AKM

AKM Industrial Company Limited
安 捷 利 實 業 有 限 公 司

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

Stock Code: 8298

Annual Report 2005

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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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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

Arculli Fong & Ng
(in association with King & Wood, PRC Lawyers)

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 subsidiaries (collectively the "Group") for the year ended 31 December 2005.

RESULT ANALYSIS AND BUSINESS REVIEW

For the year ended 31 December 2005 ("the year"), the Group recorded a turnover of HK$202,402,207, representing a decrease of approximately 17.04% as compared with last year, and the profit attributable to the shareholders of the Company amounted to HK$23,282,264, representing a decrease of 43.24% as compared to last year.

During the year, the business environment of the Group was very challenging. The decrease in the sales of flexible printed circuit was mainly due to the significant reduction in the market share of Chinese-brand mobile phone manufacturing industry, which the sales of the Group were still heavily dependent on and a large number of new flexible printed circuit manufacturers which resulted in fiercer competitions in mainland China. Also, the Group was still in the stage of developing business relationships with newly developed key customers during the year and significant orders had not yet been placed by them.

Since early 2005, with the expected downtrend of Chinese-brand mobile phone manufacturing industry, the Group has been gradually carrying out measures to diversify product application and focus on high-end products, the result of which is being reflected in the fourth quarter of the year. Since the commencement of the production of fine line flexible printed circuits of the Group enhanced the application of products of major customers and quickly expanded the range of TFT LCD module application, the Group achieved extraordinary results and started to produce fine line flexible printed circuits required for TFT LCD module in mass volume during the year.

FORECAST

Looking forward into Year 2006, the Group will continue to pursue its overall business objective to further strengthen its market position and recognition in the manufacture and sales of flexible printed circuits.

To maintain the Group's pioneer market position in the industry in mainland China, the Group will continue to expand its market through its extensive sales and marketing network to implement the big-customer strategy. Thanks to the progress of customer development during the year, well-known customers, like Alcatel, Huawei, Philips, LG and Truly, have started to place purchase orders with us. It is expected that they will begin placing bulk orders in 2006, and therefore our customer structure and product structure as well as growth in sales will be further be enhanced. Meanwhile, the Group will establish a research and project center directly under the Company's control and will continue to recruit experienced R&D personnel to strengthen the technological reserves of new products and enhance production yield ratio by reducing scraps in the course of production of the newly developed products, so as to enhance gross profit margin and net profit margin of the products.

In 2006, the Group will further seek and establish strategic alliances with international manufacturers in the industry and procure strategic partners to improve the structure of shareholding and management of the Company, to further enhance the R&D capability, manufacturing capacity and management ability of the Group to forge core competitiveness. It is expected that the Group will achieve remarkable growth in 2006.

DIVIDEND

In view of the profit recorded by the Group during the year and in reward for the continuous support of the shareholders of the Company, the Board recommends the payment of a final dividend of HK0.75 cent (2004: HK0.5 cent) per share for the year ended 31 December 2005, 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, 14 March 2006

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

DIRECTORS

Executive Directors

Mr. Xiong Zheng Feng (熊正峰), aged 36, 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 International (Holdings) Ltd. (銀華國際(集團)有限公司) ("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.

Mr. Chai Zhi Qiang (柴志強), aged 45, 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 over 10 years of experience in the flexible printed circuit production industry.

Ms. Li Ying Hong (李映紅), aged 42, 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 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.

Non-executive Director

Mr. Han Li Gang (韓立剛), aged 44, 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. Li Kung Man (李公民), aged 49, 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. Liang Zhi Li (梁志立), aged 62, 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. Wang Heng Yi (王恒義), aged 65, 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 41, 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 四川分析儀器廠 (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 10 years of experience in the flexible printed circuit production industry.

Mr. Li Jing (李璟), aged 37, 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.

Mr. Chen Zhen (陳蓁), aged 41, is the deputy general manager of the Company. Mr. Chen graduated from 江蘇電視大學 (Jiangsu University of Television) in July 1985. He was qualified as a State Second Class Professional Manager in February 2003. From August 1985 to December 1997, he worked at 江蘇省揚州市曙光儀器廠 (Shuguang Appliances Factory of Yangzhou City, Jiangsu Province) focusing on the manufacture of PCB and had been appointed as engineer and manager of technology department and assistant plant manager of a branch. From December 1997 to April 2002, he served at 上海展華電子有限公司, a Taiwanese-owned company, as section head and production manager. From May 2002 to January 2005, he worked at 上海美維電子有限公司, a Hong Kong invested company, and had been appointed as production manager and senior manager. Mr. Chen joined AKM Panyu in February 2005 and is responsible for the production, quality control and logistics operations of the Group.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Lam Sau Yan (林守仁), aged 45, 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 2005, the turnover of the Group amounted to approximately HK$202.40 million, representing a decrease of approximately 17.04% as compared to last year. The decrease in turnover was mainly attributable to the decrease of the Group's sales volume. The gross profit margin for the year was decreased to approximately 24.57% (year of 2004: 34.72%). The net profit of the Group for the year was approximately HK$23.28 million, representing a decrease of approximately 43.24% as compared to that of last year. The decrease in net profit was mainly due to the decrease in both the turnover and gross profit margin.

The other operating income of the Group for the year ended 31 December 2005 amounted to approximately HK$4.49 million, representing an increase of approximately HK$1.13 million as compared to that of last year. The other operating income mainly consists of the PRC tax refund on capital reinvestment in AKM Panyu. The increase in other operating income was mainly due to the increase in both the interest income and tax refund on capital reinvestment.

The distribution costs of the Group for the year ended 31 December 2005 amounted to approximately HK$4.24 million, representing a decrease of approximately 35.08% as compared to that of last year. The decrease in distribution costs was mainly due to the decrease in commission expenses as sales decreased.

The administrative expenses of the Group for the year ended 31 December 2005 amounted to approximately HK$16.48 million, representing an increase of approximately 0.01% as compared to that of last year.

The research and development expenses of the Group for the year ended 31 December 2005 amounted to approximately HK$5.62 million, representing a decrease of approximately 18.13% as compared to that of last year. The decrease in research and development expenses was mainly due to the fact that more government grants were obtained during the year to set off against related expenses of the Company.

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, LCD, consumer electrical and electronic appliances such as mobile phones, LCD, 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.

In 2005, the sales of single-sided, double-sided and multi-layer flexible printed circuits accounted for approximately 13%, 43% and 44% of the total turnover of the Group respectively, while the sales of these products in 2004 accounted for approximately 13%, 35% and 52% of the Group's total turnover respectively.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Business Review *(continued)*

During the year, the decrease in the sales of flexible printed circuit was mainly due to the downtrend of Chinese-brand mobile phone manufacturing industry and the Group's heavy dependence on domestic mobile phone manufacturers in mainland China. Decrease in profit margins of flexible printed circuit was mainly due to a large number of new flexible printed circuit manufacturers and fiercer competitions in mainland China. The comparatively low production yield ratio also led to the decrease of gross profit in the early stage of mass production of new products. In addition, higher depreciation expenditure arising from the new production lines invested by the Group during the year further deteriorated gross profit. Apart from that, the wholly owned subsidiary, AKM (Suzhou) FPC Company Limited (安捷利(蘇州)柔性電路板有限公司) ("AKM Suzhou") and the joint venture company, Shenzhen Smart Electronics Co. Ltd. (深圳思碼特電子有限公司) ("Shenzhen Smart") invested by the Group in 2005 both incurred a loss as at their early commencement stage.

Since early 2005, with the expected downtrend of Chinese-brand mobile phone manufacturing industry, the Group has been gradually carrying out measures to diversify product application and focus on high-end products, the result of which was being reflected in the fourth quarter of the year. The Group achieved extraordinary results as the commencement of the production of the fine line flexible printed circuits in the third quarter enhanced the application of products of major customers and quickly expanded the range of TFT LCD module application.

Since early 2005, the Group has gradually improved its over-dependence on domestic mobile phone manufacturers in mainland China. During the year, the Group received orders from renowned customers such as international mobile phone manufacturers Alcatel and Huawei as well as TFT LCD module manufacturers Truly, Philips and LG. It is expected that the Group's customer structure and sales results will be substantially improved.

