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 **2007**

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

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BOARD OF DIRECTORS

Executive directors

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

Non-executive director

HAN Li Gang

Independent non-executive directors

LI Kung Man
LIANG Zhi Li
WANG Heng Yi

COMPLIANCE OFFICER

LI Ying Hong

COMPANY SECRETARY

LAM Sau Yan, FCCA

AUTHORISED REPRESENTATIVES

XIONG Zheng Feng
LI Ying Hong

QUALIFIED ACCOUNTANT

LAM Sau Yan, FCCA

AUDIT COMMITTEE

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

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

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.
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 2007.

RESULT ANALYSIS AND BUSINESS REVIEW

2007 was a year for the Company to respond to the continuously severe market conditions with its active pursuance for changes, adjustment and reformation. During the year, the Group recorded a turnover of approximately HK$279.33 million, representing an increase of approximately 74.72% as compared with 2006; and the loss attributable to equity holders was approximately HK$32.32 million, representing an increase of approximately 307.59% as compared with 2006. This is the second consecutive year of loss since the Company was listed. On behalf of the Board and the management, I would like to apologize to all our shareholders and people who are concerned about the Company for failing to meet the expected operational targets.

In 2007, in view of the changing market environment, the Company had, on the one hand, expanded its product lines by initiating the business of surface mount technology ("SMT") services, and, on the other hand, undertaken adjustment on its strategies and internal structure, by shifting its clientele focus to large international clients, and shifting product development focus to LCD, LCM, PDP and other associated products other than mobile phones. More stringent cost control measures were implemented to address the continuous drop of product prices and the rising raw material prices. Moreover, in view of the forthcoming relocation of the entire old production plant in Guangzhou Nansha, a full clearance of accumulated stocks and other assets as directed by the Board was performed. Details in these respects are more particularly elaborated in the section headed "Management Discussion and Analysis".

In 2008, the Company will continue to focus on six aspects, including identifying and development of overseas clients, promoting the growth of non-mobile phone business, optimizing and strengthening its manufacturing skills and techniques, reinforcing production plan control and cost control, reducing scrap rate and implementing the "customer-oriented, service-oriented, production refinement" corporate culture, and will strengthen its core competence, reinforce its existing accomplishment, and strive to turnaround its loss in operation, thereby creating greater value for its shareholders, staffs as well as the community. In 2008, the Company's new factory in Nansha will come into operation. It is expected that with its more advanced production skills and refined production flow, the production capacity will increase more than a double, and accordingly will safeguard the entrance of the Company into the supply chain of large international clients.

It is the Company's long term objective to become a major international supplier of flexible printed circuits and components and to become an industry leader in the PRC market. The Board is of the view that, with the improvement in internal adjustment and smooth market focus transition, together with the commencement of production of the new factory, the Company will ultimately deliver satisfactory results and bring ideal 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, 26 March 2008

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 38, 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. He is also an alternate director of Raymond Industrial Ltd, a company whose shares are listed on the Stock Exchange of Hong Kong, since April 2003. 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 was 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 47, 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 44, 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). 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 46, 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 51, 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 64, 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 67, 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. Guo Kai (郭凱), aged 38, 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) and was an engineer and a manager of its quality assurance department and senior manager of its marketing department. He was also a senior manager of market development of Meadville Technologies Group. Mr. Guo joined the Company in October 2006 and is responsible for the sales and marketing and promotion.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Lam Sau Yan (林守仁), aged 47, 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 2007, the turnover of the Group amounted to approximately HK$279.33 million, representing an increase of approximately 74.72% as compared to that of last year. The increase in turnover was mainly attributed to the new business of sourcing of components. The gross loss margin of 0.85% for the year was recorded while there was a gross profit margin of 11.61% for last year. It was mainly due to the additional stock provision of approximately HK$15.54 million during the year in addition to the decrease in the gross profit margin of flexible printed circuit and the nature of low gross profit margin of the business of sourcing of components. Regarding the stock provision of approximately HK$15.54 million, in light of severe market conditions, a detailed review of the stocks had been carried out during the year, it was considered necessary to make such provision for obsolete stocks identified. In order to improve the stock management in future, a review committee has been set up which members are the senior staff of different departments. Meetings amongst the committee members will be held regularly to review and control the production plan and problems of stock.

The loss attributable to the equity holders of the Company for the year was approximately HK$32.32 million, while the loss was approximately HK$7.93 million for last year. The increase in loss was mainly due to the decrease in the gross profit margin of flexible printed circuit and the stock provision as mentioned.

The other income of the Group for the year ended 31 December 2007 amounted to approximately HK$1.65 million, representing a decrease of approximately HK$4.56 million as compared to that of last year. The other income for the year mainly consists of interest income and rental income of equipment received from Shenzhen Smart Electronics Co. Ltd. (深圳思碼特電子有限公司), a jointly controlled entity of the Group. The decrease was mainly due to the fact that there was a PRC tax refund on capital reinvestment in AKM Electronics Industrial (Panyu) Ltd. (安捷利(番禺)電子實業有限公司) ("AKM Panyu") last year.

The distribution costs of the Group for the year ended 31 December 2007 amounted to approximately HK$5.96 million, representing an increase of approximately 71.33% as compared to that of last year. The increase in distribution costs was mainly due to the fact that there was recovery of debt last year.

The administrative expenses of the Group for the year ended 31 December 2007 amounted to approximately HK$22.40 million, representing an increase of approximately 32.62% as compared to that of last year. It was mainly due to the recognition of expenses of approximately HK$3.11 million related to the equity-settled share-based payment transaction as a result of grant of options during the year, and the write-off of goodwill of approximately HK$2.12 million which arose as a result of the acquisition of 100% interest in Suzhou Guanzhilin Electronic Technology Co. Ltd. (蘇州冠之林電子科技有限公司) in 2006.

The research and development expenses of the Group for the year ended 31 December 2007 amounted to approximately HK$7.80 million, representing a decrease of approximately 15.88% as compared to that of last year. The decrease in research and development expenses was mainly due to the reclassification of certain expenses.

The finance cost of the Group for the year ended 31 December 2007 amounted to approximately HK$0.72 million, representing an increase of approximately 185.78% as compared to that of last year. It was mainly due to the interest charged for the loan borrowed from Silver City International (Holdings) Ltd., a substantial shareholder of the Company.

BUSINESS REVIEW AND OUTLOOK

Business Review

The Group is principally engaged in the manufacture and sale of flexible printed circuits and electronic components, which are used in communication, LCD, consumer electrical and electronic appliances such as mobile phones, LCD, car electronics and cameras. Starting from the first quarter, the Group commenced the business of sourcing of components for surface mount technology ("SMT") service in order to provide one stop service. As such, the current principal activities of the Group are sale of flexible printed circuits and sourcing of components for SMT service.

For the year 2007, the turnover of the Group amounted to approximately HK$279.33 million, representing an increase of approximately 74.72% as compared to that of 2006. During the year, the turnover for sales of printed flexible circuits and sourcing of components for SMT service were approximately HK$154.85 million and HK$124.48 million respectively. The turnover of printed flexible circuits during the year of 2006 was approximately HK$159.88 million. As sourcing of components for SMT service is a new business, no turnover was recorded in 2006. In 2007, the loss attributable to the equity holders of the Company amounted to approximately HK$32.32 million, representing an increase of approximately 307.59% as compared to that of 2006. The loss of the Group included one-off expenses of approximately HK$21.74 million for, amongst other, allowances for inventories, provision for bad and doubtful debts, impairment for loss of goodwill and the recognition of equity-settled share based payments of options granted during the year.

In 2007, the turnover of printed flexible circuits decreased approximately 3.15% as compared to the year of 2006. The gross profit margin of flexible printed circuits before allowance for inventories was approximately 8%, still on a down side trend as compared to the year of 2006. It was mainly due to the pressure of the drop of product price suffered by the whole industry as a result of change in market environment and the increase in price of raw materials, that the profit decreased significantly in the whole industry, and the insufficient adaptability and responsive measures of the Group results in the decrease of turnover of flexible printed circuits and the production level fall below the economic scale. Since the beginning of the year, due to the abrupt surging in raw material prices including aluminum and copper in the international market, the cost of raw materials of the Group also increased obviously. Meanwhile, as a result of the promulgation of the new Labour Laws of the PRC and the inflation of prices, the overall costs have increased substantially.

In 2007, with reference to market change, the Group took the initiative to secure large international clients and explore overseas markets (outside the Mainland China), and had achieved significant progress. In regard to the sales of flexible printed circuits, the sales to overseas markets attributable to the related turnover increased to 28.92% in 2007 from 23.13% as recorded in 2006.

In 2007, our products were still used primarily in mobile phones and the LCD in mobile phones, representing an aggregate of 82% of the turnover of flexible printed circuits, which reflected the Group's heavy reliance on the mobile phone industry. The recession and fluctuation of the PRC mobile phone industry during the year thus adversely affected the results of the Group.

In 2007, the Group had further strengthened internal control. Measures were adopted to improve cost and operation management and clearance of inventories and account receivables. The Group had also finalized and had started to implement a more stringent management and assessment system.

During the year under review, 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 Eastern China, and AKM (Suzhou) FPC Company Limited (安捷利(蘇州)柔性電路板有限公司), a company previously established by the Group, had been merged to complete a production chain and had satisfied the environmental protection's requirements on waste water discharge. All legal procedures in relation to the merger had been completed in January 2007. During the year under review, the said wholly-owned subsidiary recorded a loss. The business focus of that subsidiary is to ultilise its low cost competitive edge to expand the scope of application of the Group's key products and satisfy the demands from different customers.

During the year under review, Shenzhen Smart Electronics Co. Ltd ("Shenzhen Smart"), a co-operative joint venture invested by a subsidiary of the Group, Ever Proven Investments Limited, expanded its production lines by profit generated from its operation. By the end of the reported period, it had increased to a total of eleven production lines so as to further satisfy keen demand from the clients. During the year under review, the joint venture is well developed and had contributed profit to the Group.

