd.
The Hongkong and Shanghai Banking
Corporation Limited
Bank of China (Panyu Branch)
Shenzhen Development Bank

GEM Stock Code

8298

Company Homepage/Website

www.akmcompany.com

For and on behalf of the board of Directors (the "Board"), I would like to present the annual report of the Company and its subsidiary (collectively the "Group") for the year ended 31 December 2004.

Result Analysis and Business Review

For the year ended 31 December 2004, the Group recorded a turnover of approximately HK\$243.97 million, representing an increase of approximately 64.73% as compared with year 2003, and the profit attributable to the shareholders of the Company amounted to approximately HK\$41.40 million, representing an increase of 95.48% over year 2003.

During the year, rapid development of more advanced communication products and consumer electrical and electronic appliances required a higher level of technical know-how and product specifications, which led to a surge in the demand for multi-layer flexible printed circuits. Building on our extensive experience in the manufacture of flexible printed circuits, the fourth production line of the Group was established during the year. With that, the Group commenced mass production in 2004 of multi-layer flexible printed circuits to capture the increased market demand for flexible printed circuits during the year. The higher profit margin from manufacture and sale of multi-layer flexible printed circuits improved the performance of the Group tremendously during the year.

In order to further strengthen our position as the market leader, representative offices have been established in Beijing, Shanghai and Shenzhen. Feasibility study on setting up some production facilities to conduct certain of the production processes for customers located in the eastern part of China was completed in 2004. The Directors believe that the establishment of such new production facilities in the eastern part of China will broaden the client base of the Group and enable the Group to serve its customers in a more efficient and effective manner.

To cope with the growing demand for flexible printed circuits, the Group acquired and commenced the installation of machineries and equipment for setting up the fifth and the sixth production lines of the Group during the year. These two new production lines are expected to commence operation during the first half of year 2005. These two new production lines of the Group are mainly for the production of new products like rigid-flex flexible printed circuits and high-density interconnect flexible printed circuits. The expansion in the production capacity of the Group brought by the fifth and the sixth production lines could enhance our ability in timely delivery of top quality products as well as broaden our product applications on other electronic appliances.

Prospects

Looking forward into Year 2005, the Group will continue to pursue its overall business objective to further strengthen its market position and recognition in the manufacture and sale of flexible printed circuits.

Chairman's Statement

To maintain the Group's pioneer market position in the industry, we plan to expand our market to Taiwan and Japan. Through our extensive sales and marketing network, the Group secured preliminary trial production in 2004 for the electrical and electronic product manufacturers of worldwide brand names like Canon and Philips. The Directors are confident that the well-established foundation of the Group would enable the Group to grasp new business opportunities in the international market.

We believe that continuous development of new products will create synergy to our business operation. During 2004, sample development of new products like rigid-flex flexible printed circuits and high-density interconnect flexible printed circuits had been completed. We expect that mass production of such new products could be conducted in year 2005. To diversify the applications of our products, the Group devoted more resources in year 2004 to the research and development of product application on other electronic appliances such as computer notebooks and digital cameras. The progress of such research and development is satisfactory.

We anticipate that 3G mobile phone services will be launched in China in the near future, which will bring about a rapid increase in the demand for flexible printed circuits associated with 3G mobile phone services. Leveraging on the professional expertise of the Group's management team in the industry, the Company is ideally poised to capture all these opportunities ahead.

Dividend

In view of the satisfactory performance recorded by the Group during 2004 and in reward for the continuous support of the shareholders of the Company, the Board recommends the payment of a final dividend of HK0.5 cent (2003: nil) per share for the year ended 31 December 2004, subject to the shareholders' approval at the forthcoming Annual General Meeting of the Company.

Appreciation

I would like to take this opportunity to thank the management and staff members of the Group for their hard work and valuable contributions to the Group in the past year. I would also like to thank our shareholders for their continuous support to the Group. The Group will do its best to achieve good results in future.

AKM Industrial Company Limited

XIONG Zheng Feng

Chairman

Hong Kong, 8 March 2005

Directors and Senior Management of the Group

Biographical details of the directors of the Company and the senior management of the Group are set out below:

Directors

Executive Directors

Mr. Xiong Zheng Feng (熊正峰), aged 35, is the chairman of the Company and an executive Director. In July 1992, he graduated from the Department of Computer Science of 南開大學 (Nankai University) and obtained his bachelor degree in science. He then obtained his master degree in economics from 南開大學經濟學院 (Nankai University School of Economics) in July 1995. Mr. Xiong joined 中國北方工業公司 (China North Industries Corporation) in August 1995 and took up the post of deputy general manager of 中國北方工業廈門公司 (China North Industries Xiamen Corporation) from October 1999 to November 2000. In November 2000, Mr. Xiong joined Silver City as assistant General Manager and appointed as the Deputy General Manager of Silver City in March 2004. He is also a director of Alpha Luck Industrial Limited (安利實業有限公司) since March 2001. Mr. Xiong joined the Company in March 2001 and is responsible for the Group's corporate policy formulation, business strategies planning, business development and management of the Group. It is expected that Mr. Xiong will spend most of his time in the Group.

Mr. Chai Zhi Qiang (柴志強), aged 44, is an executive Director and the general manager of the Company. In January 1982, he graduated from the 激光技術專業 (Faculty of Laser Technology) of 長春光學精密機械學院 (Changchun Institute of Optics and Fine Mechanics) and obtained his bachelor degree in engineering. He then obtained his 結業證書 (Certificate on continuing education) from the 香港中澳管理學院 (Hong Kong Sino-Australia Management College) in June 2001. From February 1982 to September 1992, Mr. Chai was employed by the 江蘇省揚州市曙光儀器廠 (Shuguang Appliances Factory of Yangzhou City, Jiangsu Province) as engineer and branch-factory manager. He then joined 銀利(廣州)電子電器實業有限公司 (Alpha Luck Electronic & Electric Appliance Industrial (Guangzhou) Ltd.) in October 1992 as project manager. In January 1994, Mr. Chai joined the Company and is responsible for research and development and overall management of the Group. Mr. Chai has approximately 10 years of experience in the flexible printed circuit production industry.

Ms. Li Ying Hong (李映紅), aged 41, is an executive Director. In July 1985, she obtained her bachelor degree in corporate finance and accounting from 江西財經學院 (Jiangxi College of Finance). In May 2003, she obtained her master degree in international management from Australia National University. During the period from August 1985 to February 2003, Ms. Li was employed as, amongst other roles, deputy chief accountant, deputy general manager and chief accountant of the finance department in 中國萬寶工程公司 (Wanbao China Engineering Corporation). Commencing from March 2001 to April 2003, she was a director for 北方國際合作股份有限公司 (Norinco International Cooperation Company Limited), a company listed on the Shenzhen Stock Exchange in China. In June 2003, Ms. Li joined Silver City International (Holdings) Limited, (銀華國際(集團)有限公司) as a director, deputy general manager and financial controller. At the same time, she joined the Company and is responsible for the Group's corporate policy formulation, business strategies planning, business development and management of the Group. It is expected that Ms. Li will spend most of her time in the Group.

Directors and Senior Management of the Group

Non-executive Director

Mr. Han Li Gang (韓立剛), aged 43, is a non-executive Director. Mr. Han graduated from Faculty of Mathematic of 北京師範大學 (Beijing Normal University) and obtained his bachelor degree in mathematics in July 1986. He then obtained a research degree in industrial management engineering in 武漢工業大學 (Wuhan University of Industrial Studies) in June 1993. In February 1993, he joined 中國兵工業物資公司 (China Army Industrial Material Company) and took up the position of deputy head of the audit and investment departments. Mr. Han joined 中國北方工業公司 (China North Industries Corporation) in January 2001 as senior economist, and later became supervisor of the strategic management department. He was appointed as a non-executive Director of the Company in March 2004.

Independent non-executive Directors

Mr. Liang Zhi Li (梁志立), aged 61, is currently the deputy chief secretary of 中國印制電路行業協會 (CPCA). He graduated from 北京航空航天大學 (Beihang University) in September 1967. He has been highly involved and has accumulated substantial experience in the printed circuit board industry, in particular, the production of double-sided and multi-layer printed circuit boards. Mr. Liang was appointed as an independent non-executive Director in March 2004.

Mr. Li Kung Man (李公民), aged 48, is currently a director for 惠通國際控股有限公司 (Free Way International Holdings Limited) and 德華電子有限公司 (De Welt Electronics Company Limited). He is also an independent non-executive director of 廣東科龍電器股份有限公司 (Guangdong Kelon Electrical Holdings Company Limited) and 中國神威藥業集團有限公司 (China Shineway Pharmaceutical Group Limited). He graduated from the Hong Kong Polytechnic University in July 1980 with a higher diploma in accountancy. Mr. Li is also a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He has accumulated over 20 years of experience in accounting and finance before joining the Group. Mr. Li was appointed as an independent non-executive Director in March 2004.

Mr. Wang Heng Yi (王恒義), aged 64, is currently the chief engineer for 廣東東碩科技有限公司. He graduated from 上海同濟大學 (University of Tongji of Shanghai) in July 1963. Mr. Wang was previously the chief engineer for 珠海多層電路有限公司 (Zhuhai Multi-layer Circuits Co. Ltd.). He has accumulated over 40 years of experience in the research and development for the production of printed circuit boards. He was appointed as an independent non-executive Director in June 2004.

Senior Management

Mr. Li Da Shu (李大樹), aged 40, is the chief engineer and the head of research and development department of the Company. Mr. Li obtained his bachelor degree from 合肥工業大學 (Hefei University of Industrial Studies) in August 1985. In July 2003, he obtained his EMBA from 廣州中山大學 (University of Zhongshan, Guangzhou). During the period from August 1985 to October 1987, Mr. Li was employed by 重慶廣州儀器廠 (Analytical Appliances Factory of Sichuan) as engineer and joined 重慶川儀五廠 (Changxing Chuan Yiwu Factory) in October 1987 as supervisor. Mr. Li joined AKM Panyu in May 1997 and is responsible for research and development projects of the Group. He has over 9 years of experience in the flexible printed circuit production industry.

Mr. Li Jing (李璟), aged 36, is the sales manager and the deputy general manager of the Company. In July 1991, Mr. Li obtained his bachelor degree from 太原機械學院 (Machinery School of Taiyuan). He then joined 江蘇省揚州市曙光儀器廠 (Shuguang Appliances Factory of Yangzhou City, Jiangsu Province) in July 1991. Mr. Li joined 安捷利(番禺)電子實業有限公司 (AKM Electronics Industrial (Panyu) Ltd.) in July 1996 and is responsible for the sales and marketing activities of the Group.

Company Secretary and Qualified Accountant

Mr. Lam Sau Yan (林守仁), aged 44, is the qualified accountant and company secretary of the Company. Mr. Lam graduated from the University of Hong Kong and obtained his bachelor degree of social sciences in November 1985. He obtained the associate membership of The Association of Chartered Certified Accountants in October 1989 and became a fellow member in October 1994. He has over 10 years of experience in the accounting and finance field. Immediately prior to joining the Group, Mr. Lam was employed by Silver City International (Holdings) Limited, (銀華國際(集團)有限公司) as an accounting manager in April 1997 for three years and was in charge of the accounting and finance department. He joined the Company in January 2004 as the full time qualified accountant.

Financial Review

For the year ended 31 December 2004, the turnover of the Group amounted to approximately HK\$243.97 million, representing an increase of approximately 64.73% as compared to last year. The increase in turnover was mainly attributable to the increase of the Group's sales volume. The gross profit margin for the year was increased to approximately 34.72% (year of 2003: 27.89%) due to the increased sales of new products of multi-layer flexible printed circuits. The net profit of the Group for the year was approximately HK\$41.40 million, representing an increase of approximately 95.48% as compared to last year. The increase in net profit was mainly due to the increase in turnover.