As planned and disclosed in the prospectus of the Company dated 10 August 2004 ("the Prospectus"), the Group has completed the installation, adjustment and mock-operation of the fifth and sixth production lines and formally commenced operations in the year, so as to enhance production capacity and upgrade and expand the application range of products. In order to provide customers in the eastern China with better services, the Group has established a wholly owned subsidiary, AKM (Suzhou), in the eastern China. AKM (Suzhou) has commenced mock-operations in the third quarter during the year. With the fast economic development in the eastern China, the Group views eastern China as a key area for its business development, and conducted and completed a study on the feasibility of establishing automatic production facility in eastern China during the year. In the opinion of the Directors, the establishment of such facility will help the Group to fully enter the market in eastern China, which is the fastest developing region in the country, and will provide international customers with higher-quality products and services.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Business Review *(continued)*

On 15 April 2005, the Company acquired 75% of the interests of Ever Proven Investments Limited ("Ever Proven", a company incorporated in British Virgin Islands on 8 February 2005). The remaining 25% of interests were owned by Kam Sun International Limited, which was an independent third party. Ever Proven was an investment holding company. On 4 July 2005, the Company through Ever Proven, established a joint venture in the PRC, Shenzhen Smart, for the provision of surface mount technology ("SMT") services for flexible printed circuits. Ever Proven owned as to 58% of the interests in Shenzhen Smart. As at the end of 2005, Shenzhen Smart has put four SMT production lines into operation and planned to expand its capacity to eight production lines during the year of 2006 so as to further satisfy keen market demand.

On 16 June 2005, Alpha Luck Electronic & Electric Appliance Industrial (Guangzhou) Ltd. ("ALI Guangzhou") received a letter from the relevant local government authority in charge of domestic land development, notifying ALI Guangzhou that such local land development authority intended to resume a parcel of land as land reserve. Certain premises (the "Premises") on the land are now being leased by the Group from ALI Guangzhou for the purposes of production operations and staff quarters.

The Group is planning the relocation of its place of business and is assessing the related costs and any other losses which may be incurred by such relocation, as well as the possibility of disruption of operations caused to the Group by such relocation. The actual date of resumption of land has yet to be confirmed. Further, the Company has been in discussion with ALI Guangzhou and the relevant PRC government authority regarding compensation issues in view of minimizing the potential losses incurred.

Silver City International (Holdings) Limited, the substantial shareholder of the Company, has committed to indemnify any members of the Group against any acts, claims, losses, damages, costs, fines, charges, penalties, payments, interests or any expenses which might be made, suffered or incurred for or, directly or indirectly in connection with their moving out of the Premises.

Outlook

Affected by the change in competitive environment of the mobile phone market and the overall business conditions of mobile phone manufacturing industry, turnover and net profits of the Group for the year were lower than that of last year. In order to cope with the change and better meet the market demand, the Group adopted various measures during the year which the Directors believe will substantially increase the Group's turnover and profits.

The Group has established business relationships with well-known customers such as Alcatel, Huawei, Philips, LG and Truly, which will further improve the Group's customer structure and product structure. The current business pattern of over-dependence on a few large customers and concentration in mobile phone products will be changed. The Directors expect that these new customers will bring in rapid growth in turnover.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Outlook *(continued)*

The Group intends to spin-off the research centre of AKM Electronics Industrial (Panyu) Ltd.(安捷利(番禺)電子實業有限公司)to set up a research centre and project centre directly under the Company's control. The Company will continue to recruit experienced R&D personnel and fresh university graduates to strengthen the technological reserves of new products and to enhance production yield ratio by reducing scraps in the course of production of the newly developed products, so as to enhance gross profit margin and net profit margins of the products.

The Group will further cooperate and establish strategic alliances with international manufactures in the industry and co-operate with strategic partners to further enhance the R&D capability, manufacturing capacity and management ability of the Group and to forge core competitiveness.

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 2005, the Group had outstanding bank borrowings amounting to HK$10,087,956, of which approximately HK$5,280,263 and HK$4,807,693 are trust receipts loans and bank loan respectively.

EMPLOYEES

As at 31 December 2005, the Group had a total of 1,075 full-time employees (2004: 1,165 employees) based in Hong Kong and China. The total staff costs of the Group, including the Directors' remunerations, for the year ended 31 December 2005 amounted to HK$24,490,456 (2004: HK$29,961,696). 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 2005.

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 2005. 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 2005, bank deposits of approximately HK$8.02 million (31 December 2004: HK$9.83 million) and bill receivables of approximately HK$2.11 million (31 December 2004: HK$4.04 million) of the Group were pledged as collateral to secure the issue of bills payable by banks to certain suppliers of the Group and banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no significant contingent liabilities.

GEARING RATIO

As at 31 December 2005, the Group had a net cash and cash equivalent position of HK$46,906,754. The Group's gearing ratio as at 31 December 2005 was approximately 28.16% (31 December 2004: 26.94%) which was calculated based on the Group's total liabilities of approximately HK$74,836,091 (31 December 2004: HK$61,595,085) and total assets of approximately HK$265,781,514 (31 December 2004: HK$228,662,247).

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. 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.

CAPITAL COMMITMENTS

Details of the Company's capital commitments are set out in note 32 to the financial statements.

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 2005:

Business objectives as stated in the Prospectus	**Actual business progress as at 31 December, 2005**
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.	The production equipment and machineries for the fifth production line were acquired and installed.
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.	Installation of the equipment and machineries acquired for the fifth production line was completed and trial production for flexible printed circuit by the fifth production line finished. Operation commenced from the third quarter in 2005.
3. To purchase and install new production equipment and machineries for the sixth production line, including but not limited to directional light exposer, digital controlled drilling and milling lathe and laser driller.	The production equipment and machineries for the sixth production line were acquired and installed.
4. To complete installation of equipment and machineries for the sixth production line capable for the production of single-sided, double-sided and multi-layer flexible printed circuit and rigid-flex board and to commence operation.	Installation of the equipment and machineries acquired for the sixth production line was completed and trial production for flexible printed circuit by the sixth production line finished. Operation commenced from the fourth quarter in 2005.
Renovation of production capacity	*Renovation of production capacity*
1. To renovate the production plant for the further expansion of production facilities.	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, Taiwan and Japan.	A representative office was established for distribution of the Group's products in Beijing. The Group still continues to seek suitable distribution agents or strategic alliances in Taiwan and Japan.
2. To market the Group's products via advertisements and journals.	The Group marketed its products via advertisements and journals during Year 2005.

For the year ended 31 December 2005, 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 2005 as set out in the Prospectus	Actual amount of net proceeds spent as at 31 December 2005
		HK$' million	HK$' million
1.	Expansion of production capacity		
	– Acquisition and installation of additional equipment and machineries		
	i. the fifth production line	20.95	15.82
	ii. the sixth production line	23.00	16.70
	– Renovation of production plant	2.55	2.55
2.	Expansion of sales and distribution network	1.70	0.80

Note: As at 31 December 2005, 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$36.27 million, the remaining balance will be settled in the first half of year 2006. As certain machineries and equipment required for the fifth and sixth production lines cost less than expected, a lower than projected spending has been resulted. The remaining unused net proceeds raised will be use as working capital of the Group.

INTRODUCTION

Subject to the deviation as disclosed on this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing a formal and transparent procedures to protect and maximize the interests of shareholders during the period under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2005.

BOARD OF DIRECTORS AND BOARD MEETING

The Board currently consists of 3 executive Directors and 4 non-executive Directors of which 3 are independent:

Executive Directors:

Mr. Xiong Zheng Feng *(Chairman)*
Mr. Chai Zhi Qiang *(Chief Executive Officer)*
Ms. Li Ying Hong

Non-executive Director:

Mr. Han Li Gang

Independent non-executive Directors:

Mr. Li Kung Man
Mr. Liang Zhi Li
Mr. Wang Heng Yi

The board of Directors is responsible for the Group's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out on pages 5 to 6 of this Annual Report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. There is no relationship among the members of the board of Directors.