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 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 discussing with the lessor of the land and the relevant PRC government authority in relation to compensation issues. The actual date of resumption of the land by the local government authority has yet to be confirmed. The Group has confirmed its new place of operation, and relevant disclosure had been made in the announcement dated 7 June 2006 in compliance with the GEM Listing Rules, and the Group had acquired the land and is in the process of constructing a new factory building. It is expected that the construction of the new factory will be completed within this year, and the relocation will take place in accordance with schedule.

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

Outlook

As influenced by the changes in recession of mobile phone industry and fierce market competition in Mainland China, the Group continued to operate in a difficult situation in 2007. To cope with such changes, the Group has adjusted its market development focus. During the period under review, the Group introduced a number of international manufacturers for the development of printed flexible circuits for use in digital camera, computer and printer, significant progress have been made in this regard and is expected to bring material contribution to the Group in 2008. Since the major international customers which have established manufacturing base in the Mainland China began to implement local merchandising 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 the favourable opportunities arising from the shift of international merchandising trend and extend its clientele of international customers.

Due to the abrupt surging of prices in raw materials including aluminum and copper in the international market, the cost of raw materials for the Group also increased significantly. Meanwhile, as a result of the promulgation of the new Labour Laws of the PRC and inflation of prices, the overall costs have increased substantially. The Group has set up targeted cost control policy, and is in the course of tackling the technological issues and standard issues for the procurement of lower cost raw materials. The Group also aims at reducing the scraps incurred in the course of production, reducing labour cost and enhancing the yield through improving the procedures and methods of quality control and the introduction of ROLL to ROLL single-sided printed flexible circuit production line. It is expected that the Group will be able to mitigate the pressure caused by surging costs and the gross profit margin will return to its normal level in the coming year. The Group is striving to turnaround its operating conditions in 2008.

The Group is seeking to co-operate and establish strategic alliances with major international manufacturers and relevant design organisations in the industry through the introduction of overseas technology experts in the industry, in order to further enhance the R&D capability, manufacturing capacity and management ability of the Group and to build up the core competency of the enterprise. The Group had already signed a cooperative memorandum with an international manufacturer for the joint development of overseas flexible printed circuits markets, which is progressing smoothly and has started limited production.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its operations primarily with internally generated fund from operating activities and banking facilities currently available. It is anticipated that the Group has sufficient working capital for its present funding requirements. As at 31 December 2007, the Group had outstanding bank borrowings amounting to HK$18,174,440, of which approximately HK$7,451,729 and HK$10,722,711 are trust receipts loans and bank loan respectively.

EMPLOYEES

As at 31 December 2007, the Group had a total of 1,135 full-time employees (2006: 1,065 employees) based in Hong Kong and China. The total staff costs of the Group, including the Directors' remunerations, for the year ended 31 December 2007 amounted to HK$35,119,128 (2006: HK$29,380,790). The Group fixes and reviews the emoluments of its directors and staff based on the qualification, experience, performance and the market rates so as to maintain the remunerations of its directors and staff at a competitive level. The Group participates in various defined contribution retirement plans and insurance schemes in compliance with its statutory obligations under the laws 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 so as to reward their contributions to the Group and 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 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 2007.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions or disposals during the year ended 31 December 2007.

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. The Land has a total gross area of 92,852 sq.m., which will be used for production relocation and expansion purposes.

A new production facility is under construction 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 shall be funded by internal resources and/or bank borrowings.

Save as disclosed above, the Group had no other future plans for material investments or capital assets as at 31 December 2007.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2007, bank deposits of approximately HK$8.68 million (31 December 2006: HK$4.83 million) of the Group were pledged as collateral to secure the banking facilities granted to the Group. No bill receivables were pledged to secure the Group's banking facilities as at 31 December 2007 (31 December 2006: HK$2.64 million).

CONTINGENT LIABILITIES

As at 31 December 2007, the Group had no significant contingent liabilities.

GEARING RATIO

As at 31 December 2007, the Group had a net cash and cash equivalent position of HK$19,228,262. The Group's gearing ratio as at 31 December 2007 was approximately 39.08% (31 December 2006: 28.13%) which was calculated based on the Group's total liabilities of approximately HK$111,074,707 (31 December 2006: HK$72,701,476) and total assets of approximately HK$284,208,451 (31 December 2006: HK$258,408,531).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The income and expenditure of the Group are mainly received and incurred in 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. 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. Further, 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. However, taking into account the Group's current 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 37 to the consolidated financial statements.

INTRODUCTION

Subject to the deviation as disclosed in 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 formal and transparent procedures to protect and maximize the interests of shareholders during the year under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less than the standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry on all Directors, the Directors have complied with such code of conduct and the standard of dealings regarding securities transactions throughout the year ended 31 December 2007.

BOARD OF DIRECTORS AND BOARD MEETING

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

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 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 to the management include the preparation of annual and interim accounts for the Board's approval before public reporting, execution of business strategies and initiatives adopted by the Board, 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 4 to 5 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.

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. After the expiration of an initial term of appointment of three years, Mr. Han Li Gang, Mr. Li Kung Man and Mr. Liang Zhi Li have been appointed for a further term of three years commenced from 19 March 2007. Mr. Wang Heng Yi has been appointed for a further term of three years commenced from 18 June 2007. 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 confirming his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive Directors to be independent.

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

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

The Board held a full board meeting for each quarter.

Details of the attendance of the meetings of the members of the Board during the year under review 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	3/4
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 members of the Board 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, such as any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on 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 under review, 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 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 under review, the Board 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. Chai Zhi Qiang and Ms. Li Ying Hong 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 under review, the Group is required to pay an aggregate of approximately HK$800,000 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 the Directors. The audit committee comprises three members, Mr. Li Kung Man, Mr. Liang Zhi Li and Mr. Wang Heng Yi. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Li Kung Man.

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

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

The Group's unaudited quarterly and interim results in 2007 and annual audited results for the year ended 31 December 2006 had 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 had been made. The audited consolidated results of the Group for the year had 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 an effective and adequate internal control system. The Company convened meetings periodically to discuss financial, operational and risk management control.

AUDITORS

During the year, the performance of the external auditors of the Company had been reviewed and it is proposed to reappoint the external auditors at the forthcoming Annual General Meeting.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2007.

SEGMENTAL INFORMATION

The Group's principal activities are the manufacture and sale of flexible printed circuit and sourcing and sale of components. An analysis of the Group's turnover by geographical market of its customers and business segments for the year ended 31 December 2007 are set out in note 5 to the consolidated 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 consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 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 2007.

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 12 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 29 to the consolidated financial statements.

BANK BORROWINGS

As at 31 December 2007, the Group had outstanding bank borrowings amounting to HK$18,174,440.

DIRECTORS

The Directors during the year and up to 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, Mr. Chai Zhi Qiang and Ms. Li Ying Hong shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

Each of the executive Directors has entered into a service contract with the Company for a term of 3 years and thereafter will continue until being terminated by not less than three calendar months' notice in writing served by either party on the other. Each of the non-executive Directors and independent non-executive Directors has been appointed by the Company under a letter of appointment for a term of three years.

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 9 to the consolidated financial statements.

Biographical details of the Directors are set out on pages 4 to 5 of this annual report.

SHARE OPTION SCHEMES

Pursuant to written resolutions of the then 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 consolidated financial statements. During the year ended 31 December 2007, 36,500,000 options were granted under the Scheme.

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 *(Note 1)*	Exercisable period *(Notes 1 & 2)*	Exercise price per share HK$	Outstanding at 1.1.2007	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2007
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	8,200,000	–	(800,000)	7,400,000
Total				13,600,000	–	(800,000)	12,800,000

Notes:

1. All dates are shown in the sequence of day. month. year.

2. These share options 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.

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

				Number of share options			
Name or category of participant	Date of grant *(Note 1)*	Exercisable period *(Notes 1 & 2)*	Exercise price per share HK$	Granted on 9.7.2007	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2007
Directors							
Mr. Xiong Zheng Feng	9.7.2007	10.7.2007 to 9.7.2017	0.36	2,000,000	–	–	2,000,000
Mr. Chai Zhi Qiang	9.7.2007	10.7.2007 to 9.7.2017	0.36	2,000,000	–	–	2,000,000
Ms. Li Ying Hong	9.7.2007	10.7.2007 to 9.7.2017	0.36	2,000,000	–	–	2,000,000
Mr. Han Li Gang	9.7.2007	10.7.2007 to 9.7.2017	0.36	1,600,000	–	–	1,600,000
Mr. Li Kung Man	9.7.2007	10.7.2007 to 9.7.2017	0.36	800,000	–	–	800,000
Mr. Liang Zhi Li	9.7.2007	10.7.2007 to 9.7.2017	0.36	800,000	–	–	800,000
Mr. Wang Heng Yi	9.7.2007	10.7.2007 to 9.7.2017	0.36	800,000	–	–	800,000
				10,000,000	–	–	10,000,000
Employees and others	9.7.2007	10.7.2007 to 9.7.2017	0.36	26,500,000	–	(4,800,000)	21,700,000
Total				36,500,000	–	(4,800,000)	31,700,000

Notes:

1. All dates are shown in the sequence of day. month. year.

2. These share options are exercisable, starting from the day after the date upon which the options were granted, for a period of 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 2007, none of the Directors and the chief executive and their respective associates had or was deemed to have 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 5.68 of the Rules Governing the Listing of Securities on the Growth Enterprise Market 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	Approximate percentage of total issued share capital in the Company
Mr. Xiong Zheng Feng	the Company	2,190,000 ordinary shares	Beneficial owner	Long	0.41