The other operating income of the Group for the year ended 31 December 2004 amounted to approximately HK\$3.36 million, representing an increase of approximately HK\$3.31 million as compared to last year. The increase in other operating income was mainly due to the PRC tax refund on capital reinvestment in AKM Panyu.

The distribution costs of the Group for the year ended 31 December 2004 amounted to approximately HK\$15.72 million, representing an increase of approximately 174.13% as compared to last year. The increase in distribution costs was mainly due to sales increase and increase in provision of bad and doubtful debts as well as sales and marketing activities.

The administrative expenses of the Group for the year ended 31 December 2004 amounted to approximately HK\$16.10 million, representing an increase of approximately 139.98% as compared to last year. The increase in administrative expenses was due to increased daily operations in line with the increase in turnover.

The research and development expenses of the Group for the year ended 31 December 2004 amounted to approximately HK\$6.87 million, representing an increase of approximately 96.97% as compared to last year. The increase in research and development expenses was mainly due to the increase in research and development projects and activities carried out.

Business Review and Outlook

Business review

The Group is principally engaged in the manufacture and sale of flexible printed circuits, which are used in communication, consumer electrical and electronic appliances such as mobile phones, laptop computers and cameras. Major flexible printed circuits produced by the Group can be classified into single-sided, double-sided and multi-layer flexible printed circuits. There were no significant changes in the nature of the Group's principal activities during the year.

During the year under review, the turnover of the Group attributable to the sales of multi-layer flexible printed circuits increased so significantly that it became substantial in contribution to the Group's turnover and profit. During the year, rapid development of more advanced communication products and consumer electrical and electronic appliances required a higher level of technical know-how and product specifications, which led to a surge in the demand for multi-layer flexible printed circuits. Such favourable market conditions provided the Group with opportunities to boost the sales of its multi-layer flexible printed circuits in year 2004.

The Group completed the research and development of five-layer multi-layer flexible printed circuit in year 2004 and commenced the mass production thereof at the end of the year in order to meet the future market demand for the Group's multi-layer flexible printed circuits.

In order to cope with the anticipated market demand for the Group's flexible printed circuits and the development of the Group's new products, pursuant to the business strategies set out in the sub-section headed "Business Objectives and Strategies" in the section headed "Business Objectives" in the prospectus of the Company dated 10 August 2004 (the "Prospectus"), the Group acquired and started to install the fifth and the sixth production lines in its production plant located in Panyu, China at the end of 2004. Upon installation of the fifth and the sixth production lines, the annual production capacity of the Group will increase from the existing 288,000 square metres to approximately 488,000 square metres. As part of the installation process for the two additional production lines, the Group's production plant also underwent renovation in 2004.

The Company, as planned and disclosed in the Prospectus, established representative offices in Beijing, Shenzhen and Shanghai to expand its sales and distribution network in 2004. In order to provide better services to customers located in the eastern part of China, the Company carried out feasibility study for the establishment of some production facilities in the eastern part of China to conduct certain of the production processes. Such feasibility study was completed in 2004. The Directors believe that the establishment of such new production facilities will broaden the client base of the Group and enable the Group to serve its customers in a more efficient and effective manner.

Outlook

As mentioned in the Prospectus, the Group will complete the acquisition and installation of new production equipments and machineries for the fifth and sixth production lines and commence the operation thereof in early 2005. The Directors are confident that upon commencement of operation of these two new production lines, the Group would be able to further capture the growing market demand for flexible printed circuits.

During 2004, sample development of the Group's new products like rigid-flex flexible printed circuits and high-density interconnect flexible printed circuits was completed. Leveraging on the expertise and the substantial experience of the management team of the Group in the flexible printed circuit industry, mass production of these new products is expected to be conducted in 2005. The Group anticipates that turnover of the Group attributable to these products will rise during 2005.

Management Discussion and Analysis

In view of the growing global market demand in electrical and electronic appliances, the Group will in 2005 continue to seek suitable distribution agents, strategic alliances and set up representative offices for distribution of its products in Taiwan and Japan as planned and disclosed in the Prospectus. In line with the planned expansion of the Group's sales and distribution network, both in the domestic market and other parts of the world, the Group will recruit additional sales and marketing personnel with good experience and expertise. Together with the Group's existing representative offices in Beijing, Shenzhen and Shanghai, the planned set up of representative offices in Taiwan and Japan will not only secure the Group's existing market share in China but also explore new overseas markets for the Group's products.

For the financial year 2004, approximately 89.35% of the Group's products were applied in mobile phones. To diversify the applications of its products, the Group will in 2005 continue the research and development of product application on other electronic appliances such as computer notebooks and digital cameras. As at the date hereof, the Group had the sample development of flexible printed circuits applied in digital cameras and computer notebooks conducted for well-known global camera and computer notebook manufacturers.

Liquidity and Financial Resources

The Company has been listed on the GEM of the Stock Exchange through a placement of 140,000,000 shares since 18 August 2004. The net proceeds from the placement, after deduction of relevant costs and expenses, is approximately HK\$47.21 million. The Group has so far applied, and will continue to apply these net proceeds, in the manner as disclosed in the Prospectus. Taking into account the financial resources of the Group, including internally generated fund from operating activities, banking facilities currently available and the net proceeds from the placement, it is anticipated that the Group has sufficient working capital for its present funding requirements. As at 31 December 2004, the Group had outstanding bank borrowings amounting to approximately HK\$183,334 which is trust receipts loans. Details of the banking borrowings are set out in note 20 to the financial statements.

Employees

As at 31 December 2004, the Group had a total of 1,165 full-time employees (2003: 689 employees) based in Hong Kong and China. The total staff costs of the Group, including the Directors' remunerations, for the year ended 31 December 2004 amounted to approximately HK\$29,582,375 (2003: HK\$16,248,000). The Group fixes and reviews the emoluments of its staff and directors based on the qualification, experience, performance and the market rates so as to maintain the remunerations of its staff and directors at a competitive level. The Group participates in various defined contribution retirement plans and insurance schemes in compliance with its statutory obligations under the law and regulations of China and Hong Kong. The Directors believe that employees are one of the most valuable assets of the Group which significantly contributed to the success of the Group. Apart from the basic remuneration and staff benefits, the Company also provides employees with share option schemes as to reward their contributions to the Group and/or to enable the Group to recruit and retain high-calibre employees. The Group recognises the importance of staff training and hence regular training is provided to the Group's staff members to enhance their technical and product knowledge. Majority of the Group's employees are stationed in China.

Capital Structure

Since 18 August 2004, the shares of the Company have been listed on the GEM of the Stock Exchange and there has been no change in the capital structure of the Company. The capital of the Company comprises only ordinary shares.

Significant Investments

There were no significant investments held by the Group as at 31 December 2004.

Capital Commitment

Details of the Company's capital commitment are set out in note 29 to the financial statements.

Material Acquisitions and Disposals/Future Plans for Material Investments

The Group did not have any material acquisitions or disposals during the year ended 31 December 2004. The Group has no other future plans for material investments save as those set out in the Prospectus.

Pledge of Assets of the Group

As at 31 December 2004, bank deposits of approximately HK\$9.83 million and bill receivables of approximately HK\$4.04 million were pledged as collateral to secure the issue of bills payable by banks to certain of the Group's suppliers and banking facilities granted to the Group.

Contingent Liabilities

As at 31 December 2004, the Group had no contingent liabilities.

Gearing Ratio

As at 31 December 2004, the Group had a net cash and cash equivalent position of approximately HK\$71,216,747. The Group's gearing ratio as at 31 December 2004 was 26.94% (31 December 2003: 87.99%) which was calculated based on the Group's total liabilities of approximately HK\$61,595,085 (31 December 2003: HK\$125,690,526) and total assets of approximately HK\$228,662,247 (31 December 2003: HK\$142,954,511).

Exposure to Fluctuations in Exchange Rates

The income and expenditure of the Group are mainly in both US\$ and RMB and the assets and liabilities of the Group are denominated in HK\$ and RMB. The official rates for US dollars and RMB have been stable for the year under review. However, the results of operations and the financial position of the Group may be affected by any changes in the exchanges rates and the Group has not taken any hedging measures in this connection. On the other hand, the conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the government of China. Taking into account the Group's operational and capital requirements, the Directors do not consider the Group is significantly exposed to any foreign currency exchange risk.

Comparison of Business Objectives with Actual Business Progress

The Company has been listed the GEM since 18 August 2004. Set out below is the actual business progress of the Group in comparison with the business objectives as stated in the Prospectus for the period from 6 August 2004 (being the latest practicable date prior to the printing of the Prospectus) to 31 December 2004:

Business objectives as stated in the Prospectus

Actual business progress as at 31 December, 2004

Acquisition and installation of additional equipment and machineries

Acquisition and installation of additional equipment and machineries

1. To purchase and install new production equipment and machineries for the fifth production line, including but not limited to directional light exposer, digital controlled drilling and milling lathe and developing and etching line.
2. To complete installation of equipment and machineries for the fifth production line capable for the production of fine line single-sided, double-sided and multi-layer flexible printed circuit and to commence operation.

A majority of new production equipment and machineries for the fifth production line were acquired and installation thereof commenced.

A majority of the equipment and machineries acquired for the fifth production line was installed and trial production for flexible printed circuit by the fifth production line commenced.

Renovation of production capacity

Renovation of production capacity

1. To renovate the production plant for the further expansion of production facilities.

Majority of the renovation of the production plant was completed for the expansion of production facilities.

Overseas and domestic markets expansion

Overseas and domestic markets expansion

1. To seek suitable distribution agents, strategic alliances and set up a representative office for distribution of the Group's products in Beijing.
2. To market the Group's products via advertisements and journals.

A representative office was established for distribution of the Group's products in Beijing.

The Group marketed its products via advertisements and journals during Year 2004

For the year ended 31 December 2004, the net proceeds from the listing of the Company of approximately HK\$47.21 million (after deducting the relevant listing expenses) were used according to the uses of proceeds as disclosed in the Prospectus as follows:

| | Amounted of net proceeds to be used up as at 31 December 2004 as set out in the Prospectus HK\$' million | Actual amount of net proceeds spent as at 31 December 2004 HK\$' million |
|---|---|---|
| 1. Expansion of production capacity | | |
| – Acquisition and installation of additional equipment and machineries (the fifth production line)* | 20.95 | 1.37 |
| – Renovation of production plant** | 2.55 | 0.32 |
| – Acquisition and installation of additional equipment and machineries (the sixth production line)*** | – | 1.13 |
| 2. Expansion of sales and distribution network | 0.20 | 0.16 |

Note: As at 31 December 2004, the Group has entered into purchase agreements for the acquisition of equipment and machineries, in relation to the fifth and sixth production lines of the Group amounting to approximately HK\$22.51 million, of which approximately HK\$10.02 million has been included in capital commitment (in note 29 to the financial statements) and the remaining balance amounting to approximately HK\$12.49 million have been recognised in the financial records of the Group during the year.

* As at 31 December 2004, additional equipment and machineries amounting to approximately HK\$5.77 million (approximately HK\$1.37 million were paid and the remaining balance of approximately HK\$4.40 million will be settled in 2005) were acquired. Certain equipment and machineries required for the initial installation stage were less than expected resulting in the lower-than-projected spendings. More equipment and machineries are to be acquired in year 2005.

** Approximately HK\$0.49 million (approximately HK\$0.32 million were paid and the remaining balance of approximately HK\$0.17 million will be settled in 2005) were spent for the renovation of the production plant. As lesser equipment and machineries for the fifth production line were acquired, the amount spent for the renovation was lower than projected.

