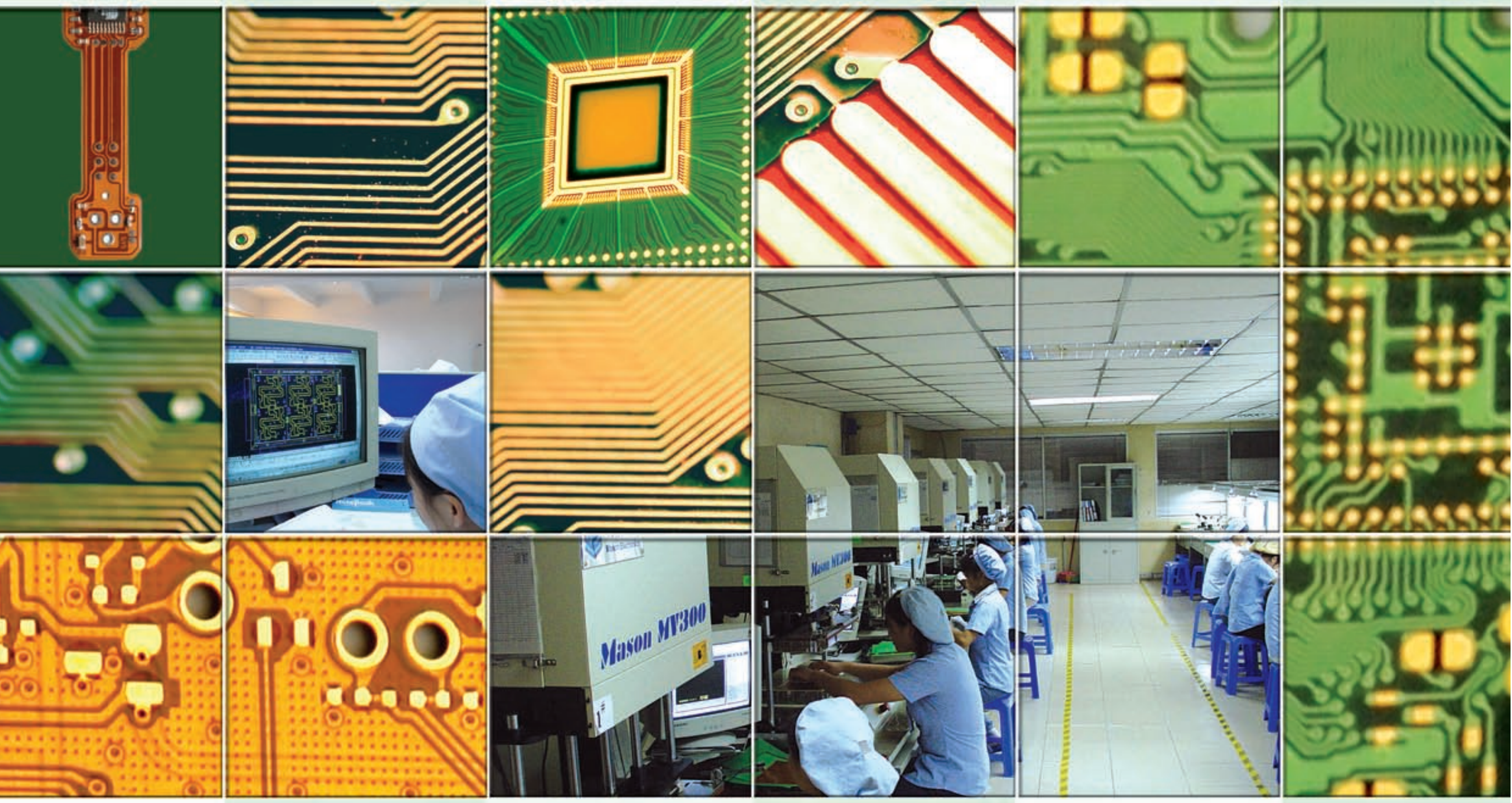
AKM

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 2006

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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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Corporate Information

BOARD OF DIRECTORS

Executive directors

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

Non-executive director

HAN Li Gang

Independent non-executive directors

LI Kung Man
LIANG Zhi Li
WANG Heng Yi

COMPLIANCE OFFICER

LI Ying Hong

COMPANY SECRETARY

LAM Sau Yan, FCCA

AUTHORISED REPRESENTATIVES

XIONG Zheng Feng
LI Ying Hong

QUALIFIED ACCOUNTANT

LAM Sau Yan, FCCA

AUDIT COMMITTEE

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

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER

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

Rooms 2708-11, 27th Floor
West Tower, Shun Tak Centre
168-200 Connaught 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 2006.

RESULT ANALYSIS AND BUSINESS REVIEW

For the year ended 31 December 2006 ("the year"), the Group recorded a turnover of approximately HK$159.88 million, representing a decrease of approximately 21.01% as compared with last year, and the loss attributable to the shareholders of the Company amounted to approximately HK$7.93 million, while there was a profit of approximately HK$23.28 million last year.

For the Company (or "AKM"), the year of 2006 was characterised by changing market conditions, internal reform and adjustment and difficult business environment. During the year, the Group recorded its first loss since its listing. On behalf of the Board and management of the Company, I would like to apologize to all shareholders and people who are concerned about AKM for failing to meet the expected operational targets.

In view of the changes in market conditions, AKM continuously adjusted the market structure and product mix, expanded its foreign operations, increased the scale of fine line printed circuits and reduced its reliance on domestic mobile phone manufacturers in 2006. The results of the above measures are detailed in the section headed "Management Discussion and Analysis".

FORECAST

Looking forward into year 2007, AKM will continue to strengthen its core capacity and forge its market competitiveness. AKM will further its efforts in developing new products and new techniques by enhancing its R&D capability. Regarding the development of the ERP project, AKM will enhance its capability of risk management and control and raise its basic management level to ensure that internal audit is conducted in an accurate and timely manner. Strategic human resources will also be enhanced through internal training, recruitment of talents and optimisation of the incentive mechanism.

AKM strives to become an important international supplier of flexible printed circuits and the related components and then a leader in the industry in the PRC in a long run. It is expected that the Company will take the construction of new factories as a turning point to buildup its new corporate image and solve various bottlenecks in talents, management and market by enhancing its internal core capacity, with a view to becoming a vibrant and long-lasting enterprise with an outlook for the future. In future, AKM promises to deliver satisfactory results and bring good returns to its shareholders.

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, 27 March 2007

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 37, 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 46, 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 43, 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 45, 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 master 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 中國兵工物資總公司 (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 (Freeway International Holdings Limited) and 德華移動商務有限公司 (De Welt Mobile Commerce Limited). He is also an independent non-executive director of 中國神威藥業集團有限公司 (China Shineway Pharmaceutical Group Limited). He was an independent non-executive director of 廣東科龍電器股份有限公司 (Guangdong Kelon Electrical Holdings Company Limited) up to 26 June 2006. 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 63, 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 66, 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 42, is the deputy general manager of AKM Electronics Industrial (Panyu) Ltd. (安捷利(番禺)電子實業有限公司) ("AKM Panyu") and is in-charge of research and development activities. 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 Yi Wu 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. Guo Kai (郭凱), aged 37, is the deputy general manager of the Company. In July 1991, he graduated from the 光學儀器專業 (Faculty of Optical Instrument) of 天津大學 (Tianjin University) and obtained his bachelor degree of Engineering. From July 1991 to September 2006, Mr. Guo was employed by Dongguan Shengyi Electronics Limited (a member of Meadville Technologies Group), has been appointed as engineer and manager of Quality Assurance Department and senior manager of Marketing Department, also the post of senior manager of market developing of Meadville Group. Mr. Guo joined AKM in October 2006 and is responsible for the sales and marketing and promotion.