The Company appointed one non-executive Director and three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Han Li Gang is the non-executive Director, Mr. Li Kung Man, Mr. Liang Zhi Li and Mr. Wang Heng Yi are the independent non-executive Directors. Mr. Han Li Gang, Mr. Li Kung Man and Mr. Liang Zhi Li have been appointed for a term of three years commencing on 19 March 2004. Mr. Wang Heng Yi has been appointed for a term of three years commencing on 18 June 2004. All of them are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

Under the code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Xiong Zheng Feng, being the chairman of the Company, is not subject to retirement by rotation. In order to comply with the code provision A.4.2, Mr. Xiong Zheng Feng, having served his directorship for over three years will retire at the forthcoming annual general meeting of the company, and being eligible, will offer himself for re-election. In addition, amendments will be proposed at the forthcoming annual general meeting to specify that every Director shall be subject to retirement by rotation at least once every three years.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmation from each independent non-executive Director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive Directors to be independent.

During the year under review, Mr. Xiong Zheng Feng was the chairman and Mr. Chai Zhi Qiang was the chief executive officer.

The roles of the chairman and chief executive officer are segregated and are not exercised by the same individual during the year under review, the chairman's responsibility is to manage the Board while the chief executive officer's is to manage the business of the Company.

The board of Directors held a full board meeting for each quarter.

Details of the attendance of the meetings of the board of Directors are as follows:

Directors	**Attendance**
Mr. Xiong Zheng Feng	4/4
Mr. Chai Zhi Qiang	4/4
Ms. Li Ying Hong	4/4
Mr. Han Li Gang	4/4
Mr. Li Kung Man	4/4
Mr. Liang Zhi Li	4/4
Mr. Wang Heng Yi	4/4

Apart from the above regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision in advance of each board meeting.

REMUNERATION OF DIRECTORS

The remuneration committee was established in August 2005. The chairman of the committee is Mr. Han Li Gang, a non-executive Director, and other members are Mr. Li Kung Man and Mr. Wang Heng Yi, both of them are independent non-executive Directors, thus the majority being independent non-executive Directors.

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. It was not until August, 2005 that the Company established a remuneration committee as required under the code provision B.1.1.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the period under review, a meeting of the remuneration committee was held in November 2005. Details of the attendance of the meeting of the remuneration committee meeting are as follows:

Members	Attendance
Mr. Han Li Gang	1/1
Mr. Li Kung Man	1/1
Mr. Wang Heng Yi	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

NOMINATION OF DIRECTORS

No nomination committee was established by the Company.

The Board of directors considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year.

During the period, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association (subject to the proposed amendments at the forthcoming annual general meeting), Mr. Xiong Zheng Feng, Mr. Li Kung Man and Mr. Liang Zhi Li will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Under code provision A.4.2 of the Corporate Governance Practices, every Director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Xiong Zheng Feng, being the chairman of the Company, is not subject to retirement by rotation. In order to comply with code provision A.4.2 of the Corporate Governance Practices, amendments will be proposed at the forthcoming annual general meeting to specify that every Director shall be subject to retirement by rotation at least once every three years.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group is required to pay an aggregate of approximately HK$880,000 to the external auditors for their services including audit, due diligence and other advisory services.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group and provide advice and comments on the Company's draft annual reports and accounts, half year reports and quarterly reports to Directors. The audit committee comprises three members, Mr. Li Kung Man, Mr. Liang Zhi Li and Mr. Wang Heng Yi. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Li Kung Man.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Attendance**
Mr. Li Kung Man	4/4
Mr. Liang Zhi Li	4/4
Mr. Wang Heng Yi	4/4

The Group's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2004 have been reviewed by the audit committee during the year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made. The audited consolidated results of the Group for the year have been reviewed by the audit committee.

DIRECTORS' AND AUDITORS RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 29.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

AUDITORS

During the year under review, the performance of the external auditors of the Company has been reviewed and it is proposed to reappoint external auditors.

The Directors present their annual report and the audited financial statements for the year ended 31 December 2005.

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 2005 is set out in note 6 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 subsidiaries. The activities of its principal subsidiaries and jointly controlled entity are set out in notes 15 and 14 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group and the appropriations of the Company for the year ended 31 December 2005 are set out in the consolidated income statement on page 30.

The Directors recommend the payment of a final dividend of HK0.75 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 7 April 2006, amounting to approximately HK$4,050,000 in total and the retention of the remaining profit of HK$43,009,593 in reserves.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 26 to the financial statements.

BANK BORROWINGS

As at 31 December 2005, the Group had outstanding bank borrowings amounting to HK$10,087,956.

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)*
Mr. Chai Zhi Qiang
Ms. Li Ying Hong

Non-executive Director:

Mr. Han Li Gang

Independent non-executive Directors:

Mr. Li Kung Man
Mr. Liang Zhi Li
Mr. Wang Heng Yi

In accordance with the Article 101 of the Company's Articles of Association, Li Kung Man and Liang Zhi Li shall retire by rotation, Xiong Zheng Feng, having served his directorship for over three years, voluntarily retires and, being eligible, all three Directors 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 to 6 of this annual report. Details of the Directors' remunerations are set out in note 10 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"). Particulars of the Pre-IPO Scheme and the Scheme are set out in note 27 to the financial statements. For the year ended 31 December 2005, no options were granted under the above two schemes.

Details of the movements in the number of options during the year which have been granted under the Pre-IPO Scheme are as follows:

Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Note 1, 2 & 3)	Exercise price per share HK$	Number of share options: Outstanding at 1.1.2005	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2005
Directors							
Mr. Xiong Zheng Feng	6.8.2004	18.8.2005 to 6.8.2014	0.4	2,000,000	–	–	2,000,000
Mr. Chai Zhi Qiang	6.8.2004	18.8.2005 to 6.8.2014	0.4	2,800,000	–	–	2,800,000
Ms. Li Ying Hong	6.8.2004	18.8.2005 to 6.8.2014	0.4	600,000	–	–	600,000
				5,400,000	–	–	5,400,000
Employees	6.8.2004	18.8.2005 to 6.8.2014	0.4	12,800,000	–	(900,000)	11,900,000
Total				18,200,000	–	(900,000)	17,300,000

Notes:

1. All dates are shown day, month, year.

2. The vesting period of the options is from the date of grant until the commencement of the exercisable period.

3. These grants 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.

Save as disclosed above, none of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

Save as disclosed below, as at 31 December 2005, none of the Directors and the chief executive and their associates had any interests or short positions 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 of Hong Kong Limited (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 underlying shares held under physically settled 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:

1. 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.

2. 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 the underlying shares held 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 OF SIGNIFICANCE

No contracts of significance to which the Company, its subsidiaries, 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.

REMUNERATION 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 10 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2005, no person other than a Director or chief executive of the Company had any interests 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 4)*	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
Dalmary International Corporation ("Dalmary") *(Note 3)*	Beneficial owner	40,000,000 ordinary shares	Long	7.41

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 and 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 and 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, members 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

The Company's reserves available for distribution to shareholders as at 31 December 2005 comprised the retained profits of HK$47,059,593 (2004: HK$25,390,073).

Details of changes in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 33 and note 28 to the financial statements.

CONFIRMATIONS OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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. Based on such confirmations, the Company considers that all of the independent non-executive Directors to be independent.

PENSION SCHEME

Details of the Group's pension scheme for the year ended 31 December 2005 are set out in note 33 to the financial statements.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Human Resources and Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Human Resources and Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted share option schemes as an incentive to directors and eligible employees, details of the schemes are set out in note 27 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 52% of the Group's turnover and turnover attributable to the Group's largest customer accounted for approximately 18% of the Group's turnover.

For the year ended 31 December 2005, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 45% of the Group's total purchases and purchases attributable to the Group's largest supplier accounted for approximately 15% of the Group's purchases.

Hong Kong Kyokuto Company Limited, one of the Group's five largest suppliers for the year ended 31 December 2005, subscribed for the Company's shares as a strategic investor during the initial public offering of the Company, and is still currently holding approximately 3.11% of the Company's share capital. Guangzhou Kyokuto Electronics Limited is owned as to 50% by Hong Kong Kyokuto Company Limited, which is also one of the Group's five largest customers for the year ended 31 December 2005.

Save as disclosed above, 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 and suppliers of the Group during the year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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 2005.

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 has been 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 member of the Group (including options or rights to subscribe for such securities) as at 31 December 2005.