*** As at 31 December 2004, additional equipment and machineries amounting to approximately HK\$6.72 million were acquired. An amount of approximately HK\$1.13 million from the net proceeds planned to be spent during the first half of 2005 was paid as deposit and prepayment for the acquisition of equipment and machineries.

The unused net proceeds amounted to approximately HK\$44.23 million were placed with licensed banks in Hong Kong and China.

Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 31 December 2004.

The Company is incorporated in Hong Kong with limited liability on 9 December 1993 and its ultimate holding company is China North Industries Corporation, a state-owned enterprise established in the People's Republic of China (the "PRC"). The Company has only one subsidiary, namely, AKM Electronics Industrial (Panyu) Ltd. ("AKM Panyu") which is a wholly-owned subsidiary and a wholly foreign-owned enterprise established in the PRC with limited liability.

The shares of the Company have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 18 August 2004.

Segmental Information

The Group's principal activities are the manufacture and sale of flexible printed circuit as a single business segment. An analysis of the Group's turnover by geographical market of its customers for the year ended 31 December 2004 is set out in note 3 to the financial statements.

Principal Activities

The Company is an investment holding company and is engaged in sourcing of raw materials and equipment for its subsidiary. Its subsidiary is principally engaged in manufacture and sale of flexible printed circuits.

Results and Appropriations

The results of the Group and the appropriations of the Company for the year ended 31 December 2004 are set out in the consolidated income statement on page 28.

The Directors recommend the payment of a final dividend of HK0.5 cent per ordinary share for the year to the shareholders of the Company whose names appear on the register of members of the Company on 4 April 2005, amounting to approximately HK\$2,700,000 in total.

Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Group are set out in note 10 to the financial statements.

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 23 to the financial statements.

Bank Borrowings

As at 31 December 2004, the Group had outstanding bank borrowings amounting to approximately HK\$183,334.

Directors

The Directors who held office during the year or as at the date of this report are as follows:

Executive Directors:

Mr. Xiong Zheng Feng (*Chairman*)

Ms. Li Ying Hong

Mr. Chai Zhi Qiang (appointed on 19 March 2004)

Mr. Ma Jian Guo (appointed on 19 March 2004 and
resigned on 1 December 2004)

Mr. Huang Zhou Chang (resigned on 19 March 2004)

Non-executive Director:

Mr. Han Li Gang (appointed on 19 March 2004)

Independent non-executive Directors:

Mr. Li Kung Man (appointed on 19 March 2004)

Mr. Liang Zhi Li (appointed on 19 March 2004)

Mr. Wang Heng Yi (appointed on 18 June 2004)

In accordance with the Article 101 of the Company's Articles of Association, Li Ying Hong and Chai Zhi Qiang shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

Each of the Directors has entered into a service contract with the Company for an initial term of three years and thereafter, in the case of each executive Director, will continue until terminated by not less than three calendar months' notice in writing served by either party on the other, and in the case of each Director not being an executive Director, the appointment may be extended by mutual agreement.

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Biographical details of the Directors are set out on pages 5 and 6 of this annual report. Details of the Directors' remunerations are set out in note 7 to the financial statements.

Share Option Schemes

Pursuant to written resolutions of all shareholders of the Company on 6 August 2004, the Company adopted a Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") and another share option scheme (the "Scheme"). Terms of the Pre-IPO Scheme and the Scheme are set out in note 24 to the financial statements. For the year ended 31 December 2004, save as share options under the Pre-IPO Scheme were granted to the Directors and certain employees of the Company on 6 August 2004, no options were granted under the above two schemes. Save as the 1,800,000 share options granted to Mr. Ma Jian Guo, an ex-director of the Company had been lapsed with the resignation of Mr. Ma Jian Guo as a Director on 1 December 2004, no option had been lapsed or cancelled during the year. Other details and movements during the year of such share options granted are set out in the section "Director's Interests and Short Positions in Shares and Underlying Shares" below and note 24 to the financial statements. The Directors consider that it is not appropriate to disclose the value of options granted during the year since any valuation of such options would be subject to a number of assumptions that would be subjective and uncertain.

Directors' Interests and Short Positions in Shares and Underlying Shares

Save as disclosed below, as at 31 December 2004, none of the directors and the chief executive (if any) of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

| Name of Director | Name of company in which interest is held | Class and number of securities in which interested under physically equity derivatives (Notes) | Capacity | Long/Short position | Percentage of total issued share capital in the Company |
|----------------------|---|---|------------------|---------------------|---|
| Mr. Xiong Zheng Feng | the Company | 2,000,000 ordinary shares | Beneficial owner | Long | 0.37 |
| Mr. Chai Zhi Qiang | the Company | 2,800,000 ordinary shares | Beneficial owner | Long | 0.52 |
| Ms. Li Ying Hong | the Company | 600,000 ordinary shares | Beneficial owner | Long | 0.11 |

Notes:

- The interest of each of Mr. Xiong Zheng Feng, Ms. Li Ying Hong and Mr. Chai Zhi Qiang in the underlying ordinary shares of the Company reflects the share options granted to him/her under the Pre-IPO Scheme, which position remains unchanged since the date of grant on 6 August 2004.
- None of Mr. Xiong Zheng Feng, Ms. Li Ying Hong and Mr. Chai Zhi Qiang is interested in any securities of the Company other than under equity derivatives.

Arrangements to Purchase Shares or Debentures

Other than the share option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interest in Contracts

No contracts of significance to which the Company, its subsidiary, its holding companies or its fellow subsidiaries was a party and in which a Director of the Company had a material interest, either directly or indirectly, subsisted during the year or at the end of the year.

Emoluments of Directors and Five Highest Paid Individuals

Details of the emoluments of the Directors and the top five highest paid individuals of the Group are set out in note 7 to the financial statements.

Substantial Shareholders

Save as disclosed below, as at 31 December 2004, no person other than a director or chief executive (if any) of the Company had any interest or short positions in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO.

| Name of substantial shareholder | Capacity | Class and number of securities in which interested (other than under equity derivatives) (Note 3) | Long/Short position | Percentage of total issued share capital in the Company |
|--|---------------------------------------|--|---------------------|---|
| Alpha Luck Industrial Ltd. ("Alpha Luck") | Beneficial owner | 360,000,000 ordinary shares | Long | 66.67 |
| Silver City International (Holdings) Ltd. ("Silver City") (Note 1) | Interest in controlled corporation | 360,000,000 ordinary shares | Long | 66.67 |
| China North Industries Corporation 中國北方工業公司 ("CNIC") (Note 2) | Interest in controlled corporation | 360,000,000 ordinary shares | Long | 66.67 |
| Dalmaty International Corporation ("Dalmaty") (Note 3) | Beneficial owner | 40,000,000 ordinary shares | Long | 7.41 |

Report of the Directors

Notes:

1. This represents the same block of shares of the Company shown against the name of Alpha Luck above. Since Alpha Luck is wholly beneficially owned by Silver City, Silver City is deemed to be interested in the same number of shares of the Company held by Alpha Luck under Part XV of the SFO.
2. As Silver City is wholly beneficially owned by CNIC, CNIC is deemed to be interested in the same number of shares of the Company which Silver City is deemed to be interested under Part XV of the SFO.
3. Dalmary is beneficially owned by 29 shareholders which consist of various Directors, member of the senior management and employees of the Group. Mr. Xiong Zheng Feng, Mr. Chai Zhi Qiang and Ms. Li Ying Hong are interested in 30%, 28.75% and 6.75% respectively in the issued share capital of Dalmary.
4. None of Alpha Luck, Silver City, CNIC and Dalmary is interested in any securities of the Company under equity derivatives.

Reserves

Details of changes in reserves of the Group during the year are set out in the consolidated statements of changes in equity on page 31 of this annual report.

Corporate Governance

The Company complied throughout the period from 18 August 2004, being listing the date of the Company, to 31 December 2004 with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules effective as at 31 December 2004.

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors of the Company, all Directors of the Company confirm that they complied with such code of conduct throughout the period from the listing date of the Company to 31 December 2004.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of its independent non-executive Directors are independent.

Pension Scheme

Details of the Group's pension scheme for the year ended 31 December 2004 are set out in note 30 to the financial statements.

Major Customers and Suppliers

For the year ended 31 December 2004, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 74% of the Group's turnover and turnover attributable to the Group's largest customer accounted for approximately 32% of the Group's turnover.

For the year ended 31 December 2004, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 56% of the Group's total purchases and purchases attributable to the Group's largest supplier accounted for approximately 23% of the Group's purchases.

Hong Kong Kyokuto Co., Ltd., a 50% shareholder of Guangzhou Kyokuto Electronics Ltd. which is one of the Group's five largest customers for the year ended 31 December 2004, subscribed for as a strategic investor during the initial public offering of the Company's shares, and is still currently holding, approximately 3.11% of the Company's enlarged share capital, details of which are set out in the section headed "Structure and conditions of the Placing" in the Prospectus.

None of the Directors, their respective associates nor any shareholder (who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) has any interest in the top five customers of the Group during the year.

One of the top five largest suppliers of the Group, Silverkey Development Limited ("Silverkey"), is a fellow subsidiary of the Company and hence purchases of goods by the Group from Silverkey would constitute connected transactions under Chapter 20 of the GEM Listing Rules. For details, please refer to the paragraph headed "Connected transactions" below at page 21 in this annual report. Apart from that, none of the Directors, their respective associates nor any shareholder (who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) has any interest in the Group's five largest suppliers during the year.

Purchase, Redemption or Sale of Listed Securities of the Company

The Company's shares have been listed on GEM of the Stock Exchange since 18 August 2004.

Except for the initial public offering of the shares in the Company listed on GEM of the Stock Exchange, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2004.

Competing Interests

None of the directors, the management shareholders of the Company nor their respective associates (as defined under the GEM Listing Rules) had any interest in a business which causes or may cause significant competition with the business of the Group.

Sponsor's Interests

Pursuant to a sponsor agreement dated 10 August 2004 made between the Company and Barits Securities (Hong Kong) Limited ("Barits"), Barits is appointed as the sponsor to the Company as required under the GEM Listing Rules at a fee for the period from 18 August 2004 to 31 December 2006.

None of Barits, its directors, employees nor their respective associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 31 December 2004.

Subsidiary

Particulars of the Company's principal subsidiary are set out in note 11 to the financial statements.

Audit Committee

The Company has established an audit committee with written terms of reference based upon "A Guide for the Formation of our Audit Committee" published by the Hong Kong Institute of Certified Public Accountants in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules effective as at 31 December 2004. The primary duties of the audit committee of the Company are to review and supervise the financial reporting process and internal control procedures of the Company and provide advice and comments on the Company's draft annual reports and accounts, half-yearly reports and quarterly reports to the Directors.

The audit committee of the Company comprises three members which are all independent non-executive Directors, namely, Mr. Li Kung Man (the chairman of the audit committee), Mr. Liang Zhi Li and Mr. Wang Heng Yi.

During the year, the audit committee of the Company held two meetings and performed the following duties:

1. reviewed and commented on the Company's draft interim financial report for the six months ended 30 June 2004;
2. reviewed and commented on the Company's draft third quarterly financial report for the period ended 30 September 2004.