Mr. Chen Zhen (陳蓁), aged 42, is the general manager of Suzhou Guanzhilin Electronic Technology Co. Ltd. (蘇州冠之林電子科技有限公司) ("Suzhou Guanzhilin"). 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 now responsible for the operations of AKM Suzhou.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Lam Sau Yan (林守仁), aged 46, 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 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 company secretary and full time qualified accountant.

FINANCIAL REVIEW

For the year ended 31 December 2006, the turnover of the Group amounted to approximately HK$159.88 million, representing a decrease of approximately 21.01% 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 11.61% (year of 2005: 24.57%). The net loss of the Group for the year was approximately HK$7.93 million, while there was a net profit of approximately HK$23.28 million 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 2006 amounted to approximately HK$6.21 million, representing an increase of approximately HK$1.72 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 tax refund on capital reinvestment.

The distribution costs of the Group for the year ended 31 December 2006 amounted to approximately HK$3.48 million, representing a decrease of approximately 30.88% as compared to that of last year. The decrease in distribution costs was mainly due to the recovery of debt which was written off in 2004.

The administrative expenses of the Group for the year ended 31 December 2006 amounted to approximately HK$16.89 million, representing an increase of approximately 2.49% as compared to that of last year.

The research and development expenses of the Group for the year ended 31 December 2006 amounted to approximately HK$9.27 million, representing an increase of approximately 64.85% as compared to that of last year. The increase in research and development expenses was mainly due to the increase in the research and development projects and activities and the fact that more government grants were obtained last year to set off against related expenses of the Group.

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, car electronics 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 2006, the sales of single-sided, double-sided and multi-layer flexible printed circuits accounted for approximately 17%, 63% and 20% of the Group's total turnover respectively, while the sales of these products for last year accounted for approximately 13%, 43% and 44% of the Group's total turnover.

In 2006, the Group took the initiatives to expand into overseas markets (those areas outside Mainland China and Hong Kong), which had gradually proved to be a success. The sales from overseas markets attributable to the Group's total turnover increased to 8.21% during the year from 5.25% as recorded last year, while the absolute amount from overseas sales during the year also increased by 23.54% from last year.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Business Review *(continued)*

Having a proactive marketing and promotion strategy in place for the sale of advanced fine line flexible printed circuits, and coupled with the expansion of the range of TFT LCD module application during the year, the Group achieved extraordinary results on the sales of these products. During the year, the sales from these products increased by 64% as compared to last year.

During the year, the decrease in the sales of flexible printed circuit was mainly due to the significant reduction in the application of flexible printed circuit by its key customers, especially the multi-layer flexible printed circuit. The percentage attribution of multi-layer printed circuit to the Group's total turnover decreased sharply to 20% during the year from 44% of last year, while the absolute sales amount of multi-layer flexible printed circuit during the year was drastically decreased by 65% from last year.

In Eastern China, Suzhou Guanzhilin Electronic Technology Co., Ltd., (蘇州冠之林電子科技有限公司) a company acquired by the Group in the first quarter of the year, and AKM (Suzhou) FPC Company Limited (安捷利(蘇州)柔性電路板有限公司), a company set up by the Group last year, have formed a complete production chain and proved to be in strict compliance with the government's requirements on waste water discharge. In January 2007, all legal documents for the merger of these two companies had been filed. During the year, notwithstanding the said wholly-owned subsidiary recorded a loss for the year, its turnover was heading up by each quarter. These two companies in Suzhou, with their costs advantages, have been operating with a primary goal of expanding the application of the Group's key products and improving the applications of the Group's products to satisfy the customers' demand.

During the year, the Group through a subsidiary, Ever Proven Investments Limited, injected capital in proportion to its investment commitment into Shenzhen Smart Electronics Co. Ltd (''Shenzhen Smart''), a joint venture for the provision of surface mount technology (''SMT'') services for flexible printed circuits, which were mainly used for the purposes of expanding the production lines for Shenzhen Smart. As at the date of this report, it had expanded into a total of seven production lines so as to further satisfy keen market demand.

In June 2005, the relevant local government authority in charge of land development intended to resume the land leased by the Group's Panyu plant (the "Premises"). The Group is planning the relocation of its place of operation and is assessing the related costs and any other losses which may be incurred as a result of such relocation, as well as the possibility of disruption of operations caused to the Group by such relocation. The Group has been in discussion with the lessor of the land and the relevant PRC government authority regarding compensation issues. The actual date of resumption of the land by the local government has yet to be confirmed. The Group has confirmed its new place of business, which was disclosed on 7 June 2006 in conformity with the requirements of the GEM Listing Rules. The Group has paid full price for the land of 92,852 sq.m acquired with an amount of RMB18,106,140 (equivalent to approximately of HK$17,578,777) and is preparing for the construction of a new factory building which is expected to be completed by the end of the year.

Silver City International (Holdings) Ltd., 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.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Outlook

Affected by the changes in both of the competitive environment of the domestic mobile phone market in Mainland China and the product structure of mobile phone, turnover of the Group for the year were lower than that of last year and recorded a loss for the first time since its listing. In line with the Group's efforts in adjusting the market portfolio and product mix, the reliance on domestic mobile phone manufacturers had gradually reduced. The Directors believe that, through the implementation of large customers development strategy, project management system and the strict internal audit system, together with the improved internal core strength, the Group is striving to improve the operating conditions in 2007, however, it is still expected that the Group will make a loss for the first quarter in 2007.

With the aim to further expand overseas operations, the Group will continue to explore overseas markets proactively. Since the international major customers with manufacturing base in the Mainland China started to adopt local purchasing strategies, the Group has to fully capitalize on the competitive edges created through cost saving, economy of scale and technology upgrade, in order to capture this good opportunity arising from the moves of these manufacturers on purchasing and extend its base of international customers.

Facing the ever changing mobile phone market, the Group successfully developed flexible printed circuit for sliding design mobile phones. The Directors believe that the application of these products will help to improve the decreasing sales in this market. In view of the licenses granting for mobile business operators in the Mainland China, the Group has devised its marketing strategy for developing 3G mobile phones business and to promote the collaboration with small and medium sized mobile operators, as such, the Directors expect the sales will be increased in 2007 accordingly.

The Group will seek to co-operate and establish strategic alliances with international manufacturers and relevant design houses in the industry and introduce strategic partners to further enhance the R&D capability, manufacturing capacity and management ability of the Group and build core competency. During the fourth quarter of the year, the Group had already signed a cooperative letter of intent with an international manufacturer for the joint development of flexible printed circuits market in Japan and the relevant negotiations are under way.

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, was 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 of the Company dated 10 August 2004 (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 2006, the Group had outstanding bank borrowings amounting to HK$8,918,704, of which approximately HK$3,937,632 and HK$4,981,072 are trust receipts loans and bank loan respectively, and bank overdraft amounting to HK$3,083,288.

EMPLOYEES

As at 31 December 2006, the Group had a total of 1,065 full-time employees (2005: 1,075 employees) based in Hong Kong and China. The total staff costs of the Group, including the Directors' remunerations, for the year ended 31 December 2006 amounted to HK$29,380,790 (2005: HK$24,490,456). 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 2006.

MATERIAL ACQUISITIONS AND DISPOSALS

In April 2006, the Company has acquired 100% interest in Suzhou Guanzhilin at a consideration of approximately RMB3.11 million, which mainly engages in the production of single-sided and double-sided flexible printed circuits.