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

Name of Director	Name of the company in which interest is held	Class and number of underlying shares held under physically settled equity derivatives	*(Notes)*	Capacity	Long/short position	Approximate percentage of total issued share capital in the Company
Mr. Xiong Zheng Feng	the Company	2,000,000 ordinary shares	*1*	Beneficial owner	Long	0.37
		2,000,000 ordinary shares	*2*	Beneficial owner	Long	0.37
Mr. Chai Zhi Qiang	the Company	2,800,000 ordinary shares	*1*	Beneficial owner	Long	0.52
		2,000,000 ordinary shares	*2*	Beneficial owner	Long	0.37
Ms. Li Ying Hong	the Company	600,000 ordinary shares	*1*	Beneficial owner	Long	0.11
		2,000,000 ordinary shares	*2*	Beneficial owner	Long	0.37

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)

Name of Director	Name of the company in which interest is held	Class and number of underlying shares held under physically settled equity derivatives	*(Notes)*	Capacity	Long/short position	Approximate percentage of total issued share capital in the Company
Mr. Han Li Gang	the Company	1,600,000 ordinary shares	2	Beneficial owner	Long	0.30
Mr. Li Kung Man	the Company	800,000 ordinary shares	2	Beneficial owner	Long	0.15
Mr. Liang Zhi Li	the Company	800,000 ordinary shares	2	Beneficial owner	Long	0.15
Mr. Wang Heng Yi	the Company	800,000 ordinary shares	2	Beneficial owner	Long	0.15

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 he Company reflects the share options to subscribe for shares in the Company at a subscription price of HK$0.40 per share granted to him/her under the Pre-IPO Scheme, which position remains unchanged since the date of grant on 6 August 2004.

2. The interest of each of Mr. Xiong Zheng Feng, Ms. Li Ying Hong, Mr. Chai Zhi Qiang, Mr. Han Li Gang, Mr. Li Kung Man, Mr. Liang Zhi Li and Mr. Wang Heng Yi in the underlying ordinary shares of the Company reflects the share options to subscribe for share in the Company at a subscription price of HK$0.36 per share granted to him/her under the Scheme, which position remains unchanged since the date of grant on 9 July 2007.

3. Mr. Xiong Zheng Feng is, in aggregate, interested in approximately 1.15% of the total issued share capital in the Company, such interest comprises his interests in 2,190,000 issued shares of the Company and 4,000,000 underlying shares held under equity derivatives.

4. None of Ms. Li Ying Hong, Mr. Chai Zhi Qiang, Mr. Han Li Gang, Mr. Li Kung Man, Mr. Liang Zhi Li or Mr. Wang Heng Yi is interested in any securities of the Company other than underlying shares held under equity derivatives.

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

(b) The associated corporation

As at 31 December 2007, to the best knowledge of the Directors, none of the Directors nor 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 5.68 of the GEM Listing Rules.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options 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 holding companies, fellow subsidiaries or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during 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 9 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2007, no person other than certain Directors 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, or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

Name of substantial shareholder	Capacity	Class and number of securities in which interested (other than under equity derivatives) *(Note 4)*	Long/Short position	Approximate 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. 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 nor 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 2007 comprised the retained profits of HK$60,396,952.

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 consolidated 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 confirmation, 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 2007 are set out in note 38 to the consolidated financial statements.

EMOLUMENT POLICY

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

The emoluments of the Directors of the Company are decided by the 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 consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions of pre-emptive rights under the Company's articles of association which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 52% of the Group's turnover and the turnover attributable to the Group's largest customer accounted for approximately 22% of the Group's turnover.

For the year ended 31 December 2007, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 61% of the Group's purchases and the purchases attributable to the Group's largest supplier accounted for approximately 25% 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 top five 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 2007.

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.

CONNECTED TRANSACTIONS

During the year ended 31 December 2007, the Group entered into the following continuing connected transactions:

1. Pursuant to a property lease dated 6 December 2004 ("Old Factory Lease") and a property lease dated 17 January 2008 (the "2008 Factory Lease"), both entered into between AKM Electronics Industrial (Panyu) Ltd. ("AKM Panyu"), a wholly owned subsidiary of the Company, and 銀利(廣州)電子電器實業有限公司(Alpha Luck Electronic & Electric Appliance Industrial (Guangzhou) Ltd.) ("ALI Guangzhou"), 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 Peoples' Republic of China (the "PRC") (the "Units I") with a total gross floor area of approximately 14,174 sq.m., for industrial use for a period of three years commenced from 1 December 2004 and had been renewed under the 2008 Factory Lease for a further lease term of three years commenced from 1 December 2007 and expiring on 30 November 2010 (subject to an option granted to AKM Panyu for an extension of a further lease term of three years).

   For the year ended 31 December 2007, the aggregate rental paid by AKM Panyu to ALI Guangzhou pursuant to the Old Factory Lease and the 2008 Factory Lease amounted to RMB1,092,545 (equivalent to approximately HK$1,128,429).

2. Pursuant to a property lease dated 6 December 2004 ("Old Dormitory Lease") and a property lease dated 17 January 2008 (the "2008 Dormitory Lease"), both entered into between AKM Panyu and ALI Guangzhou, ALI Guangzhou as landlord agreed to lease to AKM Panyu as tenant, 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 approximately 2,801 sq.m., for dormitory use for a period of three years commenced from 1 December 2004 and had been renewed under the 2008 Dormitory Lease for a further lease term of three years commenced from 1 December 2007 and expiring on 30 November 2010 (subject to an option granted to AKM Panyu for an extension of a further lease term of three years).

   For the year ended 31 December 2007, the aggregate rental paid by AKM Panyu to ALI Guangzhou pursuant to the Old Dormitory Lease and the 2008 Dormitory Lease amounted to RMB399,797 (equivalent to approximately HK$412,929).

CONNECTED TRANSACTIONS *(continued)*

3. Pursuant to a property lease dated 24 April 2007 entered into between AKM Panyu and ALI Guangzhou (the "2007 Factory Lease"), ALI Guangzhou as landlord agreed to lease to AKM Panyu as tenant, 1st, 2nd and portion of 3rd floor of an industrial building and 3 warehouses, Yinli Industrial Building, Jiaomen Industrial Zone, Huangge Town, Panyu District, Guangzhou, Guangdong Province, the PRC (the "Factory") with a total gross floor area of approximately 9,263 sq.m., for industrial use for a period of three years commenced from 1 January 2007 and expiring on 31 December 2009 (subject to an option granted to AKM Panyu for an extension of a further lease term of three years) at an annual rental of RMB758,285 (equivalent to approximately HK$783,190).

   For the year ended 31 December 2007, the aggregate rental paid by AKM Panyu to ALI Guangzhou under the 2007 Factory Lease amounted to RMB758,285 (equivalent to approximately HK$783,190).

4. Pursuant to a property lease dated 24 April 2007 entered into between AKM Panyu and ALI Guangzhou (the "2007 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 commenced from 1 January 2007 and expiring on 31 December 2009 (subject to an option granted to AKM Panyu for an extension of a further lease term of three years) at an annual rental of RMB326,207 (equivalent to approximately HK$336,921).

   For the year ended 31 December 2007, the aggregate rental paid by AKM Panyu to ALI Guangzhou under the 2007 Dormitory Lease amounted to RMB326,207 (equivalent to approximately HK$336,921).

As ALI Guangzhou is a wholly-owned subsidiary of Alpha Luck which is a substantial shareholder and the controlling shareholder of the Company, the above transactions constitute continuing connected transactions of the Company under the GEM Listing Rules.

Pricing basis

The aggregate rentals paid by AKM Panyu to ALI Guangzhou for the year ended 31 December 2007 under the Old Factory Lease, the 2008 Factory Lease, the Old Dormitory Lease, the 2008 Dormitory Lease, the 2007 Factory Lease and the 2007 Dormitory Lease were RMB2,576,834 (equivalent to approximately HK$2,661,469), the rentals were 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, 廣東華昆房地產與土地評估有限公司, had reviewed and confirmed that the rentals payable by the Company pursuant to the Old Factory Lease, the 2008 Factory Lease, the Old Dormitory Lease, the 2008 Dormitory Lease, the 2007 Factory Lease and the 2007 Dormitory Lease are fair and reasonable.

CONNECTED TRANSACTIONS *(continued)*

Pricing basis (continued)

Pursuant to Rule 20.38 of the GEM Listing Rules, the Board had engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors had reported their factual findings on these procedures to the Board. The independent non-executive Directors had reviewed the continuing connected transactions and the report of the auditors and had confirmed that the transactions had 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 the duration stated thereunder 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 similar kinds in the PRC to have a three-year duration.