CONNECTED TRANSACTIONS

During the year ended 31 December 2005, the Group entered into the following connected transactions:

1. 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")

As at 31 December 2005, the Group owed to ALI Guangzhou an amount of HK$1,734,315 and during the year, the Group paid rentals for office and factory premises and staff quarter charged to the Group amounting to HK$2,514,433 (as described in 2 below). The amount is unsecured, interest free and repayable on demand.

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.

2. 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 RMB798,194 (equivalent to HK$753,013).

CONNECTED TRANSACTIONS *(continued)*

2. Leasing of premises from ALI Guangzhou *(continued)*

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 2005, the aggregate rental paid by AKM Panyu to ALI Guangzhou under the Factory Lease amounted to RMB798,194 (equivalent to 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 RMB343,376 (equivalent to HK$323,940).

For the year ended 31 December 2005, the aggregate rental paid by AKM Panyu to ALI Guangzhou under the Dormitory Lease amounted to RMB343,376 (equivalent to HK$323,940).

(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 2005, the aggregate rentals paid by AKM Panyu under the Property Leases was RMB1,498,585 (equivalent to HK$1,437,480).

CONNECTED TRANSACTIONS *(continued)*

2. Leasing of premises from ALI Guangzhou *(continued)*

Pricing basis

The aggregate rentals paid by AKM Panyu for the year ended 31 December 2005 under the Factory Lease, the Dormitory Lease and the Property Leases were RMB2,640,155 (equivalent to HK$2,514,433), 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.

Pursuant to Rule 20.38 of the GEM Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of Directors. The independent non-executive Directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

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.

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.

BY ORDER OF THE BOARD

AKM Industrial Company Limited
Xiong Zheng Feng
Chairman

Hong Kong, 14 March 2006

Deloitte.
德勤

TO THE SHAREHOLDERS OF AKM INDUSTRIAL COMPANY LIMITED
安捷利實業有限公司
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 30 to 66 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 Hong Kong Standards on Auditing 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 2005 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
14 March 2006

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 HK$	2004 HK$ (Restated)
Turnover	6	**202,402,207**	243,974,808
Cost of sales		**(152,665,813)**	(159,260,437)
Gross profit		**49,736,394**	84,714,371
Other operating income		**4,489,746**	3,355,571
Distribution costs		**(4,236,903)**	(6,526,837)
Administrative expenses		**(16,482,468)**	(16,480,312)
Allowance for bad and doubtful debts		**(799,245)**	(9,188,174)
Research and development expenses		**(5,624,813)**	(6,870,292)
Profit from operations	7	**27,082,711**	49,004,327
Finance costs	8	**(61,856)**	(924,518)
Share of result of a jointly controlled entity		**(594,931)**	–
Profit before taxation		**26,425,924**	48,079,809
Taxation	9	**(3,130,857)**	(7,060,799)
Profit for the year		**23,295,067**	41,019,010
Attributable to:			
Equity holders of the parent		**23,282,264**	41,019,010
Minority interests		**12,803**	–
		23,295,067	41,019,010
Dividend	11	**4,050,000**	2,700,000
Earnings per share	12		
– basic		**4.31 cents**	9.08 cents
– diluted		**4.31 cents**	N/A

Consolidated Balance Sheet

AT 31 DECEMBER 2005

	Notes	2005 HK$	2004 HK$
Non-current assets			
Property, plant and equipment	13	**67,333,361**	48,103,515
Interest in a jointly controlled entity	14	**5,205,069**	–
Deferred tax asset	29	**303,000**	303,000
		72,841,430	48,406,515
Current assets			
Inventories	16	**35,656,990**	17,423,933
Trade and other receivables	17	**76,182,787**	55,236,047
Bills receivables	17	**25,273,970**	26,553,251
Amount due from a jointly controlled entity	18	**895,892**	–
Pledged bank deposits	19	**8,023,691**	9,825,754
Bank balances and cash		**46,906,754**	71,216,747
		192,940,084	180,255,732
Current liabilities			
Trade and other payables	20	**48,568,338**	50,823,026
Bills payables	20	**8,389,210**	2,899,405
Government grants received	21	**251,923**	1,160,377
Amount due to a fellow subsidiary	22	**1,734,315**	1,750,524
Taxation payable		**4,344,349**	4,778,419
Bank borrowings	23	**10,087,956**	183,334
Loan from a minority shareholder of a subsidiary	24	**1,460,000**	–
		74,836,091	61,595,085
Net current assets		**118,103,993**	118,660,647
Net assets		**190,945,423**	167,067,162
Capital and reserves			
Share capital	26	**54,000,000**	54,000,000
Reserves		**136,932,425**	113,067,162
Equity attributable to equity holders of the parent		**190,932,425**	167,067,162
Minority interests		**12,998**	–
Total equity		**190,945,423**	167,067,162

The financial statements on pages 30 to 66 were approved and authorised for issue by the Board of Directors on 14 March 2006 and are signed on its behalf by:

Li Ying Hong
Director

Xiong Zheng Feng
Director

Balance Sheet

AS AT 31 DECEMBER 2005

	Notes	2005 HK$	2004 HK$
Non-current assets			
Property, plant and equipment	13	**221,618**	324,520
Interests in subsidiaries	15	**141,029,573**	118,693,683
		141,251,191	119,018,203
Current assets			
Inventories	16	**434,107**	–
Trade and other receivables	17	**17,213,741**	1,260,009
Amount due from a subsidiary	15	**4,380,000**	3,469,571
Pledged bank deposits	19	**5,615,702**	5,602,068
Bank balances		**11,382,385**	15,766,028
		39,025,935	26,097,676
Current liabilities			
Trade and other payables	20	**18,686,016**	11,294,823
Amount due to a subsidiary	15	**474,307**	–
Bank borrowings	23	**5,280,263**	183,334
		24,440,586	11,478,157
Net current assets		**14,585,349**	14,619,519
Net assets		**155,836,540**	133,637,722
Capital and reserves			
Share capital	26	**54,000,000**	54,000,000
Reserves	28	**101,836,540**	79,637,722
		155,836,540	133,637,722

Li Ying Hong
Director

Xiong Zheng Feng
Director

	Attributable to equity holders of the parent							
	Share capital HK$	Share premium HK$	Translation reserve HK$	Share options reserve HK$	Retained profits HK$	Total HK$	Minority interests HK$	Total HK$
At 1 January 2004	100,000	–	1,632,895	–	15,531,090	17,263,985	–	17,263,985
Exchange differences from translation of foreign operations recognised directly in equity	–	–	636,518	–	–	636,518	–	636,518
Profit for the year – restated	–	–	–	–	41,019,010	41,019,010	–	41,019,010
Total recognised income and expenses for the year	–	–	636,518	–	41,019,010	41,655,528	–	41,655,528
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	–	60,557,771
Issue of new shares	14,000,000	42,000,000	–	–	–	56,000,000	–	56,000,000
Expenses incurred in connection with the issue of new shares	–	(8,789,443)	–	–	–	(8,789,443)	–	(8,789,443)
Recognition of equity-settled share based payments	–	–	–	379,321	–	379,321	–	379,321
At 31 December 2004	54,000,000	53,868,328	2,269,413	379,321	56,550,100	167,067,162	–	167,067,162
At 31 December 2004, as previously reported	54,000,000	53,868,328	2,269,413	–	56,929,421	167,067,162	–	167,067,162
Effect of changes in accounting policies	–	–	–	379,321	(379,321)	–	–	–
At 31 December 2004, as restated	54,000,000	53,868,328	2,269,413	379,321	56,550,100	167,067,162	–	167,067,162
Exchange differences from translation of foreign operations directly recognised in equity	–	–	2,753,701	–	–	2,753,701	–	2,753,701
Profit for the year	–	–	–	–	23,282,264	23,282,264	12,803	23,295,067
Total recognised income and expenses for the year	–	–	2,753,701	–	23,282,264	26,035,965	12,803	26,048,768
Recognition of equity-settled share based payments	–	–	–	529,298	–	529,298	–	529,298
Capital contribution from minority interests	–	–	–	–	–	–	195	195
2004 final dividend paid	–	–	–	–	(2,700,000)	(2,700,000)	–	(2,700,000)
At 31 December 2005	**54,000,000**	**53,868,328**	**5,023,114**	**908,619**	**77,132,364**	**190,932,425**	**12,998**	**190,945,423**