Save as disclosed above, the Group did not have any material acquisitions or disposals during the year ended 31 December 2006.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSETS

AKM Panyu, the wholly-owned subsidiary of the Company, entered into an agreement for the transfer of land use rights on 1 June 2006 to purchase the land use rights of a piece of land situating at the South of Technology Road, Information Technology Park of the Economic and Development Area of Nansha, Guangzhou, the PRC (the "Land") at a total consideration of RMB18,106,140 (equivalent to approximately HK$17,578,777). The Land has a total gross area of 92,852 sq.m., which will be used for production relocation and expansion purposes.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSETS *(continued)*

A new production facility will be built on the Land and the majority of the Group's operation will be relocated once the construction is completed. The capital commitment in relation to the new production facility is yet to be ascertained, but the amount shall be funded by internal resources and/or bank borrowings.

Saved as disclosed above, the Group has no other future plans for material investments or capital assets as at 31 December 2006.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2006, bank deposits of approximately HK$4.83 million (31 December 2005: HK$8.02 million) and bill receivables of approximately HK$2.64 million (31 December 2005: HK$2.11 million) of the Group were pledged as collateral to secure the banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no significant contingent liabilities.

GEARING RATIO

As at 31 December 2006, the Group had a net cash and cash equivalent position of HK$56,214,588. The Group's gearing ratio as at 31 December 2006 was approximately 28.13% (31 December 2005: 28.16%) which was calculated based on the Group's total liabilities of approximately HK$72,701,476 (31 December 2005: HK$74,836,091) and total assets of approximately HK$258,408,531 (31 December 2005: HK$265,781,514).

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 Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to US dollars and RMB. 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 36 to the financial statements.

Comparison of Business Objectives with Actual Business Progress

The Company has been listed the GEM since 18 August 2004. Set out below is the actual business progress of the Group in comparison with the business objectives as stated in the Prospectus for the period from 6 August 2004 (being the latest practicable date prior to the printing of the Prospectus) to 31 December 2006:

Business objectives as stated in the Prospectus	Actual business progress as at 31 December 2006
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, also, a strategic alliance in Japan had been sought. The Group still continues to seek suitable distribution agents or strategic alliances in Taiwan.
2. To market the Group's products via advertisements and journals.	The Group marketed its products via advertisements and journals during the year.

For the year ended 31 December 2006, 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:

	Amount of net proceeds to be used up as at 31 December 2006 as set out in the Prospectus HK$' million	Actual amount of net proceeds spent as at 31 December 2006 HK$' million
1. Expansion of production capacity		
– Acquisition and installation of additional equipment and machineries		
i. the fifth production line	20.95	17.34
ii. the sixth production line	23.00	18.93
– Renovation of production plant	2.55	2.55
2. Expansion of sales and distribution network	2.00	1.39

Note: As at 31 December 2006, 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 and all have been settled before 31 December 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 will be used 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 2006.

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.

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, 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, 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 agenda and details of 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.

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 year, two meetings of the remuneration committee were held. Details of the attendance of the meeting of the remuneration committee meeting are as follows:

Members	**Attendance**
Mr. Han Li Gang	2/2
Mr. Li Kung Man	2/2
Mr. Wang Heng Yi	2/2

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 year, 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, Mr. Han Li Gang and Mr. Wang Heng Yi will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

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, the Group is required to pay an aggregate of approximately HK$850,000 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. 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 in 2006 and annual audited results for the year ended 31 December 2005 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, 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 2006.

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 2006 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 17 and 16 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 2006 are set out in the consolidated income statement on page 30.

The Directors did not recommend the payment of a dividend for the year ended 31 December 2006.

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 29 to the financial statements.

BANK BORROWINGS

As at 31 December 2006, the Group had outstanding bank borrowings and overdraft amounting to HK$8,918,704 and HK$3,083,288 respectively.

DIRECTORS

The Directors who held office during the year and 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, Han Li Gang and Wang Heng Yi shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

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

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

Details of the Directors' remunerations are set out in note 10 to the financial statements.

Biographical details of the Directors are set out on pages 5 to 6 of this annual report.

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 30 to the financial statements. For the year ended 31 December 2006, 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:

				Number of share options			
Name or category of participant	**Date of grant** *(Notes 1 & 2)*	**Exercisable period** *(Note 1, 2 & 3)*	**Exercise price per share** HK$	**Outstanding at 1.1.2006**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at 31.12.2006**
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	11,900,000	–	(3,700,000)	8,200,000
Total				17,300,000	–	(3,700,000)	13,600,000

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, UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as at 31 December 2006, 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").

(a) The Company

(i) Interest in shares of the Company

Name	Name of the Company in which interest is held	Class and number of shares of which interested (other than under equity derivatives)	Capacity	Long/short position	Approximately percentage of total issued share capital in the Company
Mr. Xiong Zheng Feng	the Company	1,930,000 ordinary shares	Beneficial owner	Long	0.36

(ii) Interest in the underlying shares of the Company through equity derivatives

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES *(continued)*

(a) The Company *(continued)*

(ii) Interest in the underlying shares of the Company through equity derivatives (continued)

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. Mr. Xiong Zheng Feng is in aggregate interested in approximately 0.73% of the total issued share capital in the Company, such interest comprises his interests in 1,930,000 issued shares and 2,000,000 underlying shares.

3. None of Ms. Li Ying Hong nor Mr. Chai Zhi Qiang is interested in any securities of the Company other than the underlying shares held under equity derivatives.

(b) The associated corporation

As at 31 December 2006, to the best knowledge of the Company, none of the Directors, chief executive of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of any associated corporations of the Company (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and Rules 5.46 to 5.67 of the GEM Listing Rules.

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 2006, 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 2006 comprised the retained profits of HK$74,898,715 (2005: HK$47,059,593).

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 31 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 2006 are set out in note 37 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 30 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 49% of the Group's turnover and turnover attributable to the Group's largest customer accounted for approximately 17% of the Group's turnover.

For the year ended 31 December 2006, 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 17% of the Group's purchases.

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 2006.

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 Mega Capital (Asia) Company Limited ("Mega Capital"), Mega Capital 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.

As notified by Mega Capital pursuant to Rule 6A.32 of the GEM Listing Rules, none of Mega Capital, its Directors, employees nor their respective associates 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 2006.

CONNECTED TRANSACTIONS

During the year ended 31 December 2006, 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 2006, the Group owed to ALI Guangzhou an amount of HK$2,434,591 and during the year, the Group paid rentals for office and factory premises and staff quarter charged to the Group amounting to HK$2,583,575 (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.

CONNECTED TRANSACTIONS *(continued)*

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 People's Republic of China ("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$781,088).

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 2006, the aggregate rental paid by AKM Panyu to ALI Guangzhou under the Factory Lease amounted to RMB798,194 (equivalent to HK$781,088).

(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$336,017).

For the year ended 31 December 2006, the aggregate rental paid by AKM Panyu to ALI Guangzhou under the Dormitory Lease amounted to RMB343,376 (equivalent to HK$336,017).

CONNECTED TRANSACTIONS *(continued)*

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

(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 2006, the aggregate rentals paid by AKM Panyu under the Property Leases was RMB1,498,585 (equivalent to HK$1,466,469).

Pricing basis

The aggregate rentals paid by AKM Panyu for the year ended 31 December 2006 under the Factory Lease, the Dormitory Lease and the Property Leases were RMB2,640,155 (equivalent to HK$2,583,574), 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 interests 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.

CONNECTED TRANSACTIONS *(continued)*

3. Loan from CNIC, ultimate holding company

During the year ended 31 December 2006, the Group obtained a loan from CNIC for the development of printed circuit amounting to RMB4,000,000. The amount is unsecured, interest free and repayable on demand.

CNIC is the immediate holding company of Silver City who is an intermediate holding company of the Group and hence the above transaction constitutes a connected transaction of the Company under the GEM Listing Rules.