Connected Transactions

During the year ended 31 December 2004, the Group entered into the following connected transactions:

1. Purchase of goods from Silverkey Development Limited (“Silverkey”)

For the year ended 31 December 2004, the Group purchased goods, mainly copper clad laminate and coverlay, amounting to approximately HK\$3,134,338 from Silverkey. Silverkey is a wholly-owned subsidiary of Silver City which is a substantial shareholder and the controlling shareholder of the Company and hence the abovementioned purchases of goods by the Group from Silverkey during the year constitute connected transactions of the Group under the GEM Listing Rules. Under the above connected transactions, instead of placing its purchase orders with the ultimate supplier direct, the Group placed its purchase orders with Silverkey direct and requested Silverkey to place the same orders in the name of Silverkey with the ultimate suppliers so that the Group could benefit from the more favourable credit terms granted to Silverkey by the ultimate supplier based on the stronger financial position of Silverkey as compared with that of the Group. In return, Silverkey charged the Company administrative charges equivalent to 1.6% (inclusive of 1% as interest expenses and 0.6% as handling charges) of the total purchase price of goods purchased by the Group. With improved financial position, the Group has subsequently become able to obtain better credit terms from the ultimate supplier and the above connected transactions have therefore ceased since April 2004.

2. Purchase of machineries from Silverkey

For the year ended 31 December 2004, the Group purchased machineries from Silverkey amounting to approximately HK\$5,136,605. Under the above connected transactions, Silverkey received from the Group an administrative charge equivalent to 5% of the total purchase price of machineries purchased by the Group. Since March 2004, the Group has ceased to purchase any machinery from Silverkey.

3. Amount due to 銀利(廣州)電子電器實業有限公司 (Alpha Luck Electronic & Electric Appliance Industrial (Guangzhou) Ltd.) (“ALI Guangzhou”)

During the year, the Group had once owed to ALI Guangzhou an amount of HK\$756,071 which was unsecured and bearing interest at the rate of 0.58% per month for any amounts due over repayment term of 30 days, being unpaid rentals, management fee and utilities charges charged to the Group by ALI Guangzhou, and which had been repaid in full as at 31 December 2004.

ALI Guangzhou is a wholly-owned subsidiary of Alpha Luck which is a substantial shareholder and the controlling shareholder of the Company and hence the above transaction constitutes a connected transaction of the Company under the GEM Listing Rules.

4. Amount due to Silverkey

As at 31 December 2003, the Group owed to Silverkey an amount of HK\$5,126,752 and during the year, the Group purchased goods and machineries from Silverkey amounting to approximately HK\$3,134,338 and HK\$5,136,605 respectively (as described in 1 and 2 above), all of which was unsecured, interest free and repayable on demand. The amount above was fully repaid during the year.

5. Amount due to Alpha Luck

During the year, the Group had once owed to Alpha Luck an amount amounting to HK\$3,168,869 which was unsecured, interest free and had no fixed repayment term, being payment of listing expenses advanced to the Group by Alpha Luck, and which was fully repaid on 3 August 2004.

Alpha Luck is a substantial shareholder and the controlling shareholder of the Company, and hence the above transaction constitutes a connected transaction of the Company under the GEM Listing Rules.

6. Amount due to Dalmary

As a result of an assignment of loan from Mustly Investments Limited to Dalmary, the Group had once during the year owed to Dalmary an amount of HK\$427,020 which was unsecured, interest free and repayable on demand, being unpaid prices for purchases made by Mustly Investments Limited on behalf of the Group. Such amount was fully settled in April 2004. Dalmary is a substantial shareholder of the Company and the above transaction therefore constitutes a connected transaction of the Company under the GEM Listing Rules.

7. Loan from Alpha Luck

- (i) As a result of an assignment of loan from World Circuit Technology Inc. to Alpha Luck on 23 November 2003, the Group had once during the year owed to Alpha Luck a loan amounting to HK\$6,055,684 which was unsecured, interest free and had no fixed repayment term.
- (ii) During the year, the Group had once owed to Alpha Luck a loan of HK\$54,502,087 (including the assignment of loan from World Circuit Technology Inc. amounting to HK\$6,055,684) which was unsecured, interest free and had no fixed repayment term. Such loan was capitalised on 6 August 2004 by an allotment to Alpha Luck of 359,100,000 shares in the Company, credited as fully paid.

8. Loan from Dalmary

As a result of an assignment of loan form Mustly Investments Limited to Dalmary on 12 March 2004, the Group had once during the year owed to Dalmary a loan amounting to HK\$6,055,684 which was unsecured, interest free and had no fixed repayment term. Such was capitalised on 6 August 2004 by an allotment to Dalmary of 39,900,000 shares in the Company, credited as fully paid.

9. Leasing of premises from ALI Guangzhou

- (i) Pursuant to a property lease dated 30 April 2004 and the supplemental lease thereto dated 1 June 2004, both between AKM Panyu and ALI Guangzhou (together, the "Factory Lease"), ALI Guangzhou as landlord agreed to lease to AKM Panyu as tenant, 1st, 2nd and portion of 3rd floor of an industrial building and 3 warehouses, Yinli Industrial Building, Jiaomen Industrial Zone, Huangge Town, Panyu District, Guangzhou, Guangdong Province, the PRC (the "Factory") with a total gross floor area of approximately 9,263 sq.m., for industrial use for a period of three years commencing from 1 January 2004 and expiring on 31 December 2006 (subject to an option granted to AKM Panyu for an extension of the lease term for another three years) at an annual rental of approximately RMB798,194 (equivalent to approximately HK\$753,013).

Pursuant to the Factory Lease, ALI Guangzhou has extended an irrevocable exclusive offer to AKM Panyu whereupon AKM Panyu may purchase all and any part of the Factory from ALI Guangzhou. Upon the acceptance of such offer by AKM Panyu, ALI Guangzhou will sell to AKM Panyu all or any part of the Factory at the prevailing fair market price as determined by an independent valuer. The offer is open for AKM's acceptance during the lease term of the Factory Lease. ALI Guangzhou has further undertaken not to sell, transfer or mortgage all or any part of the Factory to any third party without the written consent of AKM Panyu.

For the year ended 31 December 2004, the aggregate rental paid by AKM Panyu to ALI Guangzhou under the Factory Lease amounted to approximately RMB798,194 (equivalent to approximately HK\$753,013).

- (ii) Pursuant to a property lease dated 30 April 2004 and the supplemental lease thereto dated 1 June 2004, both between AKM Panyu and ALI Guangzhou (together, the "Dormitory Lease"), ALI Guangzhou as landlord agreed to lease to AKM Panyu as tenant, 84 residential units in 3 residential blocks ancillary to Yinli Industrial Building, Jiaomen Industrial Zone, Huangge Town, Panyu District, Guangzhou, Guangdong Province, the PRC (The "Dormitory") with total gross floor area of approximately 2,328 sq.m., for dormitory use for a period of three years commencing from 1 January 2004 and expiring on 31 December 2006 (subject to an option granted to AKM Panyu for an extension of the lease term for another three years) at an annual rental of approximately RMB343,376 (equivalent to approximately HK\$323,940).

For the year ended 31 December 2004, the aggregate rental paid by AKM Panyu to ALI Guangzhou under the Dormitory Lease amounted to approximately RMB343,376. (equivalent to approximately HK\$323,940).

Report of the Directors

- (iii) Pursuant to two property leases both dated 6 December 2004 between AKM Panyu and ALI Guangzhou (together, the "Property Leases"), ALI Guangzhou as landlord agreed to lease to AKM Panyu as tenant, portion of 3rd floor, 4th, 5th and 6th floor of an industrial building and 2 warehouses in Yinli Industrial Building, Jiaomen Industrial Zone, Huangge Town, Panyu District, Guangzhou, Guangdong Province, the PRC (the "Units I") with total gross floor area of 14,174 square metre for industrial use, and 80 residential units in 3 residential blocks ancillary to Yinli Industrial Building, Jiaomen Industrial Zone, Huangge Town, Panyu District, Guangzhou, Guangdong Province, the PRC (the "Units II") with total gross floor area of 2,801 square metre for dormitory use respectively, for an initial term of three years commencing from 1 December 2004 to 30 November 2007 (subject to an option granted to AKM Panyu for an extension of the lease term from such initial lease term for three years).

For the year ended 31 December 2004, the aggregate rentals paid by AKM Panyu under the Property Leases was approximately RMB124,882 (equivalent to approximately HK\$117,813).

Pricing basis

The aggregate rentals paid by AKM Panyu for the year ended 31 December 2004 under the Factory Lease, the Dormitory Lease and the Property Leases were RMB1,266,452 (equivalent to HK\$1,194,766), determined on an arm's length basis between AKM Panyu and ALI Guangzhou, and reviewed and adjusted by a valuer with reference to comparable local rental levels. The Company's valuer, Sallmanns (Far East) Limited, has reviewed and confirmed that the rentals payable by the Company pursuant to the Factory Lease, Dormitory Lease and Property Leases are fair and reasonable.

The Directors (including the independent non-executive Directors) confirm that the above continuing connected transactions under the Property Leases, the Factory Lease and the Dormitory Lease were carried out during the year in the ordinary and usual course of business for both AKM Panyu and ALI Guangzhou, on normal commercial terms, in accordance with the respective terms of the Property Leases, the Factory Lease and the Dormitory Lease and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors confirmed that the Company's auditors have provided a letter to the board of directors of the Company in respect of their factual findings on the continuing connected transactions above.

Reasons for the transaction

The Directors consider that it is in the best interests of the Company and its shareholders as a whole to enter into the above continuing connected transactions for a term of three years to ensure that the Factory, the Dormitory, the Units I and the Units II are available for the operations of the Group and that it is normal market practice for property leases of this kind in the PRC to have a three-year duration.

10. Provision of utilities maintenance services and back electricity by ALI Guangzhou

Pursuant to the Factory Lease, the Dormitory Lease and the Property Leases, AKM Panyu is required to pay to ALI Guangzhou an annual utilities maintenance fee equivalent to 10% of the annual utilities charges paid by ALI Guangzhou as agent on behalf of its different tenants including AKM Panyu to the relevant authorities. For the year ended 31 December 2004, the aggregate utilities maintenance fees paid by AKM Panyu under the Property Leases, the Factory Lease and the Dormitory Lease were approximately RMB346,237 (equivalent to HK\$326,639).

Such utilities maintenance fee represents a contribution by AKM Panyu to ALI Guangzhou on the cost originally incurred by ALI Guangzhou in laying down the electric wires and water pipes in the Factory, the Dormitory, the Units I and the Units II and their regular maintenance thereafter. Furthermore, pursuant to the Property Lease, the Factory Lease and the Dormitory Lease, in any shortage of electricity supply, ALI Guangzhou shall supply backup electricity to AKM Panyu at a fixed tariff rate of RMB1.54 per unit consumed for the three years ending 31 December 2006. For the year ended 31 December 2004, ALI Guangzhou supplied backup electricity to AKM Panyu in the amount of approximately RMB298,918 (equivalent to HK\$281,998).

Pricing basis

The annual utilities maintenance fee rate charged under the Property Leases, the Factory Lease and the Dormitory Lease roughly represents the actual costs incurred by ALI Guangzhou in laying down the electric wires and water pipes in the Factory, the Dormitory, the Units I and the Units II and the expenses incurred in their maintenance thereafter. The tariff rate for each unit of backup electricity consumed was determined in accordance to the actual cost incurred by ALI Guangzhou in generating such electricity.

With effect from 1 December 2004, the obligation of AKM Panyu to pay the utilities maintenance fee under the Property Leases, the Factory Lease and the Dormitory Lease was terminated.

The Directors (including the independent non-executive Directors) confirm that payment of utilities maintenance fee and backup electricity charges pursuant to the Property Leases, the Factory Lease and the Dormitory Lease was made during the year in the ordinary and usual course of business for both AKM Panyu and ALI Guangzhou, on normal commercial terms, in accordance with the respective terms of the Property Leases, the Factory Lease and the Dormitory Lease and on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Directors confirmed that the Company's auditors have provided a letter to the board of directors of the Company in respect of their factual findings on the continuing connected transactions above.

