AKM

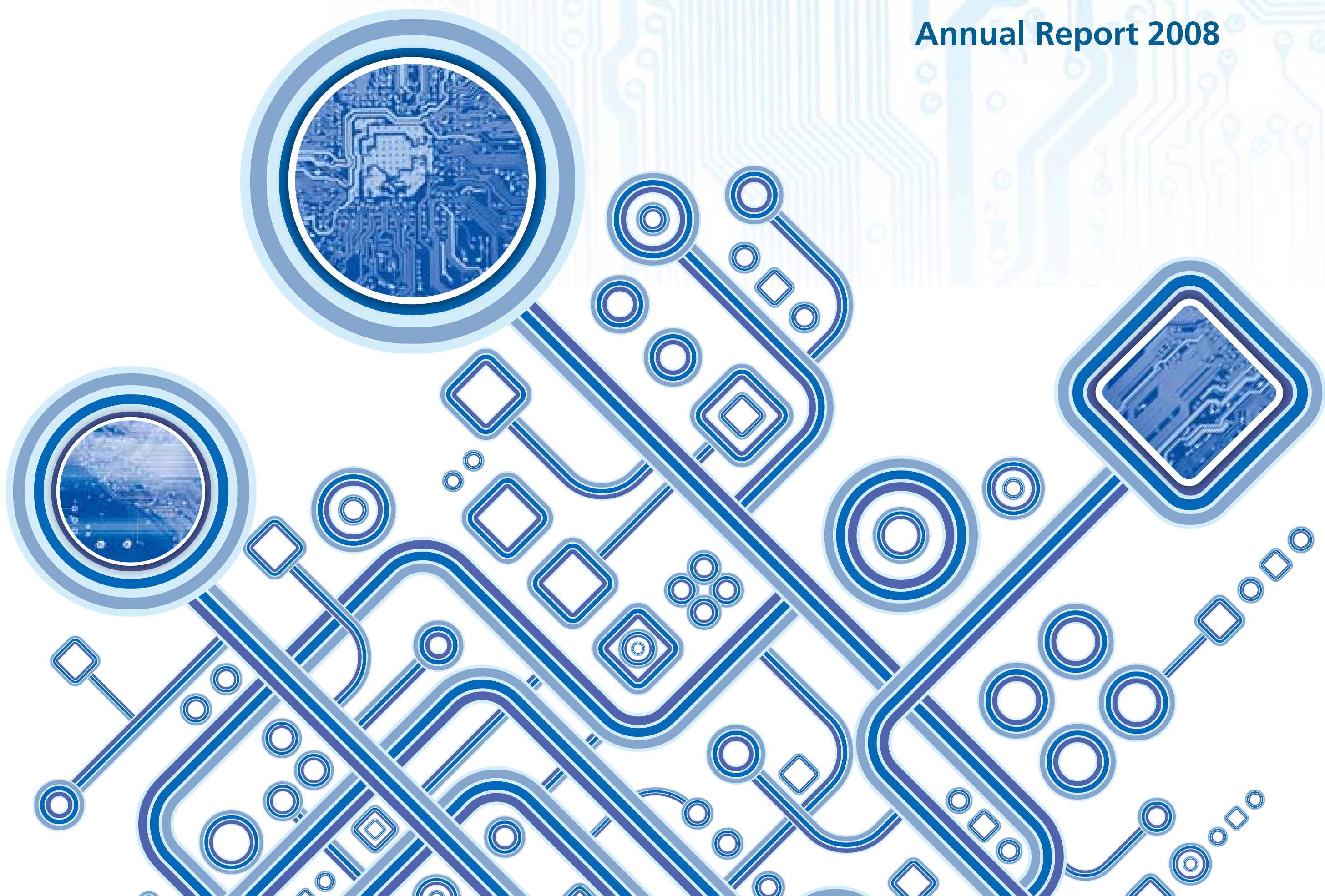
AKM Industrial Company Limited

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 2008



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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
Nansha 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)

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 2008.

RESULT ANALYSIS AND BUSINESS REVIEW

2008 was a year for the Company to face the global financial tsunami and the continuously severe market conditions with its active pursuance for progress, adjustment and reformation in depth. During the year, the Group recorded a turnover of approximately HK$378.19 million, representing an increase of approximately 35.39% as compared to that of 2007; and the loss attributable to equity holders was approximately HK$24.89 million, representing a decrease of approximately 22.97% as compared with 2007 despite of the consecutive losses. 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 2008, in view of the changing market environment, the Company had undertaken adjustments in its strategies and internal structure. It focused on the exploration and development of the large international clients. More stringent measures were implemented to follow up and improve the inventory, accounts receivables, cost control etc.