4. Loan from Silver City, intermediate holding company

During the year ended 31 December 2006, the Group obtained a loan from Silver City for operating fund amounting to USD2,000,000 (equivalent to HKD15,558,000). The amount is unsecured, interest bearing and repayable with one year. SCIL is an intermediate holding company of the Group and hence the above transaction constitutes a connected transaction of the Company under the GEM Listing Rules.

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

AUDITORS

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

ON BEHALF OF THE BOARD

AKM Industrial Company Limited
Xiong Zheng Feng
Chairman

Hong Kong, 27 March 2007

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 consolidated financial statements of AKM Industrial Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 71, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
27 March 2007

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 HK$	2005 HK$
Turnover	6	**159,879,101**	202,402,207
Cost of sales		**(141,321,683)**	(152,665,813)
Gross profit		**18,557,418**	49,736,394
Other income		**6,209,978**	4,489,746
Distribution costs		**(3,481,131)**	(5,036,148)
Administrative expenses		**(16,893,026)**	(16,482,468)
Research and development expenses		**(9,272,433)**	(5,624,813)
Share of result of a jointly controlled entity		**(1,877,373)**	(594,931)
Finance costs	7	**(251,819)**	(61,856)
(Loss) profit before taxation	8	**(7,008,386)**	26,425,924
Taxation	9	**(920,019)**	(3,130,857)
(Loss) profit for the year		**(7,928,405)**	23,295,067
Attributable to:			
Equity holders of the parent		**(7,928,828)**	23,282,264
Minority interests		**423**	12,803
		(7,928,405)	23,295,067
(Loss) earnings per share	12		
– basic		**(1.47 cents)**	4.31 cents
– diluted		**N/A**	4.31 cents

Consolidated Balance Sheet

AT 31 DECEMBER 2006

	Notes	2006 HK$	2005 HK$
Non-current assets			
Property, plant and equipment	13	**72,862,592**	67,333,361
Prepaid lease payment	14	**18,207,150**	–
Goodwill	15	**2,120,863**	–
Interest in a jointly controlled entity	16	**6,337,696**	5,205,069
Deferred tax asset	33	**–**	303,000
		99,528,301	72,841,430
Current assets			
Inventories	18	**33,549,621**	35,656,990
Trade and other receivables	19	**51,508,699**	76,182,787
Bills receivables	19	**11,436,940**	25,273,970
Prepaid lease payment	14	**371,575**	–
Amount due from a jointly controlled entity	20	**965,743**	895,892
Pledged bank deposits	21	**4,833,064**	8,023,691
Bank balances and cash	27	**56,214,588**	46,906,754
		158,880,230	192,940,084
Current liabilities			
Trade and other payables	22	**29,908,339**	48,568,338
Bills payables	22	**3,721,578**	8,389,210
Government grants received	23	**206,216**	251,923
Amount due to a fellow subsidiary	24	**2,434,591**	1,734,315
Loan from intermediate holding company	24	**15,558,000**	–
Taxation payable		**2,638,402**	4,344,349
Bank borrowings	25	**8,918,704**	10,087,956
Loan from a minority shareholder of a subsidiary	26	**2,247,500**	1,460,000
Loan from an ultimate holding company	28	**3,984,858**	–
Bank overdraft	27	**3,083,288**	–
		72,701,476	74,836,091
Net current assets		**86,178,754**	118,103,993
Total assets less current liabilities		**185,707,055**	190,945,423
Capital and reserves			
Share capital	29	**54,000,000**	54,000,000
Reserves		**131,693,634**	136,932,425
Equity attributable to equity holders of the parent		**185,693,634**	190,932,425
Minority interests		**13,421**	12,998
Total equity		**185,707,055**	190,945,423

The financial statements on pages 30 to 71 were approved and authorised for issue by the Board of Directors on 27 March 2007 and are signed on its behalf by:

Li Ying Hong
Director

Xiong Zheng Feng
Director

Balance Sheet

AS AT 31 DECEMBER 2006

	Notes	2006 HK$	2005 HK$
Non-current assets			
Property, plant and equipment	13	**45,608**	221,618
Interests in subsidiaries	17	**219,017,732**	141,029,573
		219,063,340	141,251,191
Current assets			
Inventories	18	**–**	434,107
Trade and other receivables	19	**5,493,376**	17,213,741
Amount due from subsidiaries	17	**6,943,571**	4,380,000
Tax recoverable		**312,104**	–
Pledged bank deposits	21	**1,663,215**	5,615,702
Bank balances		**1,131,277**	11,382,385
		15,543,543	39,025,935
Current liabilities			
Trade and other payables	22	**3,855,302**	18,686,016
Amount due to a subsidiary	17	**24,464,568**	474,307
Loan from intermediate holding company	24	**15,558,000**	–
Bank borrowings	25	**3,937,633**	5,280,263
Bank overdraft		**3,083,288**	–
		50,898,791	24,440,586
Net current (liabilities) assets		**(35,355,248)**	14,585,349
Net assets		**183,708,092**	155,836,540
Capital and reserves			
Share capital	29	**54,000,000**	54,000,000
Reserves	31	**129,708,092**	101,836,540
		183,708,092	155,836,540

Li Ying Hong
Director

Xiong Zheng Feng
Director

	Attributable to equity holders of the parent							
	Share capital	Share premium	Translation reserve	Share options reserve	Retained profits	Total	Minority interests	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
At 1 January 2005, 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
Exchange differences from translation of foreign operations directly recognised in equity	–	–	6,513,278	–	–	6,513,278	–	6,513,278
Loss for the year	–	–	–	–	(7,928,828)	(7,928,828)	423	(7,928,405)
Total recognised income and expenses for the year	–	–	6,513,278	–	(7,928,828)	(1,415,550)	423	(1,415,127)
Recognition of equity-settled share based payments	–	–	–	226,759	–	226,759	–	226,759
Lapse of share options	–	–	–	(194,329)	194,329	–	–	–
2005 final dividend paid	–	–	–	–	(4,050,000)	(4,050,000)	–	(4,050,000)
At 31 December 2006	**54,000,000**	**53,868,328**	**11,536,392**	**941,049**	**65,347,865**	**185,693,634**	**13,421**	**185,707,055**

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 HK$	2005 HK$
OPERATING ACTIVITIES			
(Loss) profit before taxation		**(7,008,386)**	26,425,924
Adjustments for:			
Interest expense		**251,819**	61,856
Interest income		**(607,502)**	(413,963)
Share of result of a jointly controlled entity		**1,877,373**	594,931
(Reversal) allowance for bad and doubtful debts		**(1,903,624)**	799,245
Allowance for obsolete inventories		**92,964**	1,008,625
Depreciation of property, plant and equipment		**11,698,016**	10,799,838
Loss on disposal of property, plant and equipment		**23,919**	10,571
PRC tax refund on capital reinvestment in a subsidiary		**(4,981,000)**	(3,255,615)
Government grants recognised		**(552,899)**	(1,683,810)
Share-based payment expense		**226,759**	529,298
Operating cash flows before movements in working capital		**(882,561)**	34,876,900
Decrease (increase) in inventories		**3,244,858**	(18,771,035)
Decrease (increase) in trade and other receivables		**28,679,271**	(20,681,447)
Decrease in bills receivable		**14,232,696**	1,772,874
Increase in amount due from a jointly controlled entity		**(36,238)**	(887,360)
Decrease in trade and other payables		**(21,181,937)**	(2,913,207)
(Decrease) increase in bills payable		**(4,667,632)**	5,382,294
Increase (decrease) in amount due to a fellow subsidiary		**238,747**	(42,610)
Cash generated from (used in) operations		**19,627,204**	(1,263,591)
Interest paid		**(251,819)**	(61,856)
Profits tax prepaid		**(337,353)**	–
PRC Enterprise Income Tax paid		**(2,114,209)**	(3,651,810)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES		**16,923,823**	(4,977,257)
INVESTING ACTIVITIES			
PRC tax refund on capital reinvestment in a subsidiary		**4,981,000**	3,255,615
Investment in a jointly controlled entity		**(3,010,000)**	(5,800,000)
Interest received		**607,502**	413,963
Increase in prepaid lease payment		**(17,932,042)**	–
Proceeds on disposal of property, plant and equipment		**–**	3,810
Purchase of property, plant and equipment		**(13,347,633)**	(28,930,124)
Decrease in pledged bank deposits		**3,300,960**	1,865,222
Acquisition of subsidiary	32	**(2,352,869)**	–
NET CASH USED IN INVESTING ACTIVITIES		**(27,753,082)**	(29,191,514)