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

AUDITORS

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

ON BEHALF OF THE BOARD

AKM Industrial Company Limited
Xiong Zheng Feng
Chairman

Hong Kong, 26 March 2008

Deloitte.
德勤

TO THE MEMBERS 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 86, which comprise the consolidated and Company balance sheets as at 31 December 2007, 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 2007 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
26 March 2008

	Notes	2007 HK$	2006 HK$
Turnover	5	**279,333,118**	159,879,101
Cost of sales		**(281,720,697)**	(141,321,683)
Gross (loss) profit		**(2,387,579)**	18,557,418
Other income		**1,652,514**	6,209,978
Distribution costs		**(5,964,088)**	(3,481,131)
Administrative expenses		**(22,403,899)**	(16,893,026)
Research and development expenses		**(7,799,889)**	(9,272,433)
Share of result of a jointly controlled entity		**6,141,109**	(1,877,373)
Finance costs	6	**(719,636)**	(251,819)
Loss before taxation	7	**(31,481,468)**	(7,008,386)
Taxation credit (charge)	8	**177,495**	(920,019)
Loss for the year		**(31,303,973)**	(7,928,405)
Attributable to:			
Equity holders of the parent		**(32,317,044)**	(7,928,828)
Minority interests		**1,013,071**	423
		(31,303,973)	(7,928,405)
Loss per share	11		
– basic		**(5.98 cents)**	(1.47 cents)

	Notes	2007 HK$	2006 HK$
Non-current assets			
Property, plant and equipment	12	**86,352,980**	72,862,592
Prepaid lease payment	13	**25,510,524**	18,207,150
Goodwill	14	**–**	2,120,863
Interest in a jointly controlled entity	16	**12,478,805**	6,337,696
		124,342,309	99,528,301
Current assets			
Inventories	18	**32,994,768**	33,549,621
Trade and other receivables	19	**64,867,375**	51,508,699
Bills receivables	19	**18,446,500**	11,436,940
Prepaid lease payment	13	**527,584**	371,575
Amount due from a jointly controlled entity	20	**15,117,070**	965,743
Pledged bank deposits	21	**8,684,583**	4,833,064
Bank balances and cash	27	**19,228,262**	56,214,588
		159,866,142	158,880,230
Current liabilities			
Trade and other payables	22	**55,347,190**	29,908,339
Bills payables	22	**7,322,341**	3,721,578
Government grants received	23	**643,363**	206,216
Amount due to a fellow subsidiary	24	**4,413,940**	2,434,591
Loan from an intermediate holding company	24	**15,604,000**	15,558,000
Taxation payable		**3,032,849**	2,638,402
Bank borrowings	25	**18,174,440**	8,918,704
Loan from a minority shareholder of a subsidiary	26	**2,247,500**	2,247,500
Loan from ultimate holding company	28	**4,289,084**	3,984,858
Bank overdraft	27	**–**	3,083,288
		111,074,707	72,701,476
Net current assets		**48,791,435**	86,178,754
Total assets less current liabilities		**173,133,744**	185,707,055
Capital and reserves			
Share capital	29	**54,000,000**	54,000,000
Reserves		**118,107,252**	131,693,634
Equity attributable to equity holders of the parent		**172,107,252**	185,693,634
Minority interests		**1,026,492**	13,421
Total equity		**173,133,744**	185,707,055

The financial statements on pages 30 to 86 were approved and authorised for issue by the Board of Directors on 26 March 2008 and are signed on its behalf by:

Li Ying Hong
Director

Xiong Zheng Feng
Director

	Notes	2007 HK$	2006 HK$
Non-current assets			
Property, plant and equipment	12	**29,471**	45,608
Interests in subsidiaries	17	**209,154,447**	219,017,732
		209,183,918	219,063,340
Current assets			
Trade and other receivables	19	**14,676,785**	5,493,376
Amount due from a subsidiary	17	**2,742,500**	6,943,571
Taxation recoverable		**180,300**	312,104
Pledged bank deposits	21	**1,707,708**	1,663,215
Bank balances	27	**2,258,373**	1,131,277
		21,565,666	15,543,543
Current liabilities			
Trade and other payables	22	**2,946,073**	3,855,302
Amount due to subsidiaries/a subsidiary	17	**32,384,184**	24,464,568
Loan from an intermediate holding company	24	**15,604,000**	15,558,000
Bank borrowings	25	**7,451,729**	3,937,633
Bank overdraft	27	**–**	3,083,288
		58,385,986	50,898,791
Net current liabilities		**(36,820,320)**	(35,355,248)
Net assets		**172,363,598**	183,708,092
Capital and reserves			
Share capital	29	**54,000,000**	54,000,000
Reserves	31	**118,363,598**	129,708,092
Total equity		**172,363,598**	183,708,092

Li Ying Hong
Director

Xiong Zheng Feng
Director

	Attributable to equity holders of the parent							
	Share capital	Share premium	Translation reserve	Share options reserve	Accumulated profits	Total	Minority interests	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
At 1 January 2006	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 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
Exchange differences from translation directly recognised in equity	–	–	15,518,037	–	–	15,518,037	–	15,518,037
Loss for the year	–	–	–	–	(32,317,044)	(32,317,044)	1,013,071	(31,303,973)
Total recognised income and expenses for the year	–	–	15,518,037	–	(32,317,044)	(16,799,007)	1,013,071	(15,785,936)
Recognition of equity-settled share based payments	–	–	–	3,212,625	–	3,212,625	–	3,212,625
Lapse of share options	–	–	–	(55,356)	55,356	–	–	–
At 31 December 2007	**54,000,000**	**53,868,328**	**27,054,429**	**4,098,318**	**33,086,177**	**172,107,252**	**1,026,492**	**173,133,744**

	Note	2007 HK$	2006 HK$
OPERATING ACTIVITIES			
Loss before taxation		**(31,481,468)**	(7,008,386)
Adjustments for:			
Interest expense		**719,636**	251,819
Interest income		**(1,052,536)**	(607,502)
Share of result of a jointly controlled entity		**(6,141,109)**	1,877,373
Allowance (reversal of allowance) for bad and doubtful debts		**965,514**	(1,903,624)
Allowance for obsolete inventories		**15,541,778**	92,964
Amortisation of prepaid lease payments		**328,544**	–
Depreciation of property, plant and equipment		**10,912,330**	11,698,016
Impairment loss on goodwill		**2,120,863**	–
Loss on disposal of property, plant and equipment		**209,205**	23,919
PRC tax refund on capital reinvestment in a subsidiary		**–**	(4,981,000)
Government grants recognised		**(490,028)**	(552,899)
Share-based payment expense		**3,212,625**	226,759
Operating cash flows before movements in working capital		**(5,154,646)**	(882,561)
(Increase) decrease in inventories		**(11,727,743)**	3,244,858
(Increase) decrease in trade and other receivables		**(11,107,838)**	28,679,271
(Increase) decrease in bills receivable		**(4,701,141)**	14,232,696
Increase in amount due from a jointly controlled entity		**(14,151,327)**	(36,238)
Increase (decrease) in trade and other payables		**23,556,331**	(21,181,937)
Increase (decrease) in bills payable		**3,281,386**	(4,667,632)
Increase in amount due to a fellow subsidiary		**1,794,549**	238,747
Government grants received		**881,541**	500,014
Cash (used in) generated from operations		**(17,328,888)**	20,127,218
Interest paid		**(1,223,952)**	(251,819)
Profits tax refund (prepaid)		**377,240**	(337,353)
Income Tax paid		**(31,014)**	(2,114,209)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES		**(18,206,614)**	17,423,837
INVESTING ACTIVITIES			
PRC tax refund on capital reinvestment in a subsidiary		**–**	4,981,000
Investment in a jointly controlled entity		**–**	(3,010,000)
Interest received		**1,052,536**	607,502
Increase in prepaid lease payment		**(6,388,433)**	(17,932,042)
Proceeds on disposal of property, plant and equipment		**1,986,406**	–
Additions of property, plant and equipment		**(20,207,423)**	(13,347,633)
(Increase) decrease in pledged bank deposits		**(3,356,647)**	3,300,960
Acquisition of a subsidiary	33	**–**	(2,352,869)
NET CASH USED IN INVESTING ACTIVITIES		**(26,913,561)**	(27,753,082)

	Note	2007 HK$	2006 HK$
FINANCING ACTIVITIES			
Dividend paid		–	(4,050,000)
New bank borrowings raised		**15,323,499**	4,691,776
Repayment of bank borrowings		**(6,828,331)**	(6,323,703)
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
NET CASH FROM FINANCING ACTIVITIES		**8,495,168**	14,648,431
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(36,625,007)**	4,319,186
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**53,131,300**	46,906,754
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**2,721,969**	1,905,360
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**19,228,262**	53,131,300
REPRESENTING			
Bank balances and cash		**19,228,262**	56,214,588
Bank overdraft		–	(3,083,288)
		19,228,262	53,131,300

1. GENERAL

The Company is a public limited company 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 consolidated financial statements are presented in Hong Kong dollars while the functional currency of the Company is Renminbi ("RMB"). The reason for selecting Hong Kong dollars as its presentation currency is because the Company is a public company in Hong Kong with its 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 and sourcing of components.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKFRS 8	Operating segments [1]
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions [2]
HK(IFRIC) – INT 12	Service concession arrangements [3]
HK(IFRIC) – INT 13	Customer loyalty programmes [4]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [3]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 March 2007.
[3] Effective for annual periods beginning on or after 1 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

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 31 December 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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 business 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.

Goodwill

Goodwill arising on an acquisition of a business 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 business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business 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 the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 sold 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated 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 includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. 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. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets and ready for their intended use.

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.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised 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 a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and other receivables, bills receivables, amount due from a jointly controlled entity, pledged bank deposits and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and 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 in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, bills payables, amount due to a fellow subsidiary, loan from an intermediate holding company, loan from a minority shareholder of a subsidiary, loan from ultimate holding company, bank borrowings and bank overdraft are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or receivable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of tangible 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. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 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.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purposes of presenting consolidated financial statements in Hong Kong dollars, the assets and liabilities of the Group entities are translated into Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items 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. Translation differences relating to a foreign operation 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 estimate 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 lapsed 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.

Share options granted to other suppliers of goods and services

Share options issued in exchange for goods or services are measured at the fair value of the goods or services received. The fair value of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets with a corresponding increase in share options reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

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. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in note 3, directors of the Company are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. 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 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. As at 31 December 2007, the Group has started constructing a new production factory plant for the upcoming relocation of its operation. In light of the likely move of production plant situation 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. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Estimated useful lives of property, plant and equipment *(continued)*

In making its judgement, the 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, all the remaining property, plant and equipment are still able to derive future economic benefits according to the current estimated useful lives because all the remaining property, plant and equipment can relocate to the new production factory plant for continuing operation. 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 even if the requisition of land will be happened in 2008. 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. Allowances are applied to trade receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Allowance for 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 and expectation is different from the original estimate, such difference will impact carrying amounts of trade receivables and doubtful debts expenses in the year in which such estimate is changed.