In 2009, the Company will continue to focus on six aspects, i.e. identifying and developing large international clients, refining the production flow of its manufacturing skills and techniques, refining production plan, strengthening of quality and cost control, relocating new production plant, and implementing the "customer-oriented, service-oriented, production refinement" corporate culture. The Group will strengthen its core competence, reinforce its existing accomplishment, and strive to return the gross profit margin of products to the normal level and to restore the Company's profitability, thereby creating greater value for its shareholders, staffs as well as the community. In 2009, 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 has room for expansion, 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 commencement of production in the new factory, the Company will be able to reinforce the refining of production flow, strengthen its core competence, and to achieve progress in market exploration and development. 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, 25 March 2009

Directors and Senior Management of the Group

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 39, 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"), the controlling shareholder and a substantial shareholder of the Company, as assistant General Manager and was promoted to the position of 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), the controlling shareholder and a substantial shareholder of the Company, since March 2001. Mr. Xiong is also a director of the subsidiaries of the Group, namely AKM Electronics Industrial (Panyu) Ltd., AKM (Suzhou) FPC Company Limited, AKM Electronic Technology (Suzhou) Company Limited and Ever Proven Investments Limited. He is also a director of a jointly controlled entity of the Group, Shenzhen Smart Electronics Co. Ltd. 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. Save as disclosed above, Mr. Xiong does not hold any directorship in other listed companies in the past three years, and does not have any other relationship with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company.

Mr. Chai Zhi Qiang (**柴志強**), aged 48, 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. Mr. Chai is a director of the subsidiaries of the Group, namely, AKM Electronics Industrial (Panyu) Ltd., AKM (Suzhou) FPC Company Limited, AKM Electronic Technology (Suzhou) Company Limited, Ever Proven Investments Limited, Giant Rise Technology Limited and Guangzhou AKM Flexible Printed Circuits Research Developing Limited. Mr. Chai is also a director of a jointly controlled entity of the Group, Shenzhen Smart Electronics Co. Ltd. Save as disclosed above, Mr. Chai does not hold any directorship in other listed companies in the past three years, and does not have any other relationship with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholder of the Company.

Ms. Li Ying Hong (**李映紅**), aged 45, 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. She is a non-executive director of Raymond Industrial Ltd., a company whose shares are listed on the Stock Exchange of Hong Kong, since July 2008. 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. Ms. Li is a director of the subsidiaries of the Group, namely, AKM Electronics Industrial (Panyu) Ltd., AKM Electronic Technology (Suzhou) Company Limited and Ever Proven Investments Limited. Save as disclosed above, Ms. Li does not hold any directorship in other listed companies in the past three years, and does not have any other relationship with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company.

Non-executive Director

Mr. Han Li Gang (**韓立剛**), aged 47, 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. Mr. Han is a director of AKM Electronics Industrial (Panyu) Ltd., a subsidiary of the Group. Save as disclosed above, Mr. Han does not hold any directorship in other listed companies in the past three years, and does not have any relationship with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company.

Directors and Senior Management of the Group

Independent non-executive Directors

Mr. Li Kung Man (李公民), aged 52, 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 was an independent non-executive director of 中國神威藥業集團有限公司 (China Shineway Pharmaceutical Group Limited) until 30 May 2008. He was also an independent non-executive director of 廣東科龍電器股份有限公司 (Guangdong Kelon Electrical Holdings Company Limited) until 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. Save as disclosed above, Mr. Li does not hold any directorship in other listed companies in the past three years and does not have any other relationship with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholder of the Company.

Mr. Liang Zhi Li (梁志立), aged 65, 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. Liang does not hold any directorship in other listed companies in the past three years and does not have any other relationship with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholder of the Company.

Mr. Wang Heng Yi (王恒義), aged 68, 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. Mr. Wang does not hold any directorship in other listed companies in the past three years, and does not have any relationship with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Lam Sau Yan (林守仁), aged 48, 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 2008, the turnover of the Group amounted to approximately HK$378.19 million, representing an increase of approximately 35.39% as compared to that of last year. The increase in turnover was mainly attributed to the increase in the business of sourcing of components. A gross profit margin of 0.15% for the year was recorded while there was a gross loss margin of 0.85% in the last year. The gross loss margin of last year was mainly due to the additional stock provision in that year.