	2006 HK$	2005 HK$
FINANCING ACTIVITIES		
Dividend paid	**(4,050,000)**	(2,700,000)
New bank borrowings raised	**4,691,776**	10,042,168
Repayment of bank borrowings	**(6,323,703)**	(183,334)
Loan raised from intermediate holding company	**15,558,000**	–
Loan raised from ultimate holding company	**3,984,858**	–
Loan raised from a minority shareholder of a subsidiary	**787,500**	1,460,000
Government grants received	**500,014**	759,983
Capital contribution by a minority shareholder of a subsidiary	**–**	195
NET CASH FROM FINANCING ACTIVITIES	**15,148,445**	9,379,012
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,319,186**	(24,789,760)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**46,906,754**	71,216,747
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,905,360**	479,767
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**53,131,300**	46,906,754
REPRESENTING		
Bank balances and cash	**56,214,588**	46,906,754
Bank overdraft	**(3,083,288)**	–
	53,131,300	46,906,754

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 while the functional currency of the Company is Renminbi. The reason for selecting Hong Kong dollars as its presentation currency is because the Company is a public company in Hong Kong with the shares listed on the Stock Exchange.

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 NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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 2006. The adoption of the new HKFRSs had no material effect on how the results for the current and prior accounting years are prepared and presented. Accordingly, no prior year adjustments has been required.

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]
HKFRS 7	Financial instruments: Disclosures [1]
HKFRS 8	Operating segment [2]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [3]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [4]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives [5]
HK(IFRIC) – INT 10	Interim financial reporting and impairment [6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions [7]
HK(IFRIC) – INT 12	Service concession arrangements [8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with HKFRS issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong 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. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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.

Business combinations

The acquisition of a subsidiary is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 Business Combinations* are recognised at their fair values at the acquisition date.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

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 net assets 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

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

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, other than construction in progress, 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.

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to the construction of a new factory. It is not depreciated until completion of construction and the asset is in the manner of intended use. Costs of completed construction works are transferred to the appropriate categories of property, plant and equipment.

Prepaid lease payments

Payments for obtaining land use rights is considered as operating lease payment and charged to profit or loss over the period of the right using the straight-line method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 and bank balances

Trade receivables, bills receivables, amount due from a subsidiary, amount due from a jointly controlled entity and pledged bank deposits and bank balances are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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 method. Transaction costs that are directly attributable to the bank borrowings are deducted from the fair value of the bank borrowings on initial recognition.

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/loan from ultimate holding company/loan from immediate holding company

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, loan from immediate holding company and loan from ultimate holding company are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest 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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment 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 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 taxable profit nor the accounting profit.

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

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.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Share-based payment transactions

Equity-settled 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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in profit or loss with a corresponding adjustment to 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 after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

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

The Group as lessee

Rentals payable under operating leases are charged to 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 and state-managed retirement benefit schemes are charged as an expenses when employees have rendered service entitling them to the contributions.

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 has 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.

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

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 the financial assets original effective interest rate to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

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, bank balances and cash, trade and bills 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 entity 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.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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 2006 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.

However, the credit risk on trade receivables is concentrated on a few of customers. Aggregate trade and bills receivables attributable to the Group's five largest debtors represented approximately 45% (2005: 44%) of the total trade and bills receivables for the year.

Credit risks relating to amount due from a jointly controlled entity is closely monitor on a ongoing basis by the management.

The credit risk in relation to bank balances and cash is limited because the majority of the counterparties are state-owned banks with good reputation in the PRC.

Interest rate risk

The Group's fair value interest rate risk primary 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	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
PRC other than Hong Kong	**122,903,049**	165,659,841	**8,556,633**	37,205,100
Hong Kong	**23,850,783**	26,118,308	**3,728,553**	6,647,553
Others	**13,125,269**	10,624,058	**2,791,101**	847,593
	159,879,101	202,402,207	**15,076,287**	44,700,246
Interest income			**607,502**	413,963
Finance costs			**(251,819)**	(61,856)
Share of result of a jointly controlled entity			**(1,877,373)**	(594,931)
Unallocated expenses, net of unallocated other income			**(20,562,983)**	(18,031,498)
(Loss) profit before taxation			**(7,008,386)**	26,425,924
Taxation			**(920,019)**	(3,130,857)
(Loss) profit for the year			**(7,928,405)**	23,295,067

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. FINANCE COSTS

	2006 HK$	2005 HK$
Interests on:		
Bank borrowings wholly repayable within five years	**251,819**	61,856

8. (LOSS) PROFIT BEFORE TAXATION

	2006 HK$	2005 HK$
(Loss) profit before taxation has been arrived at after charging:		
Research and development expenses		
Staff costs	**865,558**	1,113,830
Other research and development expenses	**8,959,774**	6,194,793
	9,825,332	7,308,623
Less: Amounts reduced by government grants recognised	**(552,899)**	(1,683,810)
	9,272,433	5,624,813
Directors' remuneration (note 10)	**668,738**	746,396
Other staff costs	**27,408,165**	22,627,424
Other staff's retirement benefits costs	**1,303,887**	1,116,636
Total staff costs	**29,380,790**	24,490,456
Less: Other staff costs included in research and development expenses shown above	**(865,558)**	(1,113,830)
	28,515,232	23,376,626
Auditors' remuneration	**926,500**	892,381
(Reversal) allowance for bad and doubtful debts	**(1,903,624)**	799,245
Cost of inventories recognised as an expense	**141,321,683**	152,665,813
Depreciation of property, plant and equipment	**11,698,016**	10,799,838
Loss on disposal of property, plant and equipment	**23,919**	10,571
Minimum lease payments under operating leases in respect of land and buildings	**3,689,866**	3,155,994
Net foreign exchange losses	**677,223**	189,939
Allowance for obsolete inventories	**92,964**	1,008,625
Shipping and handling expenses (included in distribution costs)	**1,075,570**	547,808
and after crediting:		
Interest income	**607,502**	413,963
PRC tax refund on capital reinvestment in a subsidiary	**4,981,000**	3,255,615

9. TAXATION

	2006 HK$	2005 HK$
Current tax:		
Hong Kong Profits Tax	**38,918**	–
PRC Enterprise Income Tax	**578,101**	3,130,857
	617,019	3,130,857
Deferred taxation (note 33)	**303,000**	–
Taxation attributable to the Company and its subsidiaries	**920,019**	3,130,857

Hong Kong Profits tax is calculated at 17.5% of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax was made in the prior year as the Group's assessable profit in Hong Kong in the prior year was wholly absorbed by tax losses brought forward. 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 each PRC subsidiary's applicable tax rate.