Report of the Directors

Reasons for the transaction

The Directors consider that it is in the best interests of the Company and its shareholders as a whole to enter into the Property Leases, the Factory Lease and the Dormitory Lease containing the terms on the provision of maintenance to the electric wires and water pipes and the provision of backup electricity to ensure that the above services are available to AKM Panyu in the Factory, the Dormitory, the Units I and the Units II and to ensure that the operation of the production facilities of the Group will not be interrupted.

Save as disclosed above, there are no other connected transactions of the Group required to be disclosed under the GEM Listing Rules.

Auditors

The financial statements for the year have been audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming Annual General Meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

AKM Industrial Company Limited

XIONG Zheng Feng

Chairman

Hong Kong, 8 March 2005

Deloitte.

德勤

**TO THE SHAREHOLDERS OF
AKM INDUSTRIAL COMPANY LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 28 to 58 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
8 March 2005

Consolidated Income Statement

For the year ended 31 December 2004

| | Notes | 2004 HK\$ | 2003 HK\$ |
|-----------------------------------|-------|----------------------|---------------|
| Turnover | 3 | 243,974,808 | 148,104,067 |
| Cost of sales | | (159,260,437) | (106,800,678) |
| Gross profit | | 84,714,371 | 41,303,389 |
| Other operating income | | 3,355,571 | 48,753 |
| Distribution costs | | (15,715,011) | (5,732,729) |
| Administrative expenses | | (16,100,991) | (6,709,346) |
| Research and development expenses | | (6,870,292) | (3,487,905) |
| Profit from operations | 4 | 49,383,648 | 25,422,162 |
| Finance costs | 5 | (924,518) | (858,600) |
| Profit before taxation | | 48,459,130 | 24,563,562 |
| Taxation | 6 | (7,060,799) | (3,385,632) |
| Net profit for the year | | 41,398,331 | 21,177,930 |
| Dividend | 8 | 2,700,000 | – |
| Earnings per share | 9 | | |
| – basic | | 9.16 cents | 5.29 cents |
| – diluted | | 9.15 cents | – |

Consolidated Balance Sheet

At 31 December 2004

| | Notes | 2004 HK\$ | 2003 HK\$ |
|--|-------|--------------------|--------------|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 48,103,515 | 27,572,962 |
| Deferred tax asset | 26 | 303,000 | 303,000 |
| | | 48,406,515 | 27,875,962 |
| Current assets | | | |
| Inventories | 12 | 17,423,933 | 15,198,168 |
| Trade and other receivables | 13 | 55,236,047 | 60,220,535 |
| Bills receivables | | 26,553,251 | 12,684,610 |
| Pledged bank deposits | 14 | 9,825,754 | 8,266,180 |
| Bank balances and cash | | 71,216,747 | 18,709,056 |
| | | 180,255,732 | 115,078,549 |
| Current liabilities | | | |
| Trade and other payables | 15 | 50,823,026 | 38,972,990 |
| Bills payable | | 2,899,405 | 2,904,421 |
| Government grants received | 16 | 1,160,377 | 662,743 |
| Amounts due to fellow subsidiaries | 17 | 1,750,524 | 5,494,782 |
| Amount due to a shareholder | 18 | – | 427,020 |
| Amount due to immediate holding company | 19 | – | 1,168,869 |
| Taxation payable | | 4,778,419 | 3,327,430 |
| Bank borrowings | 20 | 183,334 | 12,174,500 |
| | | 61,595,085 | 65,132,755 |
| Net current assets | | 118,660,647 | 49,945,794 |
| Total assets less current liabilities | | 167,067,162 | 77,821,756 |
| Non-current liabilities | | | |
| Loan from a shareholder | 21 | – | 6,055,684 |
| Loan from immediate holding company | 22 | – | 54,502,087 |
| | | – | 60,557,771 |
| | | 167,067,162 | 17,263,985 |
| Capital and reserves | | | |
| Share capital | 23 | 54,000,000 | 100,000 |
| Reserves | 25 | 113,067,162 | 17,163,985 |
| | | 167,067,162 | 17,263,985 |

The financial statements on page 28 to 58 were approved and authorised for issue by the Board of Directors on 8 March 2005 and are signed on its behalf by:

XIONG Zheng Feng
Chairman

LI Ying Hong
Director

Balance Sheet

At 31 December 2004

| | Notes | 2004 HK\$ | 2003 HK\$ |
|--|-------|--------------------|--------------|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 324,520 | 368,010 |
| Interest in subsidiary | 11 | 118,693,683 | 59,485,711 |
| | | 119,018,203 | 59,853,721 |
| Current assets | | | |
| Trade and other receivables | 13 | 1,260,009 | 1,070,000 |
| Amount due from subsidiary | 11 | 3,469,571 | – |
| Pledged bank deposits | 14 | 5,602,068 | – |
| Bank balances | | 15,766,028 | 591,426 |
| | | 26,097,676 | 1,661,426 |
| Current liabilities | | | |
| Trade and other payables | 15 | 11,294,823 | 150,000 |
| Amount due to a shareholder | 18 | – | 427,020 |
| Amount due to immediate holding company | 19 | – | 1,168,869 |
| Bank borrowings | 20 | 183,334 | – |
| | | 11,478,157 | 1,745,889 |
| Net current assets (liabilities) | | 14,619,519 | (84,463) |
| Total assets less current liabilities | | 133,637,722 | 59,769,258 |
| Non-current liabilities | | | |
| Loans from shareholders | 21 | – | 6,055,684 |
| Loan from immediate holding company | 22 | – | 54,502,087 |
| | | – | 60,557,771 |
| | | 133,637,722 | (788,513) |
| Capital and reserves | | | |
| Share capital | 23 | 54,000,000 | 100,000 |
| Reserves | 25 | 79,637,722 | (888,513) |
| | | 133,637,722 | (788,513) |

XIONG Zheng Feng
Chairman

LI Ying Hong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

| | Share capital HK\$ | Share premium HK\$ | Translation reserve HK\$ | Accumulated (losses) profits HK\$ | Total HK\$ |
|---|--------------------------|--------------------------|--------------------------------|--|--------------------|
| At 1 January 2003 | 100,000 | – | 2,410,182 | (5,646,840) | (3,136,658) |
| Exchange differences from translation of operations outside Hong Kong not recognised in the consolidated income statement | – | – | (777,287) | – | (777,287) |
| Net profit for the year | – | – | – | 21,177,930 | 21,177,930 |
| At 31 December 2003 | 100,000 | – | 1,632,895 | 15,531,090 | 17,263,985 |
| Issue of shares by capitalisation of loan from immediate holding company and loan from a shareholder | 39,900,000 | 20,657,771 | – | – | 60,557,771 |
| Issue of new shares | 14,000,000 | 42,000,000 | – | – | 56,000,000 |
| Expenses incurred in connection with the issue of new shares | – | (8,789,443) | – | – | (8,789,443) |
| Exchange differences from translation of operations outside Hong Kong not recognised in the consolidated income statement | – | – | 636,518 | – | 636,518 |
| Net profit for the year | – | – | – | 41,398,331 | 41,398,331 |
| At 31 December 2004 | 54,000,000 | 53,868,328 | 2,269,413 | 56,929,421 | 167,067,162 |

Consolidated Cash Flow Statement

For the year ended 31 December 2004

| | 2004 HK\$ | 2003 HK\$ |
|--|---------------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before taxation | 48,459,130 | 24,563,562 |
| Adjustments for: | | |
| Interest expense | 924,518 | 858,600 |
| Interest income | (144,432) | (41,105) |
| Allowance (reversal of allowance) for bad and doubtful debts | 9,188,174 | (6,335) |
| Allowance for obsolete inventories | 2,684,558 | 2,390,684 |
| Depreciation of property, plant and equipment | 6,721,990 | 5,450,179 |
| Gain on disposal of property, plant and equipment | – | (7,649) |
| PRC tax refund on capital reinvestment in a subsidiary | (3,042,377) | – |
| Operating cash flows before movements in working capital | 64,791,561 | 33,207,936 |
| Increase in inventories | (4,798,406) | (6,509,572) |
| Increase in trade and other receivables | (3,768,111) | (28,420,268) |
| Increase in bills receivable | (13,775,234) | (1,874,202) |
| Decrease in amount due from immediate holding company | – | 1,383,625 |
| Decrease in amount due from a fellow subsidiary | – | 2,826,000 |
| Decrease in amount due from a shareholder | – | 4,566,028 |
| Decrease in amount due from a related company | – | 3,059,276 |
| Increase in trade and other payables | 11,564,150 | 23,504,532 |
| Decrease in bills payable | (26,404) | (1,411,069) |
| (Decrease) increase in amounts due to fellow subsidiaries | (3,784,721) | 2,472,455 |
| Decrease in amount due to a shareholder | (427,020) | (1,927) |
| Increase in government grants received | 492,754 | 349,248 |
| Cash generated from operations | 50,268,569 | 33,152,062 |
| Interest paid | (924,518) | (858,600) |
| PRC Enterprise Income Tax paid | (5,634,313) | (1,089,054) |
| NET CASH FROM OPERATING ACTIVITIES | 43,709,738 | 31,204,408 |
| INVESTING ACTIVITIES | | |
| PRC tax refund on capital reinvestment in a subsidiary | 3,042,377 | – |
| Interest received | 144,432 | 41,105 |
| Proceeds on disposal of property, plant and equipment | – | 29,202 |
| Purchase of property, plant and equipment | (27,052,210) | (9,147,679) |
| Increase in pledged bank deposits | (1,498,703) | (6,566,676) |
| NET CASH USED IN INVESTING ACTIVITIES | (25,364,104) | (15,644,048) |

| | 2004 | 2003 |
|--|---------------------|--------------|
| | HK\$ | HK\$ |
| FINANCING ACTIVITIES | | |
| Net proceeds from issue of shares on placing | 47,210,557 | – |
| New bank loans raised | 4,417,296 | 12,246,000 |
| Repayment of bank loans | (16,498,113) | (10,927,200) |
| (Decrease) increase in amount due to immediate holding company | (1,168,869) | 1,168,869 |
| NET CASH FROM FINANCING ACTIVITIES | 33,960,871 | 2,487,669 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 52,306,505 | 18,048,029 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 18,709,056 | 810,679 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | 201,186 | (149,652) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH | 71,216,747 | 18,709,056 |

Notes to the Financial Statements

For the year ended 31 December 2004

1. General

The Company is incorporated in Hong Kong with limited liability on 9 December 1993 and its ultimate holding company is China North Industries Corporation, a state-owned enterprise established in the People's Republic of China (the "PRC").

The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 18 August 2004 ("Listing Date").

The Company is an investment holding company and is also engaged in sourcing of raw materials and equipment for its subsidiary. Its subsidiary is engaged in manufacture and sale of flexible printed circuit.

2. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention and in accordance with the accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Potential impact arising from the recently issued accounting standards

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary made up to December 31 each year.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. Significant Accounting Policies (*Continued*)

Investment in subsidiary

Investment in subsidiary is included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiary are accounted for by the Company on the basis of dividends received and receivable.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has been passed.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method. The estimated useful lives are as follows:

| | |
|------------------------|--|
| Plant and machinery | 5-10 years |
| Leasehold improvements | Over the remaining term of the lease or 4 years, whichever is shorter |
| Office equipment | 5 years |
| Motor vehicles | 4-5 years |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2004

2. Significant Accounting Policies (*Continued*)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity.

When no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value is determined as the estimated net selling price less all further costs of production and the related costs of marketing, selling and distribution.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expenses.

2. Significant Accounting Policies (*Continued*)

Taxation

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 net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable 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 differences arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax 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 its 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 profit 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 is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements

For the year ended 31 December 2004

2. Significant Accounting Policies (*Continued*)

Foreign currencies

The Company maintains its books and records in Hong Kong dollars.