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 HK$	2004 HK$ (Restated)
OPERATING ACTIVITIES		
Profit before taxation	**26,425,924**	48,079,809
Adjustments for:		
Interest expense	**61,856**	924,518
Interest income	**(413,963)**	(144,432)
Share of result of a jointly controlled entity	**594,931**	–
Allowance for bad and doubtful debts	**799,245**	9,188,174
Allowance for obsolete inventories	**1,008,625**	2,684,558
Depreciation of property, plant and equipment	**10,799,838**	6,721,990
Loss on disposal of property, plant and equipment	**10,571**	–
PRC tax refund on capital reinvestment in a subsidiary	**(3,255,615)**	(3,042,377)
Government grants recognised	**(1,683,810)**	(1,150,943)
Share-based payment expense	**529,298**	379,321
Operating cash flows before movements in working capital	**34,876,900**	63,640,618
Increase in inventories	**(18,771,035)**	(4,798,406)
Increase in trade and other receivables	**(20,681,447)**	(3,768,111)
Decrease (increase) in bills receivable	**1,772,874**	(13,775,234)
Increase in amount due from a jointly controlled entity	**(887,360)**	–
(Decrease) increase in trade and other payables	**(2,913,207)**	11,564,150
Increase (decrease) in bills payable	**5,382,294**	(26,404)
Decrease in amount due to a fellow subsidiary	**(42,610)**	(3,784,721)
Decrease in amount due to a shareholder	**–**	(427,020)
Increase in government grants received	**759,982**	1,643,697
Cash (used in) generated from operations	**(503,609)**	50,268,569
Interest paid	**(61,856)**	(924,518)
PRC Enterprise Income Tax paid	**(3,651,810)**	(5,634,313)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(4,217,275)**	43,709,738
INVESTING ACTIVITIES		
PRC tax refund on capital reinvestment in a subsidiary	**3,255,615**	3,042,377
Investment in a jointly controlled entity	**(5,800,000)**	–
Interest received	**413,963**	144,432
Proceeds on disposal of property, plant and equipment	**3,810**	–
Purchase of property, plant and equipment	**(28,930,124)**	(27,052,210)
Decrease (increase) in pledged bank deposits	**1,865,222**	(1,498,703)
NET CASH USED IN INVESTING ACTIVITIES	**(29,191,514)**	(25,364,104)

	2005 HK$	2004 HK$ (Restated)
FINANCING ACTIVITIES		
Dividend paid	**(2,700,000)**	–
Net proceeds from issue of shares on placing	**–**	47,210,557
New bank loans raised	**10,042,168**	4,417,296
Repayment of bank loans	**(183,334)**	(16,498,113)
Decrease in amount due to immediate holding company	**–**	(1,168,869)
Loan raised from a minority shareholder of a subsidiary	**1,460,000**	–
Capital contribution by a minority shareholder of a subsidiary	**195**	–
NET CASH FROM FINANCING ACTIVITIES	**8,619,029**	33,960,871
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(24,789,760)**	52,306,505
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**71,216,747**	18,709,056
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**479,767**	201,186
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	**46,906,754**	71,216,747

1. GENERAL

The Company is incorporated in Hong Kong with limited liability on 9 December 1993. Its parent is Alpha Luck Industrial Limited (incorporated in Hong Kong with limited liability) 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 addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet, Company's balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period.

Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

The change in accounting policy has resulted in a decrease of HK$529,298 in profit for the year (2004: HK$379,321), a decrease of HK$379,321 in retained profits at 31 December 2004 (1 January 2004: nil) and an increase of HK$379,321 in share options reserve at 31 December 2004 (1 January 2004: nil). The share-based payments expense has been included in the administrative expenses.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 and HKAS 39 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods.

The HKICPA has issued the following standards and interpretations ("INT") that are not yet effective. The Group has considered the following standards and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market- waste electrical and electronic equipment [3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis

The financial statements have been prepared in accordance with HKFRS issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Companies Ordinance.

Basis of consolidation

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Interest in a jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are refer to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interest that, if any and in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries 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 from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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 are in the manner of intended use 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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

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

Trade receivables/bills receivables/amount due from a subsidiary/amount due from a jointly controlled entity/pledged bank deposits

Trade receivables, bills receivables, amount due from a subsidiary, amount due from a jointly controlled entity and pledged bank deposits are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

Financial liabilities and equity

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

Bank borrowings

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

Trade and other payables/bills payables/amount due to a subsidiary/amount due to a fellow subsidiary/loan from a minority shareholder of a subsidiary

Trade and other payables, bills payables, amount due to a subsidiary, amount due to a fellow subsidiary and loan from a minority shareholder of a subsidiary are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are 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, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised 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 all of the following conditions are met:

– an asset is created that can be identified;

– it is probable that the asset created will generate future economic benefits; and

– the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight line basis over their useful lives. Where 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 selling price less all further costs of production and the related costs of marketing, selling and distribution.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. 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.

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 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 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 base on the tax rates that have been enacted or substantively enacted at the balance sheet date. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong Dollars, which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

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

Share-based payment transactions

Share options granted to Directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefits contributions

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Estimated useful lives of property, plant and equipment

As described in note 3, it is the Group's policy to write off the cost of items of property, plant and equipment over their estimated useful lives from the date on which they are in the manner of intended use and after taking into account their estimated residual values, using the straight-line method.

On 16 June 2005, 銀利(廣州)電子電器實業有限公司 Alpha Luck Electronic & Electric Appliance Industrial (Guangzhou) Ltd. ("ALI Guangzhou") received a letter from the relevant local government authority in charge of land development in the PRC giving notice that the relevant local land development authority intends to requisition the land on which the premises are situated for land reserve purposes. The Group currently rents the premises from ALI Guangzhou where the Group carries out its production activities and provides accommodation to its staff. The exact date of the requisition of land is yet to be informed. The Group is now contemplating a relocation of its operation as well as assessing the underlying costs and any potential losses due to relocation. In the light of the problems identified, management was required to consider whether it was appropriate to revise the estimated useful lives of certain of the Group's property, plant and equipment which located in the aforesaid land in line with the possibility of the requisition of land.

In making its judgement, management considered the detailed criteria for the determination of the useful life of an asset, set out in HKAS 16 "Property, plant and equipment" and, in particular, whether there are any legal or similar limits on the use of the assets that result in the diminution of the economic benefits that might have been obtained from the asset. The management had carried out a detailed analysis based on the information available and concluded that except leasehold improvements and certain plant and machinery and office equipment, all the remaining property, plant and equipment are still able to derive future economic benefits according to the current estimated useful lives. Following the detailed quantification of the Group's financial impact in respect of the changes in the estimated useful lives of leasehold improvements and certain plant and machinery and office equipment, the Directors are satisfied that the impact to the financial statements is minimal based on the management's estimation that the requisition of land will be happened in 2007. This situation will be closely monitored, and adjustments will be made in future periods, if circumstance indicates that such adjustments are appropriate.

Allowance for bad and doubtful debts

The management regularly reviews the recoverability and aging of the trade receivables. Allowance for bad and doubtful debts is made based on the estimation of the future cash flow discounted at an effective interest rate to calculate the present value.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Allowance for obsolete inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade receivables and trade payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain trade receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Interest rate risk

The Group's fair value interest rate risk relates to its fixed-rate borrowings. However, the management considered the risk is insignificant to the Group.

6. TURNOVER AND SEGMENT INFORMATION

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

(a) Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods manufactured or services rendered:

	Turnover		Segment results	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
PRC other than Hong Kong	**165,659,841**	224,707,229	**37,205,100**	64,887,245
Hong Kong	**26,118,308**	19,267,579	**6,647,553**	4,112,115
Others	**10,624,058**	–	**847,593**	–
	202,402,207	243,974,808	**44,700,246**	68,999,360
Interest income			**413,963**	144,432
Unallocated expenses, net			**(18,031,498)**	(20,139,465)
Profit from operations			**27,082,711**	49,004,327
Finance costs			**(61,856)**	(924,518)
Share of result of a jointly controlled entity			**(594,931)**	–
Profit before taxation			**26,425,924**	48,079,809
Taxation			**(3,130,857)**	(7,060,799)
Profit for the year			**23,295,067**	41,019,010

All the Group's assets and capital expenditure incurred during the year are located in the PRC, which is considered as one geographical location in an economic environment with similar risks and returns. In addition, over 90% of the Group's asset by geographical market are also located in the PRC. Consequently, no geographical segment asset analysis is presented.