The loss attributable to the equity holders of the Company for 2008 was approximately HK$24.89 million, while the loss was approximately HK$32.32 million for 2007. The decrease in loss was mainly due to the increase in the gross profit margin of flexible printed circuit and the decrease in administrative expenses.

The other income of the Group for the year ended 31 December 2008 amounted to approximately HK$0.95 million, representing a decrease of approximately 42.49% as compared to that of last year. The other income for the year mainly consists of bank 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 in the other income was mainly due to the decrease in bank interest income.

The distribution costs of the Group for the year ended 31 December 2008 amounted to approximately HK$6.81 million, representing an increase of approximately 14.19% as compared to that of last year. The increase in distribution costs was mainly due to the increase in the provision of the bad and doubtful debts.

The administrative expenses of the Group for the year ended 31 December 2008 amounted to approximately HK$17.55 million, representing a decrease of approximately 21.68% as compared to that of last year. It was mainly due to the fact that, in 2007, there was 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, 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. However, there was no such expenses during the year under review.

The research and development expenses of the Group for the year ended 31 December 2008 amounted to approximately HK$7.85 million, representing an increase of approximately 0.67% as compared to that of last year.

The finance cost of the Group for the year ended 31 December 2008 amounted to approximately HK$1.06 million, representing an increase of approximately 47.12% as compared to that of last year. It was mainly due to the interest charged for the loan borrowed from Silver City, the controlling shareholder and a substantial shareholder of the Company.

Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

Business Review

The Group is principally engaged in the manufacture and sale of flexible printed circuits, which are used in communication, LCD, consumer electrical and electronic appliances such as mobile phones, LCD, car electronics and cameras. The Group is also engaged in sourcing of components for surface mount technology ("SMT") service.

For the year ended 31 December 2008, the turnover of the Group amounted to approximately HK$378.19 million, representing an increase of approximately 35.39% as compared to that of last year. During the year under review, the turnover for sales of printed flexible circuits and sourcing of components for SMT service were approximately HK$145.21 million and HK$232.98 million respectively. The turnover of printed flexible circuits and sourcing of components for SMT service during the year ended 31 December 2007 were approximately HK$154.85 million and HK$124.48 million respectively. Further, during the end of the year under review, the Directors reviewed the transactions with Shenzhen Smart Electronics Co. Ltd. and considered that presentation as a contracting fee is more relevant to the substance of the transactions. In 2008, the loss attributable to the equity holders of the Company amounted to approximately HK$24.89 million, representing a decrease of approximately 22.97% as compared to that of 2007.

In 2008, although the operating loss of the Group has decreased, a fundamental upturn has not been achieved yet. It was mainly due to the abrupt drop in the purchase orders for flexible printed circuits in the second half of 2008 due to the global financial tsunami, which in turn attributed to the fall of production level below the economic scale. Further, as a result of the promulgation of the new Labour Laws of the PRC, the overall costs have increased substantially. Hence, the Group's sales of flexible printed circuits in 2008 had dropped by approximately 6.23% as compared with 2007, and gross profit margin was only about 0.05%. The low gross profit margin was the consequence of the decrease in prices of products due to the changes in market environment, the increase in prices of raw materials, production below economic scale as a result of the drop in purchase orders, as well as the rise in overall costs.

In 2008, with reference to market change, the Group took the initiative to secure large international clients and explored overseas markets (outside the PRC), and had achieved significant progress. The Group had secured batch orders from an international mobile manufacturer since the third quarter of 2008. In regard to the sales of flexible printed circuits, sales to the overseas markets increased to approximately 40.62% in 2008 from 28.92% as recorded in 2007.

In 2008, the Group's products were still applied primarily in mobile phones and the LCD in mobile phones, representing an aggregate of approximately 70% of the turnover of flexible printed circuits, which reflected the Group's substantial reliance on the mobile phone industry. The reformation and future development of mobile phone industry is expected to affect the results of the Group significantly.

In 2008, the Group had further strengthened internal control. Measures were adopted to follow up and improve continuously the inventories, account receivables and cost control, so that account receivables and inventory balances had decreased significantly. Account receivables decreased from that of approximately HK$61.46 million at the beginning of 2008 to that of approximately HK$37.96 million at the end of the year; inventory reduced from approximately HK$32.99 million to approximately HK$ 27.33 million, and bills receivables dropped from approximately HK$18.45 million to approximately HK$5.32 million. Since the quality of assets improved, potential risks of the Company declined substantially.