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. TURNOVER AND SEGMENTS INFORMATION

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

(a) Business segments

For management purposes, the Group is currently organised into two operating divisions namely manufacture and sale of flexible printed circuits and sourcing and sale of components. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Flexible printed circuit business	–	the manufacture and sale of flexible printed circuits ("FPC")
Sourcing and sale of components	–	provision of sourcing and sale of electrical components for surface mount technology

Segment information about these businesses is presented below.

Year ended 31 December 2007

Consolidated income statement

	FPC business HK$	Sourcing and sale of components HK$	Total HK$
Turnover			
External sales	**154,848,784**	**124,484,334**	**279,333,118**
Result			
Segment results	**(16,918,197)**	**766,641**	**(16,151,556)**
Interest income			**1,052,536**
Share of result of a jointly controlled entity			**6,141,109**
Finance costs			**(719,636)**
Unallocated corporate expenses			**(21,803,921)**
Loss before taxation			**(31,481,468)**
Taxation			**177,495**
Loss for the year			**(31,303,973)**

5. TURNOVER AND SEGMENTS INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2007 *(continued)*

Consolidated balance sheet

	FPC business HK$	Sourcing and sale of components HK$	Total HK$
ASSETS			
Segment assets	227,708,393	16,108,408	243,816,801
Interest in a jointly controlled entity			12,478,805
Unallocated corporate assets			27,912,845
Consolidated total assets			284,208,451
LIABILITIES			
Segment liabilities	56,804,131	15,211,787	72,015,918
Unallocated corporate liabilities			39,058,789
Consolidated total liabilities			111,074,707

Other information

	FPC business HK$	Sourcing and sale of components HK$	Total HK$
Additions of prepaid lease payments	7,787,927	–	7,787,927
Allowance for bad and doubtful debts	965,514	–	965,514
Allowance for obsolete inventories	15,541,778	–	15,541,778
Amortisation of prepaid lease payments	328,544	–	328,544
Capital additions	20,711,739	–	20,711,739
Depreciation	10,912,330	–	10,912,330
Impairment loss on goodwill	2,120,863	–	2,120,863
Loss on disposal of property, plant and equipment	209,205	–	209,205

5. TURNOVER AND SEGMENTS INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2006

Consolidated income statement

	FPC business HK$	Sourcing and sale of components HK$	Total HK$
Turnover			
External sales	159,879,101	–	159,879,101
Result			
Segment results	5,803,853	–	5,803,853
Interest income			607,502
Share of result of a jointly controlled entity			(1,877,373)
Finance costs			(251,819)
Unallocated corporate expenses			(11,290,549)
Loss before taxation			(7,008,386)
Taxation			(920,019)
Loss for the year			(7,928,405)

5. TURNOVER AND SEGMENTS INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2006 *(continued)*

Consolidated balance sheet

	FPC business HK$	Sourcing and sale of components HK$	Total HK$
ASSETS			
Segment assets	187,085,552	3,937,631	191,023,183
Interest in a jointly controlled entity			6,337,696
Unallocated corporate assets			61,047,652
Consolidated total assets			258,408,531
LIABILITIES			
Segment liabilities	39,446,033	809,549	40,255,582
Unallocated corporate liabilities			32,445,894
Consolidated total liabilities			72,701,476

Other information

	FPC business HK$	Sourcing and sale of components HK$	Total HK$
Additions of prepaid lease payments	18,578,725	–	18,578,725
Allowance for obsolete inventories	92,964	–	92,964
Capital additions	14,704,965	–	14,704,965
Depreciation	11,698,016	–	11,698,016
Loss on disposal of property, plant and equipment	23,919	–	23,919

5. TURNOVER AND SEGMENTS INFORMATION *(continued)*

(b) Geographical segments

The Group's two divisions operate in two principal geographical areas – the People's Republic of China (excluding Hong Kong) (the "PRC") and Hong Kong. The following table provides an analysis of the Group's sales by geographical market, based on the geographical location of customers, irrespective of the origin of the goods manufactured:

	Turnover	
	2007	2006
	HK$	HK$
PRC other than Hong Kong	**178,492,784**	122,903,049
Hong Kong	**80,463,106**	23,850,783
Others	**20,377,228**	13,125,269
	279,333,118	159,879,101

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 assets by geographical market are also located in the PRC. Accordingly, no geographical segment asset analysis is presented.

6. FINANCE COSTS

	2007	2006
	HK$	HK$
Interests on:		
Bank borrowings wholly repayable within five years	**532,954**	251,819
Other borrowing wholly repayable within five years	**690,998**	–
Total borrowing costs	**1,223,952**	251,819
Less: Amounts capitalised	**(504,316)**	–
	719,636	251,819

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 3.26% (2006: nil) to expenditure on qualifying assets.

7. LOSS BEFORE TAXATION

	2007 HK$	2006 HK$
Loss before taxation has been arrived at after charging:		
Research and development expenses		
Staff costs	**543,073**	865,558
Other research and development expenses	**7,746,844**	8,959,774
	8,289,917	9,825,332
Less: Amounts reduced by government grants recognised	**(490,028)**	(552,899)
	7,799,889	9,272,433
Directors' remuneration (note 9)	**1,634,685**	668,738
Other staff costs	**32,611,443**	27,408,165
Other staff's retirement benefits costs	**873,000**	1,303,887
Total staff costs	**35,119,128**	29,380,790
Less: Other staff costs included in research and development expenses shown above	**(543,073)**	(865,558)
	34,576,055	28,515,232
Auditors' remuneration	**886,241**	926,500
Amortisation of prepaid lease payments	**328,544**	–
Allowance (reversal of allowance) for bad and doubtful debts	**965,514**	(1,903,624)
Cost of inventories recognised as an expense	**266,178,919**	141,228,719
Depreciation of property, plant and equipment	**10,912,330**	11,698,016
Impairment loss on goodwill (included in administrative expenses)	**2,120,863**	–
Loss on disposal of property, plant and equipment	**209,205**	23,919
Minimum lease payments under operating leases in respect of land and buildings	**3,642,868**	3,689,866
Net foreign exchange losses	**3,036,924**	677,223
Allowance for obsolete inventories (included in cost of sales)	**15,541,778**	92,964
Shipping and handling expenses (included in distribution costs)	**981,221**	1,075,570
and after crediting:		
Interest income	**1,052,536**	607,502
PRC tax refund on capital reinvestment in a subsidiary	**–**	4,981,000

8. TAXATION CREDIT (CHARGE)

	2007 HK$	2006 HK$
Current tax:		
Hong Kong Profits Tax	**(66,596)**	(38,918)
PRC Enterprise Income Tax	**–**	(578,101)
	(66,596)	(617,019)
Overprovision in prior years:		
Hong Kong Profits Tax	**23,904**	–
PRC Enterprise Income Tax	**220,187**	–
	244,091	–
Deferred taxation (note 34)	**–**	(303,000)
Taxation attributable to the Company and its subsidiaries	**177,495**	(920,019)

Hong Kong Profits tax is calculated at 17.5% of the estimated assessable profit of the Company for the year. The income of its PRC subsidiaries neither arises in, nor is derived from, Hong Kong.

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for each PRC subsidiary and at its 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.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% from 1 January 2008. AKM Panyu is currently applying for the Foreign Invested Advanced – Technology Enterprise Certificate under the New Law, which would entitle the subsidiary to favourable tax rate. The tax rate of AKM Panyu will be 15% from 1 January 2008 if the favourable tax rate can be granted.

8. TAXATION CREDIT (CHARGE) *(continued)*

The tax credit for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2007 **HK$**	2006 HK$
Loss before taxation	**31,481,468**	7,008,386
Tax at the applicable income tax rate (note)	**7,555,552**	1,682,013
Tax effect of share of result of a jointly controlled entity	**1,473,866**	(450,570)
Tax effect of income that are not taxable in determining taxable profit	**151,701**	1,149,404
Tax effect of expenses that are not deductible in determining taxable profit	**(5,564,635)**	(305,997)
Tax effect of utilisation of tax losses not previously recognised	**–**	233,520
Tax effect of tax loss not recognised	**(3,708,233)**	(2,903,760)
Overprovision in prior year	**244,091**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**25,153**	(4,970)
Others	**–**	(319,659)
Taxation credit (charge) for the year	**177,495**	(920,019)

Note: AKM Panyu is the Group's major operating subsidiary and accordingly its applicable income tax rate of 24% is adopted.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

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

The emoluments paid or payable to each of the seven (2006: seven) directors were as follows:

		Other emoluments		
	Fees	Salaries and other benefits	Pension costs	Total emoluments
	HK$	HK$	HK$	HK$
Xiong Zheng Feng	–	212,630	–	212,630
Li Ying Hong	–	200,959	–	200,959
Chai Zhi Qiang	–	653,094	13,236	666,330
Han Li Gang	–	156,765	–	156,765
Liang Zhi Li	51,426	78,383	–	129,809
Li Kung Man	60,000	78,383	–	138,383
Wang Heng Yi	51,426	78,383	–	129,809
Total for 2007	162,852	1,458,597	13,236	1,634,685

		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	–	457,685	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

For the year ended 31 December 2007, Mr. Xiong Zheng Feng and Ms. Li Ying Hong waived their nominal salary of HK$10 (2006: HK$10) and HK$10 (2006: HK$10) respectively. There are no other Directors who had waived their remuneration during the year.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(ii) Employees' remuneration:

Of the five individuals with the highest emoluments in the Group, one (2006: one) was director of the Company whose emoluments are included in the disclosures in Note 9(i) above. The emoluments of remaining four (2006: four) individuals were as follows:

	2007 **HK$**	2006 HK$
Salaries, allowances and other benefits	**1,456,643**	1,365,867
Pension costs	**65,208**	28,194
Performance related incentive payments	**98,514**	–
	1,620,365	1,394,061

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.

10. DIVIDEND

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.