(b) Business segments

The Group's principal activities are the manufacture and sale of flexible printed circuit as a single business segment. Accordingly, no business segment information is required.

7. PROFIT FROM OPERATIONS

	2005 HK$	2004 HK$ (Restated)
Profit from operations has been arrived at after charging:		
Research and development expenses		
Staff costs	**1,113,830**	1,814,514
Other research and development expenses	**6,194,793**	6,206,721
	7,308,623	8,021,235
Less: Amounts reduced by government grants recognised	**(1,683,810)**	(1,150,943)
	5,624,813	6,870,292
Directors' remuneration *(note 10)*	**746,396**	1,929,453
Other staff costs	**22,627,424**	27,125,305
Other staff's pension costs	**1,116,636**	906,938
Total staff costs	**24,490,456**	29,961,696
Less: Other staff costs included in research and development expenses shown above	**(1,113,830)**	(1,814,514)
	23,376,626	28,147,182
Auditors' remuneration	**892,381**	711,132
Depreciation of property, plant and equipment	**10,799,838**	6,721,990
Loss on disposal of property, plant and equipment	**10,571**	–
Minimum lease payments under operating leases in respect of land and buildings	**3,155,994**	1,268,354
Net foreign exchange losses	**189,939**	153,734
Allowance for obsolete inventories	**1,008,625**	2,684,558
Shipping and handling expenses (included in distribution costs)	**547,808**	434,877
and after crediting:		
Interest income	**413,963**	144,432
PRC tax refund on capital reinvestment in a subsidiary	**3,255,615**	3,042,377

8. FINANCE COSTS

	2005 HK$	2004 HK$
Interests on:		
Bank borrowings wholly repayable within five years	**61,856**	916,230
Other borrowings	**–**	8,288
	61,856	924,518

9. TAXATION

	2005 HK$	2004 HK$
Current tax:		
Hong Kong Profits Tax	**–**	–
PRC Enterprise Income Tax	**3,130,857**	7,060,799
Taxation attributable to the Company and its subsidiary	**3,130,857**	7,060,799

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company's assessable profit in the current year is wholly absorbed by tax losses brought forward and the Company did not have any assessable profit in the prior year. The income of its PRC subsidiaries 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, the applicable PRC Enterprise Income Tax rate for AKM Electronics Industrial (Panyu) Ltd. ("AKM Panyu") is 24%.

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.

9. TAXATION *(continued)*

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

	2005	2004
	HK$	HK$
Profit before taxation	**26,425,924**	48,079,809
Tax at the income tax rate of 24%	**6,342,222**	11,539,154
Tax effect of share of result of a jointly controlled entity	**142,783**	–
Tax effect of income that are not taxable in determining taxable profit	**(781,348)**	(730,170)
Tax effect of expenses that are not deductible in determining taxable profit	**256,624**	459,104
Tax effect of utilisation of tax losses not previously recognised	**(370,151)**	–
Tax effect of deferred tax asset not recognised	**1,079,191**	2,165,230
Tax effect of tax loss not recognised	**–**	388,269
Effect of tax reduction granted to PRC subsidiary	**(3,279,169)**	(7,059,318)
Others	**(259,295)**	298,530
Tax expense for the year	**3,130,857**	7,060,799

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

The emoluments paid or payable to each of the seven (2004: nine) Directors were as follows:

		Other emoluments			
	Fees	**Salaries and other benefits**	**Pension costs**	**Performance related incentive payments**	**Total emoluments**
	HK$	HK$	HK$	HK$	HK$
Xiong Zheng Feng	–	63,359	–	–	63,359
Li Ying Hong	–	19,008	–	–	19,008
Chai Zhi Qiang	–	503,828	5,971	–	509,799
Han Li Gang	–	–	–	–	–
Liang Zhi Li	47,115	–	–	–	47,115
Li Kung Man	60,000	–	–	–	60,000
Wang Heng Yi	47,115	–	–	–	47,115
Total for 2005	154,230	586,195	5,971	–	746,396

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

(i) Details of Directors' remuneration are as follows: *(continued)*

		Other emoluments			
	Fees	**Salaries and other benefits**	**Pension costs**	**Performance related incentive payments**	**Total emoluments**
	HK$	HK$	HK$	HK$	HK$
Xiong Zheng Feng	–	41,684	–	–	41,684
Li Ying Hong	–	12,505	–	–	12,505
Chai Zhi Qiang	–	463,599	5,395	377,358	846,352
Han Li Gang	–	–	–	–	–
Liang Zhi Li	37,025	–	–	–	37,025
Li Kung Man	47,097	–	–	–	47,097
Wang Heng Yi	25,289	–	–	–	25,289
Huang Zhou Chong	–	–	–	–	–
Ma Jian Guo	–	186,592	–	732,909	919,501
Total for 2004 (restated)	109,411	704,380	5,395	1,110,267	1,929,453

Note: The performance related incentive payment is determined as a percentage of profit for the year of the Group for the year ended 31 December 2004.

For the year ended 31 December 2005, Mr. Xiong Zheng Feng and Ms. Li Ying Hong waived their nominal salary of HK$10 (2004: HK$10) and HK$10 (2004: HK$10) 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, four (2004: three) are employees of the Group, details of whose remuneration are as follows:

	2005	2004
	HK$	HK$
		(Restated)
Salaries, allowances and other benefits	**1,358,912**	682,420
Pension costs	**43,833**	19,401
Performance related incentive payments	**52,000**	815,883
	1,454,745	1,517,704

Remuneration of each of the employees for both years falls within the band of less than HK$1,000,000.

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.

11. DIVIDEND

	2005	2004
	HK$	HK$
Final, proposed – HK0.75 cent per share (2004: HK0.5 cent)	**4,050,000**	2,700,000

On 27 April 2005, a dividend of HK0.5 cent per share on 540,000,000 shares, in aggregate, approximately HK$2,700,000 was paid to shareholders as the final dividend for the year ended 31 December 2004.

The final dividend of HK0.75 cent per share has been proposed by the Directors and is subject to approval by the shareholders in annual general meeting.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to equity holders of the parent is based on the following data:

	2005	2004
	HK$	HK$
		(Restated)
Earnings for the purposes of basic and diluted earnings per share:		
– profit for the year attributable to equity holders of the parent	**23,282,264**	41,019,010

	Number of shares	
	2005	2004
		(Restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share	**540,000,000**	452,021,858
Effect of dilutive potential ordinary shares from share options	**718,588**	N/A
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**540,718,588**	N/A

12. EARNINGS PER SHARE *(continued)*

The following table summarises the impact on basic and diluted earnings per share as a result of the changes in accounting policies:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005	2004	**2005**	2004
	HK cents	HK cents	**HK cents**	HK cents
Reported figures before adjustments	**4.41**	9.16	**4.41**	9.15
Adjustments arising from the changes in accounting policies	**(0.10)**	(0.08)	**(0.10)**	N/A
Restated	**4.31**	9.08	**4.31**	N/A

No diluted earnings per share has been presented for 2004 because the exercise price of the Company's options, after taken into account of the effect of share-based payment, was higher than the average market price for shares during 2004.