Transactions in foreign currencies are translated using the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rental payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant leases.

Retirement benefits contributions

Payments to defined contribution retirement benefits schemes are charged as an expenses as they fall due.

3. Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances.

The Group's principal activities are the manufacture and sale of flexible printed circuit as a single business segment.

An analysis of the Group's turnover by geographical market of its customers is as follows:

| | 2004 HK\$ | 2003 HK\$ |
|--------------------------|----------------------|--------------|
| Geographical markets: | | |
| PRC other than Hong Kong | 224,707,229 | 138,372,199 |
| Hong Kong | 19,267,579 | 9,731,868 |
| | 243,974,808 | 148,104,067 |

All of the production facilities of the Group are located in the PRC.

Notes to the Financial Statements

For the year ended 31 December 2004

4. Profit from Operations

| | 2004 HK\$ | 2003 HK\$ |
|--|--------------------|--------------|
| Profit from operations has been arrived at after charging: | | |
| Research and development expenses | | |
| Staff costs | 1,814,514 | 2,594,810 |
| Other research and development expenses | 6,206,721 | 1,288,027 |
| | 8,021,235 | 3,882,837 |
| Less: Amounts reduced by government grants recognised | (1,150,943) | (394,932) |
| | 6,870,292 | 3,487,905 |
| Directors' remuneration (<i>note 7</i>) | 1,816,907 | – |
| Other staff costs | 26,858,530 | 16,036,814 |
| Other staff's pension costs | 906,938 | 211,186 |
| Total staff costs | 29,582,375 | 16,248,000 |
| Less: Other staff costs included in research and development expense shown above | (1,814,514) | (2,594,810) |
| | 27,767,861 | 13,653,190 |
| Auditors' remuneration | 711,132 | 523,550 |
| Depreciation of property, plant and equipment | 6,721,990 | 5,450,179 |
| Minimum lease payments under operating leases in respect of land and buildings | 1,268,354 | 782,916 |
| Allowance for bad and doubtful debts | 9,188,174 | – |
| Allowance for obsolete inventories | 2,684,558 | 2,390,684 |
| and after crediting: | | |
| Interest income | 144,432 | 41,105 |
| PRC tax refund on capital reinvestment in a subsidiary | 3,042,377 | – |
| Reversal of allowance for bad and doubtful debts | – | 6,335 |
| Gain on disposal of property, plant and equipment | – | 7,649 |

5. Finance Costs

| | 2004 HK\$ | 2003 HK\$ |
|--|----------------|--------------|
| Interest on: | | |
| Bank borrowings wholly repayable within five years | 916,230 | 844,293 |
| Other borrowings | 8,288 | 14,307 |
| | 924,518 | 858,600 |

6. Taxation

| | 2004 HK\$ | 2003 HK\$ |
|---|------------------|--------------|
| Current tax: | | |
| Hong Kong Profits Tax | – | – |
| PRC Enterprise Income Tax | 7,060,799 | 3,385,632 |
| Taxation attributable to the Company and its subsidiary | 7,060,799 | 3,385,632 |

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company incurred tax loss in current year and did not have any assessable profit in prior year. The income of its PRC subsidiary, AKM Electronics Industrial Panyu Ltd. ("AKM Panyu"), neither arises in, nor is derived from, Hong Kong.

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable to each of the years.

Pursuant to the relevant laws and regulations in the PRC, AKM Panyu is exempted from PRC Enterprise Income Tax for two years starting from 1 January 2000 and is eligible for and entitled to a 50% tax reduction for the next three years starting from 1 January 2002 at a reduced rate of 12%.

On 31 December 2003, AKM Panyu was awarded the Foreign Invested Advanced-technology Enterprise Certificate by Bureau of Foreign Trade and Economic Co-operation of Guangzhou City. AKM Panyu is entitled for an extension of 50% tax reduction in PRC Enterprise Income Tax up to 31 December 2007.

Notes to the Financial Statements

For the year ended 31 December 2004

6. Taxation (Continued)

The tax charge for the year can be reconciled to the profit per the income statement as follows:

| | 2004 HK\$ | 2003 HK\$ |
|--|--------------------|--------------|
| Profit before taxation | 48,459,130 | 24,563,562 |
| Tax at the income tax rate of 24% | 11,630,191 | 5,895,255 |
| Tax effect of income that are not taxable in determining taxable profit | (730,170) | – |
| Tax effect of expenses that are not deductible in determining taxable profit | 368,067 | 218,425 |
| Tax effect of receipts in advance that are taxable when received | – | 83,820 |
| Tax effect of deferred tax assets not recognised | 2,165,230 | 573,764 |
| Tax effect of tax loss not recognised | 388,269 | – |
| Effect of tax reduction granted to PRC subsidiary | (7,059,318) | (3,385,632) |
| Others | 298,530 | – |
| Tax expense for the year | 7,060,799 | 3,385,632 |

7. Directors' Remuneration and Five Highest Paid Employees

(i) Details of directors' remuneration are as follows:

| | 2004 HK\$ | 2003 HK\$ |
|---|------------------|--------------|
| Directors: | | |
| – fee | 109,411 | – |
| – salaries, allowances and other benefits | 591,834 | – |
| – pension costs | 5,395 | – |
| – performance related incentive payments | 1,110,267 | – |
| | 1,816,907 | – |

7. Directors' Remuneration and Five Highest Paid Employees (Continued)

The directors' remuneration of each director of the Company for the year fall within the band of less than HK\$1,000,000 and the details of director's remuneration by individuals are as follows:

| | 2004 HK\$ | 2003 HK\$ |
|---|------------------|--------------|
| Xiong Zheng Feng | – | – |
| Li Ying Hong (appointed on 10 June 2003) | – | – |
| Chai Zhi Qiang (appointed on 19 March 2004) | 787,995 | N/A |
| Han Li Gang (appointed on 19 March 2004) | – | N/A |
| Liang Zhi Li (appointed on 19 March 2004) | 37,025 | N/A |
| Li Kung Man (appointed on 19 March 2004) | 47,097 | N/A |
| Wang Heng Yi (appointed on 18 June 2004) | 25,289 | N/A |
| Huang Zhou Chang (appointed on 27 March 2003 and resigned on 19 March 2004) | – | – |
| Ma Jian Guo (appointed on 19 March 2004 and resigned on 1 December 2004) | 919,501 | N/A |
| Lee Robert Naii (resigned on 13 October 2003) | N/A | – |
| Tu Harrison Bach (resigned on 23 November 2003) | N/A | – |
| Sun Ying (resigned on 10 June 2003) | N/A | – |
| Zhou Xiaoming (resigned on 27 March 2003) | N/A | – |
| | 1,816,907 | – |

For the year ended 31 December 2004, Mr. Xiong Zheng Feng and Ms. Li Ying Hong waived their nominal salary of HK\$10 (2003: nil) and HK\$10 (2003: nil) respectively. There are no other Directors who have waived any remuneration during the year.

(ii) Employees' remuneration:

Of the five highest paid individuals of the Group, three (2003: five) are employees of the Group, details of whose remuneration are as follows:

| | 2004 HK\$ | 2003 HK\$ |
|---|------------------|--------------|
| Salaries, allowances and other benefits | 596,969 | 798,049 |
| Pension costs | 19,401 | 10,219 |
| Performance related incentive payments | 815,883 | 1,338,931 |
| | 1,432,253 | 2,147,199 |

Remuneration of each of the employees for the year ended falls within the band of less than HK\$1,000,000.

Notes to the Financial Statements

For the year ended 31 December 2004

7. Directors' Remuneration and Five Highest Paid Employees (Continued)

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8. Dividend

| | 2004 HK\$ | 2003 HK\$ |
|--|--------------|--------------|
| Final, proposed – HK0.5 cent per share (2003: nil) | 2,700,000 | – |

The final dividend of HK0.5 cent per share has been proposed by the directors and is subject to approval by the shareholders in annual general meeting.

9. Earnings per Share

The calculation of the basic and diluted earnings per share is based on the following data:

| | 2004 HK\$ | 2003 HK\$ |
|---|--------------|--------------|
| Earnings for the purposes of basic and diluted earnings per share: – net profit for the year | 41,398,331 | 21,177,930 |

| | 2004 Number of shares | 2003 Number of shares |
|---|-----------------------------|-----------------------------|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 452,021,858 | 400,000,000 |
| Effect of dilutive potential ordinary shares from share options | 319,296 | – |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 452,341,154 | N/A |

The calculation of basic earnings per share is on the assumption that the additional 900,000 shares arising from subdivision of each of the Company's share of HK\$1.00 each into 10 shares of HK\$0.10 each and the 399,000,000 shares issued upon capitalisation of loan from immediate holding company and loan from a shareholder had been in issue since 1 January 2003.

10. Property, Plant and Equipment

| | Plant and machinery HK\$ | Leasehold improvements HK\$ | Office equipment HK\$ | Motor vehicles HK\$ | Total HK\$ |
|----------------------------|--------------------------------|-----------------------------------|-----------------------------|---------------------------|-------------------|
| THE GROUP | | | | | |
| COST | | | | | |
| At 1 January 2004 | 55,009,394 | 1,733,452 | 1,116,426 | 2,034,535 | 59,893,807 |
| Additions | 23,818,383 | 1,620,842 | 956,781 | 656,204 | 27,052,210 |
| Currency realignment | 405,081 | 12,764 | 8,221 | 11,369 | 437,435 |
| At 31 December 2004 | 79,232,858 | 3,367,058 | 2,081,428 | 2,702,108 | 87,383,452 |
| DEPRECIATION | | | | | |
| At 1 January 2004 | 30,695,675 | 337,748 | 544,597 | 742,825 | 32,320,845 |
| Provided for the year | 5,418,829 | 618,726 | 241,162 | 443,273 | 6,721,990 |
| Currency realignment | 226,037 | 2,487 | 4,010 | 4,568 | 237,102 |
| At 31 December 2004 | 36,340,541 | 958,961 | 789,769 | 1,190,666 | 39,279,937 |
| NET BOOK VALUES | | | | | |
| At 31 December 2004 | 42,892,317 | 2,408,097 | 1,291,659 | 1,511,442 | 48,103,515 |
| At 31 December 2003 | 24,313,719 | 1,395,704 | 571,829 | 1,291,710 | 27,572,962 |

Notes to the Financial Statements

For the year ended 31 December 2004

10. Property, Plant and Equipment (*Continued*)

| | Leasehold improvement HK\$ | Office equipment HK\$ | Motor vehicles HK\$ | Total HK\$ |
|----------------------------|----------------------------------|-----------------------------|---------------------------|----------------|
| THE COMPANY | | | | |
| COST | | | | |
| At 1 January 2004 | – | – | 490,680 | 490,680 |
| Additions | 49,250 | 42,014 | – | 91,264 |
| At 31 December 2004 | 49,250 | 42,014 | 490,680 | 581,944 |
| DEPRECIATION | | | | |
| At 1 January 2004 | – | – | 122,670 | 122,670 |
| Provided for the year | 7,182 | 4,902 | 122,670 | 134,754 |
| At 31 December 2004 | 7,182 | 4,902 | 245,340 | 257,424 |
| NET BOOK VALUES | | | | |
| At 31 December 2004 | 42,068 | 37,112 | 245,340 | 324,520 |
| At 31 December 2003 | – | – | 368,010 | 368,010 |

11. Interest in Subsidiary

| | 2004 HK\$ | 2003 HK\$ |
|--|--------------------|--------------|
| THE COMPANY | | |
| Capital contribution, at cost | 111,624,345 | 51,433,880 |
| Amount due from subsidiary (<i>note</i>) | 7,069,338 | 8,051,831 |
| | 118,693,683 | 59,485,711 |

Note: The amount is unsecured, non-interest bearing and has no fixed terms of repayment. The Company will not demand repayment of the amount within twelve months from the balance sheet date. Accordingly, the amount is shown as non-current asset.