No dividend was paid or proposed during 2007, nor has any dividend been proposed since the balance sheet date.

11. LOSS PER SHARE

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

	2007	2006
	HK$	HK$
Loss for the year attributable to equity holders of the parent	**(32,317,044)**	(7,928,828)

	Number of shares	
	2007	2006
Weighted average number of ordinary shares for the purpose of basic loss per share	**540,000,000**	540,000,000

The diluted loss per share for the years ended 31 December 2006 and 31 December 2007 are not presented as the exercise of the outstanding share options would result in a decrease in loss per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$	Plant and machinery HK$	Leasehold improvements HK$	Office equipment HK$	Motor vehicles HK$	Construction in progress HK$	Total HK$
COST							
At 1 January 2006	–	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 a 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
Additions	1,103,886	3,644,532	331,777	253,696	–	15,377,848	20,711,739
Disposals	–	(1,597,684)	(909,110)	(88,006)	(495,597)	–	(3,090,397)
Currency realignment	–	8,856,411	560,465	567,433	195,100	777,952	10,957,361
At 31 December 2007	**1,103,886**	**127,458,726**	**7,727,085**	**7,983,346**	**2,993,451**	**18,656,744**	**165,923,238**
DEPRECIATION							
At 1 January 2006	–	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
Provided for the year	16,558	6,955,256	2,392,230	1,251,954	296,332	–	10,912,330
Eliminated on disposals	–	–	(547,507)	(28,034)	(319,245)	–	(894,786)
Currency realignment	–	4,316,489	441,468	189,971	122,843	–	5,070,771
At 31 December 2007	**16,558**	**66,953,150**	**7,122,875**	**3,266,586**	**2,211,089**	**–**	**79,570,258**
CARRYING VALUES							
At 31 December 2007	**1,087,328**	**60,505,576**	**604,210**	**4,716,760**	**782,362**	**18,656,744**	**86,352,980**
At 31 December 2006	–	60,874,062	2,907,269	5,397,528	1,182,789	2,500,944	72,862,592

The buildings are located on land under medium-term lease in the People's Republic of China and the Group is in the process of obtaining the property ownership certificate.

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

	Leasehold improvements HK$	Office equipment HK$	Motor vehicles HK$	Total HK$
THE COMPANY				
COST				
At 1 January 2006	49,250	91,586	490,680	631,516
Disposal	(49,250)	(10,900)	–	(60,150)
At 31 December 2006 and at 31 December 2007	**–**	**80,686**	**490,680**	**571,366**
DEPRECIATION				
At 1 January 2006	19,495	22,393	368,010	409,898
Provided for the year	11,286	18,135	122,670	152,091
Eliminated on disposals	(30,781)	(5,450)	–	(36,231)
At 31 December 2006	–	35,078	490,680	525,758
Provided for the year	–	16,137	–	16,137
At 31 December 2007	**–**	**51,215**	**490,680**	**541,895**
CARRYING VALUES				
At 31 December 2007	**–**	**29,471**	**–**	**29,471**
At 31 December 2006	–	45,608	–	45,608

13. PREPAID LEASE PAYMENTS

	2007 HK$	2006 HK$
The Group's prepaid lease payments comprise:		
Land in PRC:		
Medium term lease	**26,038,108**	18,578,725
Analysed for reporting purposes as:		
Current assets	**527,584**	371,575
Non-current assets	**25,510,524**	18,207,150
	26,038,108	18,578,725

The prepayment for land use rights is under medium term lease and is amortised over 50 years on a straight line basis.

The Group has pledged the land in PRC having a net book value of approximately HK$19,730,502 (2006: nil) to secure general banking facilities granted to the Group.

14. GOODWILL

	HK$
COST	
Arisen from the acquisition of a subsidiary during the year ended 31 December 2006 and at 31 December 2007	**2,120,863**
IMPAIRMENT	
At 1 January 2006 and at 31 December 2006	–
Impairment loss recognised in the year	2,120,863
At 31 December 2007	**2,120,863**
CARRYING AMOUNTS	
At 31 December 2007	**–**
At 31 December 2006	2,120,863

The goodwill arisen from the acquisition of a subsidiary during the year ended 31 December 2006 is disclosed in note 33. The management of the Group determines that there is impairment of this goodwill.

During the financial year, the Group assessed the recoverable amount of goodwill, and determined the goodwill associated with the Group's FPC operations in Suzhou was impaired by HK$2,120,863 (2006: nil). The recoverable amount of the FPC operations in Suzhou was assessed by reference to value in use. A discount factor of 9.6% per annum (2006: 9.6% per annum) was applied in the value in use model.

The main factor contributing to the impairment of the cash-generating unit was the failure of the profitability of FPC products in Suzhou geographical market due to initial set up of production plant in Suzhou. No write-down of the carrying amounts of other assets in the cash-generating unit was necessary. The goodwill is included in the "FPC business" reportable segment disclosed in note 5.

Particulars regarding impairment testing on goodwill are disclosed in note 15.

15. IMPAIRMENT TESTING ON GOODWILL

As explained in note 5, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 14 has been allocated to the following cash generating unit. The carrying amount of goodwill (net of accumulated impairment loss) as at 31 December 2007 is as follows:

	2007 **HK$**	2006 HK$
FPC operations in Suzhou	–	2,120,863

The recoverable amount of the goodwill has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a three-year period, and discount rate of 9.6% (2006: 9.6%).

Cash flows beyond that three year period have been extrapolated using zero per cent growth rate.

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 in the eastern region of PRC.

Budgeted sales

Average sales in the budget period achieved an average growth rate of 10% per annum. The values assigned to the assumption that reflects past experience, which is consistent with management plans for focusing operations in the FPC industry due to the construction of new factory plant in Suzhou. Management believes that the planned sales growth per year for the next three years is reasonably achievable.

Budgeted gross margin

Average gross margins achieved in the budget period remain negative except for expected efficiency improvements. This reflects management's assessment of higher initial cost associated with the operation in Suzhou. Management expects efficiency improvements of 1-2% per year to be reasonably achievable.

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

As at 31 December 2007, 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	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 (2006: HK$30,000,000)	HK$16,380,000 (2006: HK$15,730,000)	53% (2006: 53%)	Provision of surface mount technology service

	2007 HK$	2006 HK$
Cost of unlisted investment in a jointly controlled entity	**8,810,000**	8,810,000
Share of post-acquisition profit (losses)	**3,668,805**	(2,472,304)
	12,478,805	6,337,696

The Group holds 53% (2006: 53%) of the registered capital of Shenzhen Smart. The board of directors of Shenzhen Smart comprise of four directors appointed by the Group and three directors appointed by the other shareholders. However, under the shareholders' agreement, all the resolutions have to be passed with approval 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.

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

	2007 HK$	2006 HK$
Current assets	**21,157,496**	2,968,813
Non-current assets	**26,728,849**	20,677,004
Current liabilities	**19,913,216**	8,138,588
Non-current liabilities	**2,305,383**	3,486,750
Income	**82,409,829**	10,124,100
Expenses	**70,822,832**	13,417,173

17. INTERESTS IN SUBSIDIARIES

	2007 HK$	2006 HK$
THE COMPANY		
Capital contribution, at cost	**219,154,447**	219,017,732
Impairment loss recognised	**(10,000,000)**	–
	209,154,447	219,017,732

The Company also has amounts due from a subsidiary/subsidiaries of HK$2,742,500 (2006: HK$6,943,571) included in current assets and amounts due to subsidiaries/a subsidiary of HK$32,384,184 (2006: HK$24,464,568) included in current liabilities. Impairment loss recognised in respect of interests in subsidiaries and amounts due from subsidiaries as at 31 December 2007 amounting to HK$10,000,000 (2006: Nil) and HK$4,000,000 (2006: HK$4,000,000) respectively.

The amounts are unsecured, interest-free and repayable on demand.

Impairment loss recognised in respect of interests in subsidiaries is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the expected rate of return of the investments in subsidiaries due to the continuance of operating losses of the subsidiaries, therefore, impairment losses in respect of interests in subsidiaries and amounts due from subsidiaries were made.

17. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the Company's subsidiaries as at 31 December 2007 and 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 Directly	Attributable equity interest held by the Company Indirectly	Principal activities
AKM Electronics Industrial (Panyu) Ltd. 安捷利(番禺)電子實業有限公司 ("AKM Panyu")	The PRC	Wholly owned-foreign 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	USD2,642,460	100%	–	Manufacture and sale of flexible printed circuit
Ever Proven Investments Limited	British Virgin Islands/ Hong Kong	International business company	US$100	75%	–	Investment holding
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%	–	Research and develop 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$4,520,000 (2006: 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	–	75%	Trading of raw materials and flexible printed circuit, sourcing of components

None of the subsidiaries had issued any debt securities at the end of the year.

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 Guanzhilin Electronic Technology Co. Limited ("Suzhou Guanzhilin"), the subsidiary which was acquired on 6 March 2006. 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. On 30 March 2007, the name of Suzhou Guanzhilin was changed to AKM Suzhou.

18. INVENTORIES

	THE GROUP	
	2007	2006
	HK$	HK$
Raw materials	**16,702,949**	14,573,460
Work in progress	**8,177,641**	9,006,294
Finished goods	**8,114,178**	9,969,867
	32,994,768	33,549,621

19. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES

Trade and other receivables and bills receivables include the following balances of trade and bills receivables:

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
Trade and bills receivables	**89,315,058**	66,596,824	**13,794,330**	5,340,539
Less: Allowance for doubtful debts	**(9,406,519)**	(9,181,120)	**(167,175)**	(166,682)
	79,908,539	57,415,704	**13,627,155**	5,173,857

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 and above 120 days.