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$	Leasehold improvements HK$	Office equipment HK$	Motor vehicles HK$	Total HK$
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
Additions	23,917,766	3,327,362	1,448,806	236,190	28,930,124
Disposals	–	–	–	(143,811)	(143,811)
Currency realignment	1,770,894	95,798	52,674	43,415	1,962,781
At 31 December 2005	**104,921,518**	**6,790,218**	**3,582,908**	**2,837,902**	**118,132,546**
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
Provided for the year	8,406,018	1,568,062	376,483	449,275	10,799,838
Eliminated on disposals	–	–	–	(129,430)	(129,430)
Currency realignment	778,583	31,635	18,547	20,075	848,840
At 31 December 2005	**45,525,142**	**2,558,658**	**1,184,799**	**1,530,586**	**50,799,185**
CARRYING VALUES					
At 31 December 2005	**59,396,376**	**4,231,560**	**2,398,109**	**1,307,316**	**67,333,361**
At 31 December 2004	42,892,317	2,408,097	1,291,659	1,511,442	48,103,515

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Leasehold improvements 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
Additions	–	49,572	–	49,572
At 31 December 2005	**49,250**	**91,586**	**490,680**	**631,516**
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
Provided for the year	12,313	17,491	122,670	152,474
At 31 December 2005	**19,495**	**22,393**	**368,010**	**409,898**
CARRYING VALUES				
At 31 December 2005	**29,755**	**69,193**	**122,670**	**221,618**
At 31 December 2004	42,068	37,112	245,340	324,520

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

As at 31 December 2005, the Group had interest in the following jointly controlled entity:

Name of entity	Place of establishment and operation	Form of business structure	Registered and paid-up capital	Proportion of registered capital held by the Group	Proportion of voting power held	Principal activities
Shenzhen Smart Electronics Co. Ltd. 深圳思碼特電子有限公司 ("Shenzhen Smart")	The PRC	Sino-foreign co-operative joint venture	HK$10,000,000	58%	57%	Provide surface mount technology service

	2005 HK$	2004 HK$
Cost of unlisted investment in a jointly controlled entity	**5,800,000**	–
Share of post-acquisition losses	**(594,931)**	–
	5,205,069	–

The Group holds 58% of the registered capital of Shenzhen Smart. The board of directors comprise of four directors appointed by the Group and three directors appointed by the other shareholders. Accordingly, the Group holds 57% proportion of voting power. However, under the shareholders' agreement, all the resolutions have to be passed by two-third directors of the board of directors. Accordingly, Shenzhen Smart is jointly controlled by the Group and the other significant shareholder. Therefore, Shenzhen Smart is classified as a jointly controlled entity of the Group.

15. INTERESTS IN SUBSIDIARIES

	2005 HK$	2004 HK$
THE COMPANY		
Capital contribution, at cost	**135,269,312**	111,624,345
Amounts due from subsidiaries *(note)*	**5,760,261**	7,069,338
	141,029,573	118,693,683

Note: The amounts are 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 a subsidiary of HK$4,380,000 (2004: HK$3,469,571), included in current assets and an amount due to a subsidiary of HK$474,307 (2004: HK$ nil) included in current liabilities.

The Directors consider the carrying amounts due from/to subsidiaries approximate their fair values at 31 December 2005. The fair value of the amounts due from subsidiaries is determined by reference to the present value of estimated future cash flows discounted at the interest rate of 2.6% at 31 December 2005.

Details of the Company's subsidiaries as at 31 December 2005 are as follows:

Name of subsidiary	Place of establishment and operation	Form of business structure	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$17,100,000	100%	Manufacture and sale of flexible printed circuit
AKM (Suzhou) FPC Company Limited 安捷利 (蘇州) 柔性電路板有限公司	The PRC	Wholly owned-foreign enterprises	HK$3,500,000	100%	Manufacture and sale of flexible printed circuit
Ever Proven Investments Limited	British Virgin Islands	International business company	US$100	75%	Investment holding

16. INVENTORIES

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Raw materials	**14,501,676**	9,971,557	**–**	–
Work in progress	**12,650,364**	4,400,751	**–**	–
Finished goods	**8,504,950**	3,051,625	**434,107**	–
	35,656,990	17,423,933	**434,107**	–

17. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Trade and bills receivables	**109,627,418**	90,503,236	**16,741,790**	532,267
Less: Allowance for bad and doubtful debts	**(10,504,552)**	(9,635,460)	**(166,253)**	(166,382)
	99,122,866	80,867,776	**16,575,537**	365,885

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 credit terms up to 120 days.

The following is an aged analysis of trade and bills receivables:

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Within 30 days	**33,788,510**	36,562,073	**6,281,888**	219,450
31 – 60 days	**29,724,038**	19,514,414	**6,195,751**	102,363
61 – 90 days	**16,989,436**	3,862,985	**1,938,153**	3,231
91 – 120 days	**12,328,433**	14,809,703	**1,988,029**	40,841
121 days – 1 year	**5,841,382**	5,737,610	**171,716**	–
Over 1 years	**451,067**	380,991	**–**	–
	99,122,866	80,867,776	**16,575,537**	365,885

The fair value of the Group and Company's trade and bills receivables at 31 December 2005 was approximate to the corresponding carrying amount.

18. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount is unsecured, interest-free and had no fixed term of repayment. The Directors consider the carrying amount of amount due from a jointly controlled entity approximates its fair value.

19. PLEDGED BANK DEPOSITS

THE GROUP AND THE COMPANY

The amounts represent deposits pledged to a bank to secure short-term banking facilities granted to the Group and are therefore classified as current assets.

The deposits carried fixed interest rate ranged from 1.85% to 2.65%. The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

20. TRADE AND OTHER PAYABLES/BILLS PAYABLES

The following is an aged analysis of trade and bills payables:

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Within 30 days	**18,567,765**	32,405,974	**5,118,938**	9,678,305
31 – 60 days	**13,707,087**	4,419,969	**3,207,492**	366,666
61 – 90 days	**7,523,035**	1,113,050	**4,707,078**	503,172
91 – 120 days	**4,589,292**	1,446,499	**2,064,601**	–
121 days – 1 year	**3,345,028**	33,379	**1,978,128**	–
Over 1 year	**445,771**	–	**–**	–
	48,177,978	39,418,871	**17,076,237**	10,548,143

The fair value of the Group and Company's trade and other payables and bills payables at 31 December 2005 approximates to the corresponding carrying amount.

21. 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.

22. AMOUNT DUE TO A FELLOW SUBSIDIARY

THE GROUP

The amount is unsecured, interest-free, and repayable on demand. The Directors consider the carrying amount of amount due to a fellow subsidiary approximates its fair value.

23. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Bank borrowings which are repayable within one year comprise the following:				
Bank loans	**4,807,693**	–	**–**	–
Trust receipts loans – secured	**5,280,263**	183,334	**5,280,263**	183,334
	10,087,956	183,334	**5,280,263**	183,334

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below.

	THE GROUP
	RMB
At 31 December 2005	**5,000,000**
At 31 December 2004	–

During the year ended 31 December 2005, the Group obtained a bank loan of HK$4,807,693. The loan is secured by a charge over certain of the Group's bank deposits and bills receivables. The loan carries fixed interest rate at 5.742% per annum and due for payment on April 2006.

The trust receipts loans carried interest at prevailing market rate.

The fair value of the Group and Company's bank borrowings at 31 December 2005 approximates to the corresponding carrying amount in view of the short maturity period.

24. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

THE GROUP

The amount is unsecured, interest-free and repayable within one year. The Directors consider the carrying amount of loan from a minority shareholder of a subsidiary approximates its fair value.

25. OTHER FINANCIAL ASSETS

Bank balances

THE GROUP AND THE COMPANY

Bank balances comprise short-term bank deposits at prevailing market interest rates. The fair value of these assets at 31 December 2005 was approximate to the corresponding carrying amount.

THE GROUP

Included in the bank balances are the Renminbi denominated short-term bank deposits of HK$35,432,376 (2004: HK$58,777,762) kept in a financial institution registered in the PRC, and Renminbi is not a freely convertible currency.

26. SHARE CAPITAL

	Number of shares	Share capital HK$
Authorised:		
At 1 January 2004	100,000	100,000
Increase on 6 August 2004 *(note a)*	199,900,000	199,900,000
Subdivision of one share of HK$1.00 each into 10 shares of HK$0.10 each *(note b)*	1,800,000,000	–
At 31 December 2004 and 31 December 2005	2,000,000,000	200,000,000
Issued and fully paid:		
At 1 January 2004	100,000	100,000
Subdivision of one share of HK$1.00 each into 10 shares of HK$0.10 each *(note b)*	900,000	–
Issue of shares upon capitalisation of loan from immediate holding company and loan from a shareholder *(note c)*	399,000,000	39,900,000
Issue of new shares *(note d)*	140,000,000	14,000,000
At 31 December 2004 and 31 December 2005	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 39,900,000 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 proceeds from the new issue of shares to expand the Group's production capacity and sales and distribution network.