The Company also has an amount due from subsidiary of HK\$3,469,571 (2003: nil), included in current assets, which is trade in nature.

11. Interest in Subsidiary (Continued)

Details of the Company's subsidiary as at 31 December 2004 are as follows:

| Name of subsidiary | Place of establishment and operation | Form of business structure | Registered and paid-up capital | Attributable equity interest held by the Company | Principal activities |
|---|--------------------------------------|----------------------------------|--------------------------------|--|--|
| AKM Electronics Industrial (Panyu) Ltd. 安捷利(番禺)電子實業有限公司 ("AKM Panyu") | The PRC | Wholly owned-foreign enterprises | US\$14,100,000 | 100% | Manufacture and sale of flexible printed circuit |

12. Inventories

| | 2004 HK\$ | 2003 HK\$ |
|------------------|-------------------|--------------|
| THE GROUP | | |
| Raw materials | 9,971,557 | 5,604,869 |
| Work in progress | 4,400,751 | 7,936,648 |
| Finished goods | 3,051,625 | 1,656,651 |
| | 17,423,933 | 15,198,168 |

Included above are raw materials of HK\$2,373,886 (2003: HK\$1,228,261) and no work in progress (2003: an amount of HK\$1,427,992) carried at net realisable value.

Notes to the Financial Statements

For the year ended 31 December 2004

13. Trade and Other Receivables

The Group and the Company allows a credit period normally ranging from 30 to 90 days to its trade customers. At the discretion of the directors, several major customers were allowed to settle their balances beyond the written credit terms up to 120 days.

The following is an aged analysis of trade receivables:

| | THE GROUP | | THE COMPANY | |
|-------------------|-------------------|--------------|----------------|--------------|
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ |
| Within 30 days | 19,903,294 | 39,863,184 | 219,450 | – |
| 31 – 60 days | 15,738,388 | 13,642,451 | 102,363 | – |
| 61 – 90 days | 9,736,087 | 3,202,869 | 3,231 | – |
| 91 – 120 days | 2,818,155 | 718,955 | 40,841 | – |
| 121 days – 1 year | 5,737,610 | 678,721 | – | – |
| Over 1 years | 380,991 | – | – | – |
| | 54,314,525 | 58,106,180 | 365,885 | – |

14. Pledged Bank Deposits

THE GROUP AND THE COMPANY

The amounts represent deposits pledged to a bank to secure banking facilities granted to the Group.

15. Trade and Other Payables

The following is an aged analysis of trade payables:

| | THE GROUP | | THE COMPANY | |
|-------------------|-------------------|--------------|-------------------|--------------|
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ |
| Within 30 days | 32,027,076 | 9,548,480 | 9,678,305 | – |
| 31 – 60 days | 3,226,645 | 3,786,249 | 366,666 | – |
| 61 – 90 days | 1,113,050 | 4,805,548 | 503,172 | – |
| 91 – 120 days | 119,317 | 5,684,573 | – | – |
| 121 days – 1 year | 33,379 | 257,276 | – | – |
| Over 1 year | – | 132,436 | – | – |
| | 36,519,467 | 24,214,562 | 10,548,143 | – |

16. Government Grants Received

THE GROUP

The amounts represent government subsidies received in advance in relation to research and development expenses on certain new products. The amounts are recognised in the same period as the related research and development expenses are incurred and are deducted in reporting the related research and development expenses.

17. Amounts Due to Fellow Subsidiaries

| | 2004 HK\$ | 2003 HK\$ |
|---|------------------|--------------|
| THE GROUP | | |
| Unsecured, interest-free and repayable on demand | 1,750,524 | 5,126,752 |
| Unsecured, bearing interest at the rate of 0.58% (2003: 0.58%) per month for any amounts due over repayment term of 30 days | – | 368,030 |
| | 1,750,524 | 5,494,782 |

18. Amount Due to a Shareholder

THE GROUP AND THE COMPANY

The amount was unsecured, interest-free and repayable on demand.

19. Amount Due to Immediate Holding Company

THE GROUP AND THE COMPANY

The amount was unsecured, interest-free and repaid during the year.

Notes to the Financial Statements

For the year ended 31 December 2004

20. Bank Borrowings

| | THE GROUP | | THE COMPANY | |
|---|----------------|--------------|----------------|--------------|
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ |
| Bank borrowings which are repayable within one year comprise the following: | | | | |
| Bank loans (Note) | – | 12,174,500 | – | – |
| Trust receipts loans – secured | 183,334 | – | 183,334 | – |
| | 183,334 | 12,174,500 | 183,334 | – |

Note: At 31 December 2003, bank loans included an amount of HK\$10,301,500 which was supported by pledge of certain land and buildings owned by 銀利(廣州)電子電器實業有限公司 Alpha Luck Electronic Appliance Industrial (Guangzhou) Ltd. (“Alpha Luck Guangzhou”), a fellow subsidiary of the Company. The remaining bank loans of HK\$1,873,000 were supported by guarantee provided by Alpha Luck Guangzhou. All the bank loans outstanding as at 31 December 2003 were fully repaid and the pledge of the land and buildings and guarantees previously provided by Alpha Luck Guangzhou were released accordingly prior to the using of the Company’s shares on the GEM of the Stock Exchange.

21. Loans from Shareholders

THE GROUP AND THE COMPANY

The amounts were unsecured, interest-free and had no fixed term of repayment. Full amount of loan from a shareholder was capitalised as share capital of the Company during the year (note 23).

22. Loan from Immediate Holding Company

THE GROUP AND THE COMPANY

The amount was unsecured, interest-free and had no fixed term of repayment. Full amount of loan from immediate holding company was capitalised as share capital of the Company during the year (note 23).

23. Share Capital

| | Number of shares | Share capital HK\$ |
|--|---------------------|--------------------------|
| Authorised: | | |
| At 1 January 2003 and 31 December 2003 | 100,000 | 100,000 |
| Increase on 6 August 2004 (<i>note a</i>) | 199,900,000 | 199,900,000 |
| Subdivision of one share of HK\$1.00 each into 10 shares of HK\$0.10 each (<i>note b</i>) | 1,800,000,000 | – |
| At 31 December 2004 | 2,000,000,000 | 200,000,000 |
| Issued and fully paid: | | |
| At 1 January 2003 and 31 December 2003 | 100,000 | 100,000 |
| Subdivision of one share of HK\$1.00 each into 10 shares of HK\$0.10 each (<i>note b</i>) | 900,000 | – |
| Issue of shares upon capitalisation of loan from immediate holding company and loan from a shareholder (<i>note c</i>) | 399,000,000 | 39,900,000 |
| Issue of new shares (<i>note d</i>) | 140,000,000 | 14,000,000 |
| At 31 December 2004 | 540,000,000 | 54,000,000 |

Notes:

- (a) Pursuant to the resolutions in writing passed on 6 August 2004 by shareholders of the Company, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000,000 by the creation of 199,900,000 new shares of HK\$1.00 each of the Company.
- (b) Pursuant to the resolution in writing passed on 6 August 2004 by shareholders of the Company, each of the issued and unissued shares of HK\$1.00 each of the Company has been subdivided into 10 shares of HK\$0.10 each of the Company.
- (c) On 6 August 2004, the Company allotted and issued 359,100,000 shares of HK\$0.10 each and 399,000,000 shares of HK\$0.10 each, credited as fully paid, to immediate holding company and a shareholder of the Company respectively by way of capitalisation of loan from immediate holding company of HK\$54,502,087 and loan from a shareholder of HK\$6,055,684 respectively.
- (d) On 17 August 2004, 140,000,000 shares of HK\$0.10 were issued at HK\$0.40 per share to professional, institutional and other investors, these shares rank *pari passu* in all respects with other shares in issue.

The Company intended to use the net proceed from the new issue of shares to expand the Group's production capacity and sales and distribution network.

Notes to the Financial Statements

For the year ended 31 December 2004

24. Share Options

Pursuant to written resolutions of all shareholders of the Company on 6 August 2004, the Company adopted both a Pre-IPO share option scheme (the "Pre-IPO Scheme") and a share option scheme (the "Scheme").

(a) Pre-IPO Scheme

The purpose of the Pre-IPO Scheme is to, amongst others, give the participants an opportunity to have a personal stake in the Company and help motivate the participants to optimise their performance and efficiency and retain the participants whose contributions are important to the long-term growth and profitability of the Group.

The HK\$0.40 exercise price per share of the above share options granted under the Pre-IPO Scheme is the same as the initial public offering price of the Company's shares. No share options under the Pre-IPO Scheme were exercised since the date of grant and up to 31 December 2004, and there were 1,800,000 share options lapsed during this period.

No further share options will be offered or granted under the Pre-IPO Scheme upon the commencement of dealings in the Company's shares on GEM.

These grants under the Pre-IPO Scheme are exercisable, starting from the first anniversary of the Listing Date at stepped annual increments of 25% of the total options granted, for a period not later than 10 years from the date of grant.

The total number of shares in respect of which share options are issuable under the Pre-IPO Scheme shall not in aggregate exceed 5% of the number of issued shares.

The total number of shares in respect of which share options are issuable under this scheme was 18,200,000 representing approximately 3.37% of the issued share capital of the Company as at 31 December 2004.

24. Share Options (*Continued*)

(a) Pre-IPO Scheme (*Continued*)

Details of the movements in the number of share options during the year under the Pre-IPO Scheme are as follows:

| Type of participants | Exercisable period | Exercise price per share HK\$ | Outstanding at 1.1.2004 | Granted during the year | Lapsed during the year | Outstanding at 31.12.2004 |
|----------------------|------------------------------------|----------------------------------|----------------------------|----------------------------|---------------------------|------------------------------|
| Directors | 18 August 2005 to 6 August 2014 | 0.40 | – | 7,200,000 | 1,800,000 | 5,400,000 |
| Employees | 18 August 2005 to 6 August 2014 | 0.40 | – | 12,800,000 | – | 12,800,000 |
| | | | – | 20,000,000 | 1,800,000 | 18,200,000 |

(b) Scheme

The purpose of the Scheme is to provide incentives or rewards to Participants (as defined below) thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Company or any of its subsidiaries holds any equity interest (the "Invested Entity").

The Directors may, at their discretion, invite any participant (the "Participant") being any executive director, non-executive director or employee (whether full time or part time), shareholder, supplier, customer, consultant, adviser, other service provider, any joint venture partner, business or strategic alliance partner, in each case, of the Company, any subsidiary of the Company or any Invested Entity or any discretionary trust whose discretionary objects may be any executive director, non-executive director or employee (whether full time or part time), shareholder, supplier, customer, consultant, adviser, other service provider, any joint venture partner, business or strategic alliance partner, in each case, of the Company, any subsidiary of the Company or any Invested Entity to take up options to subscribe for shares in the Company.

The Scheme commenced on 18 August 2004, being the date on which the Scheme becomes unconditional, and continues in force until the tenth anniversary of such date.

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the share since issue from time to time (the "Scheme Limit").

Notes to the Financial Statements

For the year ended 31 December 2004

24. Share Options (*Continued*)

(b) Scheme (*Continued*)

In addition to the Scheme Limit, and subject to the following, the total number of shares which may be issued upon exercise of all options granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the Company's shares in issue as at the Listing Date (excluding any options which have lapsed) (the "Scheme Mandate Limit"). The initial number of shares issuable under the Scheme Mandate Limit will be 54,000,000 shares, representing 10% of the issued share capital of the Company.

Unless approved by Shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Company's shares in issue. Where any further grant of options to a Participant would result in the Company's shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of securities in issue, such further grant must be separately approved by the Company's shareholders in general meeting with such Participant and his associates abstaining from voting.