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%. 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 (loss) profit before taxation per the income statement as follows:

	2006 **HK$**	2005 HK$
(Loss) profit before taxation	**(7,008,386)**	26,425,924
Tax at the applicable income tax rate (note)	**1,677,043**	(6,342,222)
Tax effect of share of result of a jointly controlled entity	**(450,570)**	(142,783)
Tax effect of income that are not taxable in determining taxable profit	**1,149,404**	781,348
Tax effect of expenses that are not deductible in determining taxable profit	**(305,997)**	(256,624)
Tax effect of utilisation of tax losses not previously recognised	**233,520**	370,151
Tax effect of deductible temporary difference not recognised	**–**	(1,079,191)
Tax effect of tax loss not recognised	**(2,903,760)**	–
Effect of tax reduction granted to PRC subsidiary	**–**	3,279,169
Others	**(319,659)**	259,295
Tax expense for the year	**(920,019)**	(3,130,857)

Note: AKM Panyu is the Group's major operating subsidiary and accordingly its applicable income tax rate is adopted.

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 (2005: seven) directors were as follows:

		Other emoluments		
	Fees	Salaries and other benefits	Pension costs	Total emoluments
	HK$	HK$	HK$	HK$
Xiong Zheng Feng	–	33,347	–	33,347
Li Ying Hong	–	10,004	–	10,004
Chai Zhi Qiang	–	456,685	11,672	469,357
Han Li Gang	–	–	–	–
Liang Zhi Li	48,015	–	–	48,015
Li Kung Man	60,000	–	–	60,000
Wang Heng Yi	48,015	–	–	48,015
Total for 2006	156,030	501,036	11,672	668,738

		Other emoluments		
	Fees	Salaries and other benefits	Pension costs	Total emoluments
	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

For the year ended 31 December 2006, Mr. Xiong Zheng Feng and Ms. Li Ying Hong waived their nominal salary of HK$10 (2005: HK$10) and HK$10 (2005: HK$10) respectively. There are no other Directors who have waived any remuneration during the year.

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

(ii) Employees' remuneration:

Of the five highest paid individuals of the Group, four (2005: four) are employees of the Group, details of whose remuneration are as follows:

	2006	2005
	HK$	HK$
Salaries, allowances and other benefits	**1,365,867**	1,358,912
Pension costs	**28,194**	43,833
Performance related incentive payments	**–**	52,000
	1,394,061	1,454,745

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

	2006	2005
	HK$	HK$
Final, proposed – HK Nil cent per share (2005: HK0.75 cent)	**–**	4,050,000

On 26 April 2006, a dividend of HK0.75 cent per share on 540,000,000 shares, in aggregate, approximately HK$4,050,000 was paid to shareholders as the final dividend for the year ended 31 December 2005.

No dividend was proposed during 2006 nor has any dividend been proposed since the balance sheet date.

12. (LOSS) EARNINGS PER SHARE

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

	2006	2005
	HK$	HK$
(Loss) earnings for the purposes of basic and diluted earnings per share:		
– (loss) profit for the year attributable to equity holders of the parent	**(7,928,828)**	23,282,264

	Number of shares	
	2006	2005
Weighted average number of ordinary shares for the purpose of basic earnings per share	**540,000,000**	540,000,000
Effect of dilutive potential ordinary shares from share options		718,588
Weighted average number of ordinary shares for the purposes of diluted earnings per share		540,718,588

The diluted loss per share for the year ended 31 December 2006 is not presented as the exercise of the share options outstanding would result in a decrease in loss per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$	Leasehold improvements HK$	Office equipment HK$	Motor vehicles HK$	Construction in progress HK$	Total HK$
COST						
At 1 January 2005	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
Additions	6,626,850	469,666	3,429,650	364,820	2,456,647	13,347,633
Acquisition of subsidiary	1,024,149	280,119	53,064	–	–	1,357,332
Disposals	–	(49,250)	(10,900)	–	–	(60,150)
Currency realignment	3,982,950	253,200	195,501	91,226	44,297	4,567,174
At 31 December 2006	**116,555,467**	**7,743,953**	**7,250,223**	**3,293,948**	**2,500,944**	**137,344,535**
DEPRECIATION						
At 1 January 2005	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
Provided for the year	8,367,261	2,180,789	618,686	531,280	–	11,698,016
Eliminated on disposals	–	(30,781)	(5,450)	–	–	(36,231)
Currency realignment	1,789,002	128,018	54,660	49,293	–	2,020,973
At 31 December 2006	**55,681,405**	**4,836,684**	**1,852,695**	**2,111,159**	**–**	**64,481,943**
CARRYING VALUES						
At 31 December 2006	**60,874,062**	**2,907,269**	**5,397,528**	**1,182,789**	**2,500,944**	**72,862,592**
At 31 December 2005	59,396,376	4,231,560	2,398,109	1,307,316	–	67,333,361

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

	Leasehold improvements HK$	Office equipment HK$	Motor vehicles HK$	Total HK$
THE COMPANY				
COST				
At 1 January 2005	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
Disposal	(49,250)	(10,900)	–	(60,150)
At 31 December 2006	**–**	**80,686**	**490,680**	**571,366**
DEPRECIATION				
At 1 January 2005	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
Provided for the year	11,286	18,136	122,670	152,091
Eliminated on disposals	(30,781)	(5,450)	–	(36,231)
At 31 December 2006	**–**	**(35,078)**	**(490,680)**	**(525,758)**
CARRYING VALUES				
At 31 December 2006	**–**	**45,608**	**–**	**45,608**
At 31 December 2005	29,755	69,193	122,670	221,618

14. PREPAID LEASE PAYMENTS

	2006	2005
	HK$	HK$
The Group's prepaid lease payments comprise:		
Land in PRC:		
Medium term lease	**18,578,725**	–
Analysed for reporting purposes as:		
Current assets	**371,575**	–
Non-current assets	**18,207,150**	–
	18,578,725	–

15. GOODWILL

	HK$
COST	
At 31 December 2005 and at 1 January 2006	–
Arising on the acquisition of a subsidiary	2,120,863
At 31 December 2006	**2,120,863**

The goodwill arise from the acquisition of a subsidiary during the year as disclosed in note 32. The management of the Group determines that there is no impairment of this goodwill. The recoverable amount of the goodwill has been determined based on value in use.

The Group prepares cash flows forecasts derived from the most recent financial budgets approved by the management for the next three years and extrapolates cash flows beyond the three years period based on an estimated growth rate of zero percent. The rate used in discounting the forecast cash flow from the subsidiary is 9.6%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of goodwill exceed, its recoverable amount.

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

As at 31 December 2006, the Group had interest in the following jointly controlled entity:

Name of entity	Place of establishment and operation	Form of business structure	Registered capital	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$30,000,000 (2005: HK$10,000,000)	HK$15,730,000 (2005: HK$10,000,000)	53% (2005: 58%)	57% (2005: 57%)	Provide surface mount technology service

	2006 **HK$**	2005 HK$
Cost of unlisted investment in a jointly controlled entity	**8,810,000**	5,800,000
Share of post-acquisition losses	**(2,472,304)**	(594,931)
	6,337,696	5,205,069

The Group holds 53% (2005: 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.

16. INTEREST IN A JOINTLY CONTROLLED ENTITY *(continued)*

The summarised financial information in respect of the Group's jointly controlled entity is set out below:

	2006 **HK$**	2005 HK$
Total assets	**23,735,671**	11,266,062
Total liabilities	**(11,777,754)**	(2,291,805)
Net assets	**11,957,917**	8,974,257
Group's share of net assets	**6,337,696**	5,205,069
Revenue	**10,280,377**	1,634,261
Loss for the year	**(3,542,213)**	1,025,743
Group's share of result for the year	**(1,877,373)**	(594,931)

17. INTERESTS IN SUBSIDIARIES

	2006 **HK$**	2005 HK$
THE COMPANY		
Capital contribution, at cost	**219,017,732**	135,269,312
Amount due from a subsidiary (note)	**–**	5,760,261
	219,017,732	141,029,573

Note: The amount is unsecured, non-interest bearing and has no fixed terms of repayment. As at 31 December 2005, the directors of the Company considered 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 amounts due from subsidiaries of HK$6,943,571 (2005: HK$4,380,000), included in current assets and amounts due to subsidiaries of HK$24,464,568 (2005: HK$474,307) included in current liabilities. Impairment loss recognised in respect of amounts due from subsidiaries as at 31 December 2006 amounts to HK$4,000,000 (2005: Nil).