27. 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 2005, and there were 900,000 (2004: 1,800,000) share options lapsed during this year.

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 is 17,300,000 (2004: 18,200,000) representing approximately 3.20% (2004: 3.37%) of the issued share capital of the Company.

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 1.1.2005	Granted during the year	Lapsed during the year	Outstanding at 31.12.2005
Directors	18 August 2005 to 6 August 2014	0.40	–	7,200,000	(1,800,000)	5,400,000	–	–	5,400,000
Employees	18 August 2005 to 6 August 2014	0.40	–	12,800,000	–	12,800,000	–	(900,000)	11,900,000
			–	20,000,000	(1,800,000)	18,200,000	–	(900,000)	17,300,000

27. SHARE OPTIONS *(continued)*

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

The estimated fair value of the options granted on 6 August 2004 is HK8 cents per share. The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2004
Share price	HK$0.4
Exercise price	HK$0.4
Expected volatility	31%
Expected life	10 years
Risk-free rate	4.28%
Expected dividend yield	5.46%

No expected volatility of the Company can be obtained since the options were granted before the Company's Listing Date. Instead, expected volatility was determined by using the historical volatility of another listed company's share price over the previous twelve months. In the opinion of the Directors, that listed company is operated in the same industry of the Group with similar risks and return.

The Group recognised total expenses of HK$529,298 (2004: HK$379,321) related to equity-settled share-based payment transactions during the year.

The Black-Scholes option pricing model requires the input of highly subjective assumptions including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

(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.

27. SHARE OPTIONS *(continued)*

(b) Scheme *(continued)*

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").

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.

28. RESERVES

	Share premium HK$	Share options reserve HK$	(Accumulated losses) retained profits HK$	Total HK$
THE COMPANY				
At 1 January 2004	–	–	(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)
Recognition of equity-settled share-based payments	–	379,321	–	379,321
Profit for the year	–	–	26,278,586	26,278,586
At 31 December 2004	53,868,328	379,321	25,390,073	79,637,722
At 31 December 2004, as previously reported	53,868,328	–	25,769,394	79,637,722
Effect of change in accounting policies	–	379,321	(379,321)	–
At 31 December 2004, as restated	53,868,328	379,321	25,390,073	79,637,722
Recognition of equity-settled share-based payments	–	529,298	–	529,298
Profit for the year	–	–	24,369,520	24,369,520
Dividend paid	–	–	(2,700,000)	(2,700,000)
At 31 December 2005	**53,868,328**	**908,619**	**47,059,593**	**101,836,540**

29. DEFERRED TAX ASSET

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 2004, 31 December 2004 and 31 December 2005	303,000

At 31 December 2005, 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 asset in respect of accumulated allowance for bad and doubtful debts of approximately HK$10,338,000 (2004: HK$9,612,000) has not been recognised in the financial statements.

THE GROUP AND THE COMPANY

At 31 December 2005, the Group and the Company has unused tax losses of HK$973,000 (2004: HK$2,515,000) 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.

30. PLEDGE OF ASSETS

At the 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 as follows:

	THE GROUP		**THE COMPANY**	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Bank deposits	**8,023,691**	9,825,754	**5,615,702**	5,602,068
Bills receivables	**2,109,259**	4,036,889	–	–
	10,132,950	13,862,643	**5,615,702**	5,602,068

31. OPERATING LEASE COMMITMENTS

At the balance sheet dates, 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**	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Within one year	**3,336,808**	2,517,877	**66,240**	15,995
In the second to fifth years inclusive	**2,053,451**	3,786,659	**24,840**	–
	5,390,259	6,304,536	**91,080**	15,995

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

32. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$
Capital expenditure in respect of acquisition of property, plant and equipment: – contracted for but not provided in financial statements	**1,622,474**	10,024,000	**630,000**	5,116,000

33. 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 future years.

34. RELATED PARTY TRANSACTIONS

(i) Apart from the disclosure in notes 18, 22 and 24 above, during the year, the Group also had the following transactions with the related parties:

	2005	2004
	HK$	HK$
Transactions with fellow subsidiaries:		
Rentals for office and factory premises and staff quarter charged to the Group	**2,514,433**	1,194,766
Purchases of goods by the Group	**–**	3,134,338
Purchases of machinery by the Group	**–**	5,136,605
Utilities maintenance fee charged to the Group	**–**	326,639
Backup electricity charges charged to the Group	**–**	281,998
Utilities charges paid by the Group	**–**	3,266,385
Transactions with a jointly controlled entity:		
Purchase of goods by the Group	**1,276,575**	–
Handling charges paid by the Group	**250,778**	–

34. RELATED PARTY TRANSACTIONS *(continued)*

(ii) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under China North Industries Corporation 中國北方工業公司 which is controlled by the PRC government.

Apart from the disclosure in note 22 and 34(i) above, the Group also conducts business with other state-controlled entities. The Directors consider those state-controlled entities are independent third parties so far as the Group's business with them are concerned:

(a) The Group has certain deposits placements, borrowings and other general banking facilities, with certain banks which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the Directors are of the opinion that separate disclosure would not be meaningful.

(b) The Group also has certain sales and purchases transactions with certain customers and suppliers which, in the opinion of the Directors, are state-controlled entities in view of their ownership structure. Total sales and purchases to these state-controlled entities for the year ended 31 December 2005 amounted to approximately HK$27.5 million (2004: HK$70.8 million) and HK$5.8 million (2004: HK$7.3 million) respectively. Amounts due from and to these state-controlled entities as at 31 December 2005 amounted to approximately HK$7.4 million (2004: HK$20.7 million) and HK$0.6 million (2004: HK$0.5 million) respectively.

Except as disclosed above, the Directors are of the opinion that the transactions with other state-controlled entities are not significant to the Group's operations.

(iii) Compensation of key management personnel

The remuneration of key management during the year was as follows:

	2005 **HK$**	2004 HK$
Short-term benefits	**415,126**	781,349
Post-employment benefits	**5,971**	5,395
Share-based payments	**171,069**	112,546
	592,166	899,290

The remuneration of key management is determined by the Human Resources and Remuneration Committee having regard to the performance of individuals and market trends.

RESULTS	2005	2004	2003	2002
	Year ended 31 December			
	HK$	HK$	HK$	HK$
		(Restated)		
Turnover	**202,402,207**	243,974,808	148,104,067	96,352,393
Cost of sales	**(152,665,813)**	(159,260,437)	(106,800,678)	(74,361,784)
Gross profit	**49,736,394**	84,714,371	41,303,389	21,990,609
Other operating income	**4,489,746**	3,355,571	48,753	54,862
Distribution costs	**(4,236,903)**	(6,526,837)	(5,732,729)	(3,711,299)
Administrative expenses	**(16,482,468)**	(16,480,312)	(6,709,346)	(4,024,866)
Allowance for bad and doubtful debts	**(799,245)**	(9,188,174)	–	(58,449)
Research and development expenses	**(5,624,813)**	(6,870,292)	(3,487,905)	(3,321,691)
Profit from operations	**27,082,711**	49,004,327	25,422,162	10,929,166
Finance costs	**(61,856)**	(924,518)	(858,600)	(261,155)
Share of result of a jointly controlled entity	**(594,931)**	–	–	–
Profit before taxation	**26,425,924**	48,079,809	24,563,562	10,668,011
Taxation	**(3,130,857)**	(7,060,799)	(3,385,632)	(1,660,689)
Profit for the year	**23,295,067**	41,019,010	21,177,930	9,007,322

ASSETS AND LIABILITIES	2005	2004	2003	2002
	At 31 December			
	HK$	HK$	HK$	HK$
Total assets	**265,781,514**	228,662,247	142,954,511	93,435,163
Total liabilities	**(74,836,091)**	(61,595,085)	(125,690,526)	(96,571,821)
	190,945,423	167,067,162	17,263,985	(3,136,658)
Equity attributable to equity holders of the parent	**190,932,425**	167,067,162	17,263,985	(3,136,658)
Minority interests	**12,998**	–	–	–
Total equity	**190,945,423**	167,067,162	17,263,985	(3,136,658)

Notes:

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

2 Figures for the year ended 31 December 2004 have been restated to reflect the change in accounting policy for the adoption of HKFRS 2 as described in note 2 to the consolidated financial statements.