The exercise price must be at least the highest of: (a) the nominal value of the Company's share on the date of grant; (b) the closing price of the Company's share as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; and (c) the average closing price of a share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

A nominal consideration of HK\$10 is payable by the grantee upon acceptance of an option.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors of the Company to each grantee of the option which period may commence on a day after the date upon which the option is granted but shall and in any event be not later than ten years from the date of grant. Unless otherwise determined by the directors of the Company at their sole discretion, there is no requirement of a minimum period for which a share option must be held.

Since the adoption of the Scheme on 6 August 2004, no options have been granted.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

25. Reserves

THE GROUP

Details of changes in reserves of the Group are set out in the consolidated statements of changes in equity on page 31.

| | Share premium HK\$ | Accumulated (losses) profit HK\$ | Total HK\$ |
|--|--------------------------|--|-------------------|
| THE COMPANY | | | |
| At 1 January 2003 | – | (221,682) | (221,682) |
| Net loss for the year | – | (666,831) | (666,831) |
| At 31 December 2003 | – | (888,513) | (888,513) |
| Premium of shares issued by capitalisation of loan from immediate holding company and loan from a shareholder | 20,657,771 | – | 20,657,771 |
| New shares issued at premium | 42,000,000 | – | 42,000,000 |
| Expenses incurred in connection with the issue of new shares | (8,789,443) | – | (8,789,443) |
| Net profit for the year | – | 26,657,907 | 26,657,907 |
| At 31 December 2004 | 53,868,328 | 25,769,394 | 79,637,722 |

The Company's reserves available for distribution to shareholders as at 31 December 2004 represent the accumulated profit of approximately HK\$25,769,394 (2003: nil).

Notes to the Financial Statements

For the year ended 31 December 2004

26. Deferred Taxation

The following is the major deferred tax asset recognised in respect of certain deductible expenses subject to approval by tax bureau.

HK\$

THE GROUP

At 1 January 2003, 31 December 2003 and 31 December 2004 303,000

At 31 December 2004, the deductibility of the allowance for doubtful debts for taxation purpose has not been agreed with the local tax bureau in the PRC. Since it is not probable that the deductible temporary differences can be utilised in the foreseeable future, deferred tax in respect of accumulated allowance for bad and doubtful debts of approximately HK\$9,612,000 (2003: HK\$591,000) has not been recognised in the financial statements.

THE GROUP AND THE COMPANY

At 31 December 2004, the Group and the Company has unused tax losses of HK\$2,515,000 (2003: HK\$897,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

27. Pledge of Assets

At balance sheet dates, certain bank deposits and bills receivable were pledged to secure the issue of bills payable by banks to certain of the Group's suppliers and to secure the banking facilities granted to the Group are as follows:

| | THE GROUP | | THE COMPANY | |
|------------------|--------------|--------------|--------------|--------------|
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ |
| Bank deposits | 9,826,000 | 8,266,000 | 5,602,000 | – |
| Bills receivable | 4,037,000 | 6,142,000 | – | – |
| | 13,863,000 | 14,408,000 | 5,602,000 | – |

28. Operating Lease Commitments

At the balance sheet date, the Group and the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

| | THE GROUP | | THE COMPANY | |
|---|--------------|--------------|--------------|--------------|
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ |
| Within one year | 2,517,877 | 773,445 | 15,995 | – |
| In the second to fifth years inclusive | 3,786,659 | 204,598 | – | – |
| | 6,304,536 | 978,043 | 15,995 | – |

Operating lease payments represent rentals payable by the Group for certain of its factory and office properties. Leases are negotiated for terms ranging from one to two years.

29. Capital Commitments

| | THE GROUP | | THE COMPANY | |
|--|--------------|--------------|--------------|--------------|
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ |
| Capital expenditure in respect of acquisition of property, plant and equipment: – contracted for but not provided in financial statements | 10,024,000 | 4,583,000 | 5,116,000 | – |

30. Retirement Benefits Schemes

The Group operates a Mandatory Provident Fund (the "MPF") for all qualifying employees in Hong Kong. The retirement benefits scheme contributions charged to the income statement represent contributions payable to the MPF scheme by the Group at rates specified in the MPF scheme.

The employees employed in AKM Panyu are members of the state-managed retirement benefits scheme operated by the PRC government. AKM Panyu is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No forfeited contributions are available to reduce the contribution payable in the future years.

Notes to the Financial Statements

For the year ended 31 December 2004

31. Related Party Transactions

Same as disclosed in notes 17, 18, 19, 20, 21 and 22 above, during the year, the Group also had the following transactions with the related parties:

| | 2004 HK\$ | 2003 HK\$ |
|--|------------------|--------------|
| Transactions with fellow subsidiaries: | | |
| Purchases of goods by the Group (<i>notes b and f</i>) | 3,134,338 | 19,558,726 |
| Purchases of machinery by the Group (<i>notes b and f</i>) | 5,136,605 | 1,690,509 |
| Rentals for office and factory premises and staff quarter charged to the Group (<i>note c</i>) | 1,194,766 | 747,780 |
| Utilities maintenance fee charged to the Group (<i>note e</i>) | 326,639 | 196,265 |
| Backup electricity charges charged to the Group (<i>note a</i>) | 281,998 | – |
| Utilities charges paid by the Group (<i>note a</i>) | 3,266,385 | 1,972,722 |
| Interest expenses charged to the Group (<i>notes d and f</i>) | – | 14,307 |
| Transactions with shareholder of the Company: | | |
| Purchases of goods by the Group (<i>notes a and f</i>) | – | 7,947 |

Notes:

- (a) The pricing of the transactions was determined with reference to actual costs incurred.
- (b) The pricing of the transactions was determined with reference to actual costs plus agreed markup.
- (c) The pricing of the transactions was determined with reference to the terms of the relevant agreements.
- (d) The interest was charged at 0.58% per month for any overdue amount.
- (e) The pricing of the transactions was determined with reference to agreed percentage of utilities charges.
- (f) The directors represented that these transactions would not be entered into with related parties following the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

RESULTS

| | Year ended 31 December | | |
|-----------------------------------|------------------------|---------------|--------------|
| | 2004 HK\$ | 2003 HK\$ | 2002 HK\$ |
| Turnover | 243,974,808 | 148,104,067 | 96,352,393 |
| Cost of sales | (159,260,437) | (106,800,678) | (74,361,784) |
| Gross profit | 84,714,371 | 41,303,389 | 21,990,609 |
| Other operating income | 3,355,571 | 48,753 | 54,862 |
| Distribution costs | (15,715,011) | (5,732,729) | (3,769,748) |
| Administrative expenses | (16,100,991) | (6,709,346) | (4,024,866) |
| Research and development expenses | (6,870,292) | (3,487,905) | (3,321,691) |
| Profit from operations | 49,383,648 | 25,422,162 | 10,929,166 |
| Finance costs | (924,518) | (858,600) | (261,155) |
| Profit before taxation | 48,459,130 | 24,563,562 | 10,668,011 |
| Taxation | (7,060,799) | (3,385,632) | (1,660,689) |
| Net profit for the year | 41,398,331 | 21,177,930 | 9,007,322 |

ASSETS AND LIABILITIES

| | At 31 December | | |
|---|---------------------|---------------|--------------|
| | 2004 HK\$ | 2003 HK\$ | 2002 HK\$ |
| Total assets | 228,662,247 | 142,954,511 | 93,435,163 |
| Total liabilities | (61,595,085) | (125,690,526) | (96,571,821) |
| Balance (deficiency) of shareholders' funds | 167,067,162 | 17,263,985 | (3,136,658) |

Note: The financial summary for the year ended 31 December 2002 was extracted from the Company's prospectus dated 10 August 2004.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the “**AGM**”) of AKM Industrial Company Limited (the “**Company**”) will be held at Suite 805, 8th Floor, 9 Queen’s Road Central, Hong Kong on Monday, 11 April 2005 at 10:00 a.m. for the following purposes:

1. To receive and adopt the report of the directors of the Company for the year ended 31 December 2004;
2. To receive and adopt the audited consolidated accounts and the report of the auditors of the Company for the year ended 31 December 2004;
3. To consider and declare a final dividend for the year ended 31 December 2004 (if any), and to authorize the board of directors of the Company (the “**Board**”) to distribute the final dividends (if any) to the Company’s shareholders;
4. To re-elect the directors of the Company and to authorise the Board or its committee to fix the remunerations of the directors of the Company;
5. To consider and approve the re-appointment of Deloitte Touche Tohmatsu as the auditors of the Company and to authorise the Board to fix their remunerations;
6. To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

A. “**THAT**:

- (a) subject to paragraph (c) of this Resolution and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the directors of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements, and options which might require the exercise of such power after the end of the Relevant Period (as hereinafter defined);
- (c) the aggregate nominal amount of share capital allotted, or agreed conditionally or unconditionally to be allotted (whether pursuant to the exercise of options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to:
 - (i) a Rights Issue (as hereinafter defined);
 - (ii) any share option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or
 - (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company; or
 - (iv) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares,

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval in paragraph (a) shall be limited accordingly;

- (d) for the purpose of this Resolution, “**Relevant Period**” means the period from the passing of this Resolution until whichever is the earlier of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or by the Articles of Association of the Company or any applicable law to be held; or
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

and “**Rights Issue**” means an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

B. “**THAT**:

- (a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase its shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or any other stock exchange on which the shares of the Company may be listed and which are recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange, in accordance with all applicable laws and/or the requirements of the Stock Exchange or of any other stock exchange and the Hong Kong Code on Share Repurchases as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, “**Relevant Period**” means the period from the passing of this Resolution until whichever is the earlier of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or by the Articles of Association of the Company or any applicable law to be held; or
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

C. “**THAT** conditional upon the passing of the above Ordinary Resolutions No. A and B set out in this notice convening this meeting, the aggregate nominal amount of share capital of the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally

Notice of Annual General Meeting

to be allotted, issued or dealt with by the directors of the Company pursuant to and in accordance with the mandate granted under the above Ordinary Resolution No. A be and is hereby, subject to the requirements of the GEM Listing Rules, increased and extended by the addition thereto of the aggregate nominal amount of the shares capital of the Company repurchased by the Company pursuant to and in accordance with the mandate granted under the above Ordinary Resolution No. B since the granting of such repurchase mandate, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution."

By order of the Board
AKM Industrial Company Limited
Xiong Zheng Feng
Chairman

Hong Kong, 16 March 2005

Registered office:

Room 903, 9th Floor
Blissful Building
243-247 Des Voeux Road Central
Hong Kong

Principal place of business in China:

Yinli Industrial Building
Huangge Town, Panyu District
Guangzhou City
China

Notes:

- (i) Any member of the Company entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend and vote on his/her/its behalf. A proxy need not be a member of the Company.
- (ii) In order to be valid, the proxy form must be delivered to the share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong together with a power of attorney or other authority (if any) under which it is signed or a notorially certified copy of that power or authority, not less than 48 hours before the time for holding the AGM or adjourned meeting thereof.
- (iii) Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the AGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (iv) The register of members of the Company will be closed from 6 April 2005 to 11 April 2005 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify on the proposed final dividend to be approved at the AGM and attending the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at the above address no later than 4:00 p.m. on 4 April 2005.
- (v) An explanatory statement in relation to the above Ordinary Resolutions No. B and a circular with further information will be sent to the shareholders of the Company.

As at the date hereof, the executive directors of the Company are Xiong Zheng Feng, Chai Zhi Qiang and Li Ying Hong; the non-executive director of the Company is Han Li Gang; and the independent non-executive directors of the Company are Li Kung Man, Liang Zhi Li and Wang Heng Yi.