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

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
Within 30 days	**13,521,599**	13,374,360	**2,225,237**	751,258
31 – 60 days	**21,363,334**	16,574,382	**4,978,654**	1,431,668
61 – 90 days	**22,177,798**	13,174,458	**5,199,871**	2,284,833
91 – 120 days	**11,232,436**	9,238,212	**1,189,048**	179,883
121 days – 1 year	**11,195,685**	4,973,438	**34,345**	526,215
Over 1 year	**417,687**	80,854	**–**	–
	79,908,539	57,415,704	**13,627,155**	5,173,857

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

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Approximately 79% (2006: 71%) of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Group.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$16,780,345 (2006: HK$16,911,006) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 161 days (2006: 142 days).

Included in the Company's trade receivable balance are debtors with aggregate carrying amount of HK$3,941,767 (2006: HK$2,749,286) which are past due at the reporting date for which the Company has not provided for impairment loss. The Company does not hold any collateral over these balances. The average age of these receivables is 84 days (2006: 109 days).

Ageing of trade receivables which are past due but not impaired

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
61 – 90 days	**–**	2,618,502	**2,718,374**	2,043,088
91 – 120 days	**5,112,973**	9,238,212	**1,189,048**	179,883
121 days – 1 year	**11,195,685**	4,973,438	**34,345**	526,315
Over 1 year	**471,687**	80,854	**–**	–
Total	**16,780,345**	16,911,006	**3,941,767**	2,749,286

Movement in the allowances for doubtful debts

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
Balance at beginning of the year	**9,181,120**	10,504,552	**166,682**	166,253
Impairment losses recognised on receivables	**965,514**	–	**–**	–
Amounts written off as uncollectible	**(1,406,518)**	–	**–**	–
Impairment losses reversed	**–**	(1,903,624)	**–**	–
Currency realignment	**666,403**	580,192	**493**	429
Balance at end of the year	**9,406,519**	9,181,120	**167,175**	166,682

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

Included in the Group's allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$9,406,519 (2006: HK$9,181,120) which have either been placed under liquidation or in severe financial difficulties.

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

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
United States Dollar ("USD")	**17,816,947**	9,466,812	**13,627,155**	5,173,857

20. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount is in trade nature and is unsecured, interest-free and with a credit period of 60 days.

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 of the Group and the Company amounting to HK$1,707,708 (2006: HK$1,663,215) carried fixed interest rate ranged from 1.9% to 2.7% (2006: 1.85% to 3.00% per annum). The remaining pledged bank deposits of the Group is non-interest bearing. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

22. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

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

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
Within 30 days	**22,846,603**	12,569,353	**424,039**	1,627,602
31 – 60 days	**16,787,882**	6,047,896	**454,198**	438,619
61 – 90 days	**9,215,801**	3,041,671	**464,363**	259,818
91 – 120 days	**5,033,071**	2,201,853	**–**	–
121 days – 1 year	**1,211,717**	42,979	**439,093**	–
Over 1 year	**472,672**	396,947	**–**	–
	55,567,246	24,300,699	**1,781,693**	2,326,039

22. TRADE AND OTHER PAYABLES AND BILLS PAYABLES *(continued)*

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

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
USD	**18,657,239**	5,165,204	**1,781,693**	2,326,039

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. It has resulted in a credit to income in the current period of HK$490,028 (2006: HK$552,899).

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

THE GROUP

Amount due to a fellow subsidiary is unsecured, interest-free, and repayable on demand.

THE GROUP AND THE COMPANY

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

25. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
Bank borrowings which are repayable within one year comprise the following:				
Bank loans – secured	**10,722,711**	4,981,072	**–**	–
Trust receipts loans – secured	**7,451,729**	3,937,632	**7,451,729**	3,937,633
	18,174,440	8,918,704	**7,451,729**	3,937,633

The Group's borrowing are secured by charges over certain of the Group's bank deposits, bills receivables and land use rights (note 35). The loans bear interest at fixed rates and will be repayable in March 2008 (2006: July 2007).

25. BANK BORROWINGS *(continued)*

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	THE GROUP	
	2007	2006
	HK$	HK$
Effective interest rates:		
Fixed-rate borrowings	**5.62% to 6.52%**	6.142%

26. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest-free and repayable within one year.

27. BANK BALANCES/BANK OVERDRAFT

Bank balances

Bank balances comprise short-term bank deposits at prevailing market interest rates.

Included in the Group's bank balances are the short-term bank deposits of HK$16,621,078 (2006: HK$53,948,854) kept in banks registered in the PRC. The Company has short-term bank deposits of HK$3,020 (2006: HK$3,246) kept in banks registered in the PRC.

In addition, included in the bank balance and cash are the following amounts denominated in currencies other than the functional currency of the Group to which they relate:

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
USD	**4,080,153**	43,647,440	**2,172,381**	1,060,942

28. LOAN FROM ULTIMATE HOLDING COMPANY

As at 31 December 2007, 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 payable on demand.

29. SHARE CAPITAL

	Number of shares	Share capital HK$
Authorised:		
At 31 December 2006 and 31 December 2007	2,000,000,000	200,000,000
Issued and fully paid:		
At 31 December 2006 and 31 December 2007	540,000,000	54,000,000

30. SHARE OPTIONS

Pursuant to written resolutions of the then 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 2007, and there were 800,000 (2006: 3,700,000) share options lapsed during this year.

No further share options have been offered or granted under the Pre-IPO Scheme upon the commencement of listing of the Company's shares.

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 of 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 12,800,000 (2006: 13,600,000) representing approximately 2.37% (2006: 2.52%) of the issued share capital of the Company.

30. SHARE OPTIONS *(continued)*

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

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

Type of participants	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1.1.2006	Lapsed during the year	Outstanding at 1.1.2007	Lapsed during the year	Outstanding at 31.12.2007
Directors	6 August 2004	18 August 2005 to 6 August 2014	0.40	5,400,000	–	5,400,000	–	5,400,000
Employees	6 August 2004	18 August 2005 to 6 August 2014	0.40	11,900,000	(3,700,000)	8,200,000	(800,000)	7,400,000
				17,300,000	(3,700,000)	13,600,000	(800,000)	12,800,000

The number of share options granted expected to vest has been reduced to reflect the lapse 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 recognised 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:

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.

30. SHARE OPTIONS *(continued)*

(b) Scheme

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

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

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

The total 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 in aggregate 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.

30. SHARE OPTIONS *(continued)*

(b) Scheme *(continued)*

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.

Share options are vested immediately on the date of grant.

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.

The total number of shares in respect of which share options are issuable under this scheme is 31,700,000 (2006: nil) representing approximately 5.87% (2006: nil) of the issued share capital of the Company.

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

Type of participants	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1.1.2006	Granted during the year	Lapsed during the year	Outstanding at 1.1.2007	Granted during the year	Lapsed during the year	Outstanding at 31.12.2007
Directors	9 July 2007	10 July 2007 to 9 July 2017	0.36	–	–	–	–	10,000,000	–	10,000,000
Employees and others	9 July 2007	10 July 2007 to 9 July 2017	0.36	–	–	–	–	26,500,000	(4,800,000)	21,700,000
				–	–	–	–	36,500,000	(4,800,000)	31,700,000

30. SHARE OPTIONS *(continued)*

(b) Scheme *(continued)*

The estimated fair value of the options granted on 9 July 2007 is HK9.8 cents per share. The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

Share price	HK$0.30
Exercise price	HK$0.36
Expected volatility	49.74%
Expected life	5 years
Risk-free rate	4.71%
Expected dividend yield	2.68%

The Group recognised total expenses of HK$3,212,625 (2006: HK$226,759) 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.

31. RESERVES

	Share premium HK$	Share options reserve HK$	Retained profits HK$	Total HK$
THE COMPANY				
At 1 January 2006	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
Recognition of equity-settled share-based payments	–	3,212,625	(3,212,625)	–
Lapse of share options	–	(55,356)	55,356	–
Loss for the year	–	–	(11,344,494)	(11,344,494)
At 31 December 2007	**53,868,328**	**4,098,318**	**60,396,952**	**118,363,598**

32. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

The financial instruments are fundamental to the Group's and the Company's daily operations. The Group's major financial instruments include trade and other receivables, bills receivables, amount due from a jointly controlled entity, pledged bank deposits, bank balances and cash, trade and other payables, bills payables, amount due to a fellow subsidiary, loan from an intermediate holding company, loan from a minority shareholder of a subsidiary, loan from ultimate holding company, bank borrowings and bank overdraft. The Company's major financial instruments include trade and other receivables, amount due from (to) a subsidiary/subsidiaries, pledged bank deposits, bank balances, trade and other payables, loan from an intermediate holding company, bank borrowings and bank overdraft. Details of these financial instruments are disclosed on the respective notes. The risks associated with the 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.

(b) Categories of financial instruments

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
Financial assets				
Loans and receivables (including cash and cash equivalents)	**126,343,790**	124,959,034	**21,385,366**	15,231,439
Financial liabilities				
Amortised cost	**107,398,495**	69,856,858	**58,385,986**	50,898,791

(c) Foreign currency risk management

Certain trade receivables, trade payables and bank balances of the Group are denominated in USD, other than the functional currency of the relevant group entities, which expose the Group to foreign currency risk. The Group has not used any financial instruments to hedge against currency risk. However, the management monitors foreign currency risk exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated trade receivables, trade payables and bank balances at the reporting date as follows:

	Liabilities		Assets	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
USD	**18,657,239**	5,165,204	**21,897,100**	53,114,252

32. FINANCIAL INSTRUMENTS *(continued)*

(c) Foreign currency risk management *(continued)*

Foreign currency sensitivity

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis represents the trade receivables, trade payables and bank balances where the denomination of certain trade receivables, trade payables and bank balances are in USD, the major foreign currency risk. A positive number indicates an increase in loss for the year where RMB strengthens against USD. For a 5% weakening of RMB against USD, there would be an equal and opposite impact on the loss for the year, and the balances below would be negative.