The Directors consider the carrying amounts due from/to subsidiaries approximate their fair values. 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.

17. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the Company's subsidiaries as at 31 December 2006 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
				Directly	Indirectly	
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 enterprise	US$21,700,000	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 ("AKM (Suzhou)") (Note)	The PRC	Wholly owned-foreign enterprise	HK$5,000,000	100%	–	Manufacture and sale of flexible printed circuit
Ever Proven Investments Limited	British Virgin Islands	International business company	US$100	75%	–	Investment holding
Suzhou Guanzhilin Electronic Technology Co. Limited ("Suzhou Guanzhilin") 蘇州冠之林電子科技有限公司	The PRC	Wholly owned-foreign enterprise	US$2,000,000	100%	–	Manufacture and sale of flexible printed circuit
Guangzhou AKM Flexible Printed Circuits Research Developing Limited 廣州市安捷利柔性電路研究開發有限公司	The PRC	Wholly owned-foreign enterprise	HK$200,000	100%	–	Reseach and develop, and sale of flexible printed circuit
AKM Electronic Technology (Suzhou) Company Limited 安捷利電子科技(蘇州)有限公司	The PRC	Wholly owned-foreign enterprise	US$4,500,000	100%	–	Manufacture and sale of flexible printed circuit
Giant Rise Technology Limited 嘉升科技有限公司	Hong Kong	Limited Company	HK$1,000,000	–	100%	Trading of raw materials and flexible printed circuit

Note: Pursuant to the approval from 蘇州市對外貿易經濟合作局 dated 7 December 2006, AKM Suzhou was approved to merge with Suzhou Gianzhilin, the subsidiary which was acquired on 6 March 2006 (note 32). In addition, pursuant to 外商投資企業註銷核准通知書, the deregistration of AKM (Suzhou) was approved on 31 January 2007.

18. INVENTORIES

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Raw materials	**14,573,460**	14,501,676	**–**	–
Work in progress	**9,006,294**	12,650,364	**–**	–
Finished goods	**9,969,867**	8,504,950	**–**	434,107
	33,549,621	35,656,990	**–**	434,107

19. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

Trade and other receivables/bills receivables include the following balance of trade and bills receivables.

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Trade and bills receivables	**66,596,824**	109,627,418	**5,340,539**	16,741,790
Less: Allowance for bad and doubtful debts	**(9,181,120)**	(10,504,552)	**(166,682)**	(166,253)
	57,415,704	99,122,866	**5,173,857**	16,575,537

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	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Within 30 days	**13,374,360**	33,788,510	**751,258**	6,281,888
31 – 60 days	**16,574,382**	29,724,038	**1,431,668**	6,195,751
61 – 90 days	**13,174,458**	16,989,436	**2,284,833**	1,938,153
91 – 120 days	**9,238,212**	12,328,433	**179,883**	1,988,029
121 days – 1 year	**4,973,438**	5,841,382	**526,215**	171,716
Over 1 years	**80,854**	451,067	**–**	–
	57,415,704	99,122,866	**5,173,857**	16,575,537

The fair value of the Group and Company's trade and bills receivables at 31 December 2006 was approximate to the corresponding carrying amount.

19. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLE *(continued)*

The Group and the Company's trade receivables that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2006	2005
	HK$	HK$
United States Dollar	**5,173,857**	16,575,537

20. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount is in trade nature and is unsecured, interest-free and repayable on demand. The Directors consider the carrying amount of amount due from a jointly controlled entity approximates its fair value.

21. PLEDGED BANK DEPOSITS

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

The deposits carried fixed interest rate ranged from 1.85% to 3.00% (2005: 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 2006 approximates to the corresponding carrying amount.

22. TRADE AND OTHER PAYABLES/BILLS PAYABLES

Trade and other payables/bills payables include the following balances of trade and bills payables. The following is an aged analysis of trade and bills payables:

	THE GROUP		**THE COMPANY**	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Within 30 days	**12,569,353**	18,567,765	**1,627,602**	5,118,938
31 – 60 days	**6,047,896**	13,707,087	**438,619**	3,207,492
61 – 90 days	**3,041,671**	7,523,035	**259,818**	4,707,078
91 – 120 days	**2,201,853**	4,589,292	**–**	2,064,601
121 days – 1 year	**42,979**	3,345,028	**–**	1,978,128
Over 1 year	**396,947**	445,771	**–**	–
	24,300,699	48,177,978	**2,326,039**	17,076,237

The fair value of the Group and Company's trade and other payables and bills payables at 31 December 2006 approximates to the corresponding carrying amount.

23. GOVERNMENT GRANTS RECEIVED

The amounts represent government subsidies received in advance in relation to research and development expenses on certain new products. The amounts will be 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.

24. AMOUNT DUE TO A FELLOW SUBSIDIARY/LOAN FROM INTERMEDIATE HOLDING COMPANY

Amount due to a fellow subsidiary 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.

Loan from intermediate holding company is unsecured, bear interest at LIBOR rate less 1% and repayable within one year from the balance sheet date.

The directors consider the carrying amount of loan from intermediate holding company approximates its fair value.

25. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Bank borrowings which are repayable within one year comprise the following:				
Bank loans – secured	**4,981,072**	4,807,693	**–**	–
Trust receipts loans – secured	**3,937,632**	5,280,263	**3,937,633**	5,280,263
	8,918,704	10,087,956	**3,937,633**	5,280,263

During the year ended 31 December 2006, the Group repaid a bank loan of HK$4,807,693 and obtained a bank loan of HK$4,981,072. 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 6.142% (2005: 5.742%) per annum and due for repayment in July 2007 (2005: 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 2006 approximates to the corresponding carrying amount in view of the short maturity period.

26. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

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.

27. OTHER FINANCIAL ASSETS

Bank balances

Bank balances comprise short-term bank deposits at prevailing market interest rates. The fair value of the Group and the Company's bank balances at 31 December 2006 approximates to the corresponding carrying amount.

Included in the Group's bank balances are the Renminbi denominated short-term bank deposits of HK$53,948,854 (2005: HK$35,432,376) kept in banks registered in the PRC, and Renminbi is not a freely convertible currency.

Bank overdrafts

The fair value of the Group and the Company's bank overdrafts at 31 December 2006 approximates to the corresponding carrying amount.

28. LOAN FROM AN ULTIMATE HOLDING COMPANY

During the year, AKM Panyu (a wholly owned subsidiary of the Group), obtained a non-interest bearing and unsecured loan of RMB4,000,000 from China North Industries Corporation 中國北方工業公司 ("CNIC") for the development of a project. The loan is repayable on demand.

29. SHARE CAPITAL

	Number of Shares	Share capital HK$
Authorised:		
At 31 December 2005 and 31 December 2006	2,000,000,000	200,000,000
Issued and fully paid:		
At 31 December 2005 and 31 December 2006	540,000,000	54,000,000

30. 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 2006, and there were 3,700,000 (2005:900,000) 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 of not later than 10 years from the date of grant on the condition that the participants are still under employment by the Company.

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 13,600,000 (2005: 17,300,000) representing approximately 2.52% (2005: 3.20%) 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 1.1.2005	Granted during the year	Lapsed during the year	Outstanding at 1.1.2006	Granted during the year	Lapsed during the year	Outstanding at 31.12.2006
Directors	18 August 2004 to 6 August 2014	0.40	5,400,000	–	–	5,400,000	–	–	5,400,000
Employees	18 August 2004 to 6 August 2014	0.40	12,800,000	–	(900,000)	11,900,000	–	(3,700,000)	8,200,000
			18,200,000	–	(900,000)	17,300,000	–	(3,700,000)	13,600,000

30. SHARE OPTIONS *(continued)*

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

The numbers of share options granted expected to vest has been reduced to reflect the forfeiture of options granted prior to completion of vesting period and accordingly the share option expense has been adjusted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is reorganised in the profit and loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

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:

	2005
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$226,759 (2005: HK$529,298) 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").

30. SHARE OPTIONS *(continued)*

(b) Scheme *(continued)*

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

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

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

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.

30. SHARE OPTIONS *(continued)*

(b) Scheme *(continued)*

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.

31. RESERVES

	Share premium HK$	Share options reserve HK$	Retained profits HK$	Total HK$
THE COMPANY				
At 1 January 2005	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
Recognition of equity-settled share-based payments	–	226,759	–	226,759
Lapse of share options	–	(194,329)	194,329	–
Profit for the year	–	–	31,694,793	31,694,793
Dividend paid	–	–	(4,050,000)	(4,050,000)
At 31 December 2006	**53,868,328**	**941,049**	**74,898,715**	**129,708,092**

32. ACQUISITION OF SUBSIDIARIES

On 6 March 2006, the Group acquired 100% interest in Suzhou Guanzhilin Electronic Technology Co. Limited at a consideration of RMB3,110,000 (equivalent to HK$2,999,036). The transaction has been accounted for by using the purchase method of accounting.

Goodwill arising as a result of the acquisition was HK$2,120,863.

The net assets acquired in the transactions and the goodwill arising are as follows:

	Fair value
	HK$
Net assets acquired:	
Property, plant and equipment	1,357,332
Inventories	211,203
Trade and other receivables	763,132
Bank balances and cash	196,311
Trade and other payables	(1,338,540)
Tax payables	(21,969)
Short term loan	(289,296)
	878,173
Goodwill	2,120,863
	2,999,036
Net cash outflow arising on acquisition:	
Cash consideration paid	(2,549,180)
Bank balances and cash acquired	196,311
	(2,352,869)

The directors consider that the carrying amounts of the net assets acquired in the above transaction approximate to their fair values.

The subsidiary acquired during the year contributed HK$7,970,126 to the Group's revenue, and loss of HK$993,124 to the Group's loss before taxation.

If the acquisition had been completed on 1 January 2006, total group revenue for the year would have been HK$160,419,359, and loss for the year would have been HK$7,967,878. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

33. DEFERRED TAX ASSET

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

	HK$
THE GROUP	
At 1 January 2005 and 31 December 2005	303,000
Charge to consolidated income statement for the year (note 9)	(303,000)
At 31 December 2006	**–**

At 31 December 2006, the deductibility of the allowance for doubtful debts for taxation purpose and unused tax loss have not been agreed with the local tax bureau in the PRC. Since it is not probable that the deductible temporary differences and unused tax loss can be utilised in the foreseeable future, deferred tax asset in respect of accumulated allowance for bad and doubtful debts and unused tax loss of approximately HK$9,015,000 (2005: HK$10,338,000) and HK$12,099,000 (2005: nil) respectively have not been recognised in the financial statements.

THE GROUP AND THE COMPANY

At 31 December 2006, the Group and the Company has unused tax losses of HK$nil (2005: HK$973,000) available for offset against future profits and the Group and the Company has fully utilised the tax loss brought forward in 2006. The tax losses may be carried forward indefinitely.

34. PLEDGE OF ASSETS

At the balance sheet dates, certain bank deposits and bills receivable were pledged to secure the banking facilities granted to the Group as follows:

	THE GROUP		**THE COMPANY**	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Bank deposits	**4,833,064**	8,023,691	**1,663,215**	5,615,702
Bills receivables	**2,635,953**	2,109,259	**–**	–
	7,469,014	10,132,950	**1,663,215**	5,615,702

35. OPERATING LEASE COMMITMENTS

The Group as lessee

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	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Within one year	**2,144,751**	3,336,808	**–**	66,240
In the second to fifth years inclusive	**442,559**	2,053,451	**–**	24,840
	2,587,310	5,390,259	**–**	91,080

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.

36. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Capital expenditure in respect of acquisition of property, plant and equipment:				
– contracted for but not provided in financial statements	**1,077,410**	1,622,474	**630,000**	630,000

37. 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, which contribution is matched by employees.

The employees employed in the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. They are 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.

38. RELATED PARTY TRANSACTIONS

Apart from the disclosure in notes 20, 24, 26 and 28 above, during the year, the Group also had the following transactions with related parties:

(i) Transactions with fellow subsidiaries:

	2006 HK$	2005 HK$
Rentals for office and factory premises and staff quarters charged to the Group	**2,583,575**	2,514,433
Transactions with a jointly controlled entity:		
Subcontracting fee paid by the Group	**5,872,495**	1,276,575
Handling charges paid by the Group	**–**	250,778
Sales of goods by the Group	**564,116**	–

(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.

The Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities 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 stated-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. Total sales and purchases to these state-controlled entities for the year ended 31 December 2006 amounted to approximately HK$2.3 million (2005: HK$27.5 million) and HK$6.5 million (2005: HK$5.8 million) respectively. Amounts due from and due to these state-controlled entities as at 31 December 2006 amounted to approximately HK$1.4 million (2005: HK$7.4 million) and HK$0.1 million (2005: HK$0.6 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 both years represented remuneration paid to three executive directors as disclosed in note 10 to the consolidated financial statements.

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

Financial Summary

RESULTS	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$	HK$	HK$	HK$	HK$
			(Restated)		
Turnover	**159,870,101**	202,402,207	243,974,808	148,104,067	96,352,393
Cost of sales	**(141,321,683)**	(152,665,813)	(159,260,437)	(106,800,678)	(74,361,784)
Gross profit	**18,557,418**	49,736,394	84,714,371	41,303,389	21,990,609
Other income	**6,209,978**	4,489,746	3,355,571	48,753	54,862
Distribution costs	**(3,481,131)**	(5,036,148)	(15,715,011)	(5,732,729)	(3,769,748)
Administrative expenses	**(16,893,026)**	(16,482,468)	(16,480,312)	(6,709,346)	(4,024,866)
Research and development expenses	**(9,272,433)**	(5,624,813)	(6,870,292)	(3,487,905)	(3,321,691)
Finance costs	**(251,819)**	(61,856)	(924,518)	(858,600)	(261,155)
Share of result of a jointly controlled entity	**(1,877,373)**	(594,931)	–	–	–
(Loss) profit before taxation	**(7,008,386)**	26,425,924	48,079,809	24,563,562	10,668,011
Taxation	**(920,019)**	(3,130,857)	(7,060,799)	(3,385,632)	(1,660,689)
(Loss) profit for the year	**(7,928,405)**	23,295,067	41,019,010	21,177,930	9,007,322

ASSETS AND LIABILITIES	At 31 December				
	2006	2005	2004	2003	2002
	HK$	HK$	HK$	HK$	HK$
			(Restated)		
Total assets	**258,408,531**	265,781,514	228,662,247	142,954,511	93,435,163
Total liabilities	**(72,701,476)**	(74,836,091)	(61,595,085)	(125,690,526)	(96,571,821)
	185,707,055	190,945,423	167,067,162	17,263,985	(3,136,658)
Equity attributable to equity holders of the parent	**185,693,634**	190,932,425	167,067,162	17,263,985	(3,136,658)
Minority interests	**13,421**	12,998	–	–	–
Total equity	**185,707,055**	190,945,423	167,067,162	17,263,985	(3,136,658)

Note: Figures for the year ended 31 December 2004 have been restated to reflect the change in accounting policy for the adoption of HKFRS 2.