	2007	2006
	HK$	HK$
Decrease in loss for the year	**123,115**	1,822,298

In the opinion of the Directors, the Company does not have significant foreign currency risk as financial assets and financial liabilities denominated in USD are insignificant.

(d) Credit risk management

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet and 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 and the Company review 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 considers that the Group's and the Company's credit risk is significantly reduced.

The Group has concentrations of credit risk as nil% (2006: 7%) and 33% (2006: 54%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within FPC business segment in the PRC.

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.

32. FINANCIAL INSTRUMENTS *(continued)*

(e) Interest rate risk management

An interest rate risk – the possibility that the fair value of a financial instrument (fair value risk) on future cash flows from a financial instrument (cash flow risk) will change due to movement in market interest rates – applies mainly to bank deposits and loan from an intermediate holding company with floating interest rates and borrowing with fixed interest rates.

The management considers the fair value interest rate risk in relation to fixed-rate borrowings is insignificant to the Group as the fixed borrowings are short-term.

In the opinion of the Directors, the Group and the Company do not have significant interest rate risk related to its bank balances and loan from an intermediate holding company due to short-term in nature. The Group currently does not have an interest rate hedging policy. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(f) Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. In the opinion of the Directors, the Company does not have significant liquidity risk as the amount of the non-derivative financial liabilities involved is insignificant.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

32. FINANCIAL INSTRUMENTS *(continued)*

(f) Liquidity risk management *(continued)*

Liquidity and interest risk tables

	Weighted average effective interest rate	On demand	1 – 3 months	4 – 6 months	7 – 9 months	Total undiscounted cash flows	Total carrying amount
	%	HK$	HK$	HK$	HK$	HK$	HK$
At 31 December 2007							
Financial liabilities							
Trade and other payables	–	(45,510,413)	(9,626,123)	(210,654)	–	(55,347,190)	(55,347,190)
Bills payables	–	(4,523,653)	(2,798,688)	–	–	(7,322,341)	(7,322,341)
Amount due to a fellow subsidiary	–	(4,413,940)	–	–	–	(4,413,940)	(4,413,940)
Loan from an intermediate holding company	4.43	(16,294,998)	–	–	–	(16,294,998)	(15,604,000)
Loan from a minority shareholder of a subsidiary	–	(2,247,500)	–	–	–	(2,247,500)	(2,247,500)
Loan from ultimate holding company	–	(4,289,084)	–	–	–	(4,289,084)	(4,289,084)
Bank borrowings							
– fixed rate	5.62	–	(10,859,120)	–	–	(10,859,120)	(10,722,711)
– trust receipt loan	–	(2,259,615)	(5,192,114)	–	–	(7,451,729)	(7,451,729)
		(79,539,203)	(28,476,045)	(210,654)	–	(108,225,902)	(107,398,495)
At 31 December 2006							
Financial liabilities							
Trade and other payables	–	(20,544,958)	(8,875,680)	(487,701)	–	(29,908,339)	(29,908,339)
Bills payables	–	(2,194,184)	–	(1,384,697)	(142,697)	(3,721,578)	(3,721,578)
Amount due to a fellow subsidiary	–	(2,434,591)	–	–	–	(2,434,591)	(2,434,591)
Loan from an intermediate holding company	–	(15,558,000)	–	–	–	(15,558,000)	(15,558,000)
Loan from a minority shareholder of a subsidiary	–	(2,247,500)	–	–	–	(2,247,500)	(2,247,500)
Loan from ultimate holding company	–	(3,984,858)	–	–	–	(3,984,858)	(3,984,858)
Bank overdraft	–	(3,083,288)	–	–	–	(3,083,288)	(3,083,288)
Bank borrowings							
– fixed rate	6.14	–	–	–	(5,124,402)	(5,124,402)	(4,981,072)
– trust receipt loan	–	(1,124,299)	(1,500,336)	(1,312,997)	–	(3,937,632)	(3,937,632)
		(51,171,678)	(10,376,016)	(3,185,395)	(5,267,099)	(70,000,188)	(69,856,858)

32. FINANCIAL INSTRUMENTS *(continued)*

(g) Fair value of financial instruments

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the balance sheet date.

(h) Capital risk management

The Group and the Company manage its capital to ensure that entities in the Group and the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's and the Company's overall strategy remains unchanged from prior year.

The capital structure of the Group and the Company consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings as disclosed in this financial information.

The management of the Group and the Company review the capital structure on a continuous basis. The Group and the Company consider the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the raise of bank borrowings and the redemption of existing debt.

(i) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets, financial liability and equity instrument are disclosed in note 3.

33. ACQUISITION OF A SUBSIDIARY

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 (note)	(2,549,180)
Bank balances and cash acquired	196,311
	(2,352,869)

Note: As at 31 December 2006, consideration of HK$449,856 arising on acquisition was included in other payables. Amount was subsequently settled during the year.

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 ended 31 December 2006 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.

34. DEFERRED TAXATION

The following is the major deferred tax asset reversed in the year 2006 in respect of certain deductible expenses approved by tax bureau.

	THE GROUP HK$
At 1 January 2006	303,000
Charge to consolidated income statement for the year	(303,000)
At 31 December 2006 and 31 December 2007	–

At 31 December 2007, 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$9,247,000 (2006: HK$9,015,000) and HK$27,549,000 (2006: HK$12,099,000) respectively have not been recognised in the financial statements.

35. PLEDGE OF ASSETS

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

	THE GROUP		THE COMPANY	
	2007 **HK$**	2006 HK$	**2007** **HK$**	2006 HK$
Bank deposits	**8,684,583**	4,833,064	**1,707,708**	1,663,215
Bills receivables	**–**	2,635,953	**–**	–
Land use rights	**19,730,502**	–	**–**	–
	28,415,085	7,469,017	**1,707,708**	1,663,215

36. 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	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
Within one year	**3,026,732**	2,144,751	**120,000**	–
In the second to fifth years inclusive	**4,173,896**	442,559	**140,000**	–
	7,200,628	2,587,310	**260,000**	–

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 three years.

37. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
Capital expenditure in respect of acquisition of property, plant and equipment: – contracted for but not provided in financial statements	**30,420,181**	1,077,410	**375,435**	630,000

38. 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.

39. RELATED PARTY TRANSACTIONS

Save as disclosed above, during the year, the Group also had the following transactions with related parties:

(i) Transactions with fellow subsidiaries:

	2007 HK$	2006 HK$
Rentals for office and factory premises and staff quarter charged to the Group	**2,761,469**	2,583,575
Acquisition of properties by the Group	**995,514**	–
Transactions with a jointly controlled entity:		
Subcontracting fee paid by the Group	**9,297,517**	5,872,495
Sales of goods by the Group	**60,956,282**	564,116
Sales of equipments by the Group	**7,471,708**	–
Purchases of goods by the Group	**53,571,701**	–
Income from leasing equipments	**557,736**	68,500
Transactions with an intermediate holding company:		
Interest paid by the Group	**690,998**	–

(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 to be 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.

39. RELATED PARTY TRANSACTIONS *(continued)*

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

(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 2007 amounted to approximately HK$46.6 million (2006: HK$2.3 million) and HK$5.5 million (2006: HK$6.5 million) respectively. Amounts due from and due to these state-controlled entities as at 31 December 2007 amounted to approximately HK$20.8 million (2006: HK$1.4 million) and HK$0.2 million (2006: HK$0.1 million) respectively.

The Group also leased factory plant with its fellow subsidiary which, in the opinion of the directors, are state-controlled entity. Lease payments to the state-controlled entity for the year ended 31 December 2007 amounted to approximately HK$3.3 million. Amount due to the state-controlled entities as at 31 December 2007 amounted to approximately HK$4.4 million.

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 the three executive directors as disclosed in note 9 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.

RESULTS	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$	HK$	HK$	HK$	HK$
				(Restated)	
Turnover	**279,333,118**	159,870,101	202,402,207	243,974,808	148,104,067
Cost of sales	**(281,720,697)**	(141,321,683)	(152,665,813)	(159,260,437)	(106,800,678)
Gross (loss) profit	**(2,387,579)**	18,557,418	49,736,394	84,714,371	41,303,389
Other income	**1,652,514**	6,209,978	4,489,746	3,355,571	48,753
Distribution costs	**(5,964,088)**	(3,481,131)	(5,036,148)	(15,715,011)	(5,732,729)
Administrative expenses	**(22,403,899)**	(16,893,026)	(16,482,468)	(16,480,312)	(6,709,346)
Research and development expenses	**(7,799,889)**	(9,272,433)	(5,624,813)	(6,870,292)	(3,487,905)
Share of result of a jointly controlled entity	**6,141,109**	(1,877,373)	(594,931)	–	–
Finance costs	**(719,636)**	(251,819)	(61,856)	(924,518)	(858,600)
(Loss) profit before taxation	**(31,481,468)**	(7,008,386)	26,425,924	48,079,809	24,563,562
Taxation credit (charge)	**177,495**	(920,019)	(3,130,857)	(7,060,799)	(3,385,632)
(Loss) profit for the year	**(31,303,973)**	(7,928,405)	23,295,067	41,019,010	21,177,930

ASSETS AND LIABILITIES	At 31 December				
	2007	2006	2005	2004	2003
	HK$	HK$	HK$	HK$	HK$
				(Restated)	
Total assets	**284,208,451**	258,408,531	265,781,514	228,662,247	142,954,511
Total liabilities	**(111,074,707)**	(72,701,476)	(74,836,091)	(61,595,085)	(125,690,526)
	173,133,744	185,707,055	190,945,423	167,067,162	17,263,985
Equity attributable to equity holders of the parent	**172,107,252**	185,693,634	190,932,425	167,067,162	17,263,985
Minority interests	**1,026,492**	13,421	12,998	–	–
Total equity	**173,133,744**	185,707,055	190,945,423	167,067,162	17,263,985

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.