In April 2008, AKM Electronic Technology (Suzhou) Co., Ltd.（安捷利電子科技（蘇州）有限公司）("AKM ET"), a wholly-owned subsidiary of the Company, entered into an agreement to acquire the land use rights of a piece of land with gross area of approximately 58,786 sq.m. situated at East of Liangang Road, Suzhou City, the PRC (the "Suzhou Land") at a consideration of RMB28,217,660. The consideration was fully settled by the Group on the date of signing of the agreement. The Suzhou Land and an adjacent parcel of land ("Adjacent Land") of gross area of approximately 29,611 sq.m. purchased in June 2007 which are both situated at the Suzhou Gaoxin District will be used by the Group for the purpose of the expansion of the business for FPC production. Relevant disclosure in relation to acquisition of land use rights of the Suzhou Land and the Adjacent Land had been made in the announcement of the Company dated 24 April 2008.

Further, AKM ET was granted and received a development support fund ("Development Support Fund") of RMB23,300,000 on 25 September 2008. Relevant disclosure in relation to the grant and receipt of Development Support Fund had been made in the announcement of the Company dated 25 September 2008.

In June 2005, the relevant local government authority in charge of land development intended to resume the land ("Panyu Land") leased by the Group's Panyu plant. To facilitate the relocation, the Group had identified its new place of operation in Nansha, Guangzhou, the PRC and relevant disclosure in relation to the acquisition of the land in Nansha had been made in the announcement of the Company dated 7 June 2006. During the year under review, the construction of the production plant in Nansha has been substantially completed. The Group had commenced the relocation of the Group's operation in the Panyu Land to the new production plant at the end of January 2009. It is expected that the relocation will take approximately three months, and shall be completed in or about the end of April 2009. The Group is in the process of assessing and calculating the related costs and any other losses or damages which may be incurred as a result of the relocation, and has been discussing with the lessor of the land and the relevant PRC government authority in relation to the compensation packages. The amount of compensation to be provided by the PRC government may be determined with reference to the valuation prepared by an independent valuer mutually appointed by the PRC government and the Group, and the negotiation in relation to the compensation packages is still under process.

Outlook

As influenced by the global financial tsunami and the changes in the competitive environment of the mobile phone market in the PRC, the Group continued with a trend of loss for 2008. While the global financial tsunami may further deepen the economic crisis, the Group will put more efforts in developing large international clients, with focus on factories in the PRC which is expected to be benefited by the increase in domestic demand. We will try to obtain purchase orders by various means. The Directors believe that the introduction of international manufacturer has shown positive effects and will help the Group to obtain purchase orders in the PRC. Currently, since the economic environment is uncertain, the Group will seize the opportunity to strengthen its internal core competence during relocation of the production plant. Based on the concept of lean manufacturing, more stringent factory control measures will be imposed in personnel, equipment and skills. The Group strives to return the gross profit margin of products to the normal level and to restore the Company's profitability.

The Group is seeking to co-operate and to establish strategic alliances with major international manufacturers and relevant design organisations in the industry through the introduction of overseas technology experts in the industry, so as 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 and to maximize value for shareholders.

Management Discussion and Analysis

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 2008, the Group had outstanding borrowings amounting to HK$34,962,952, of which approximately HK$1,156,939 and HK$33,806,013 are trust receipts loans and loans from a financial institution respectively, and bank overdraft amounting to HK$780,858.

EMPLOYEES

As at 31 December 2008, the Group had a total of 772 full-time employees (2007: 1,135 employees) based in Hong Kong and the PRC. The total staff costs of the Group, including the Directors' remunerations, for the year ended 31 December 2008 amounted to HK$31,381,365 (2007: HK$35,119,128). 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 the PRC 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 the PRC.

CAPITAL STRUCTURE

Since 18 August 2004, the shares of the Company have been listed on GEM 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 2008.

MATERIAL ACQUISITIONS AND DISPOSALS

Save for the acquisition of the Suzhou Land, the Group did not have any material acquisitions or disposals during the year ended 31 December 2008.

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 "Nansha Land") at a total consideration of RMB18,106,140. The Nansha Land has a total gross area of 92,852 sq.m., which is used for production relocation and expansion purposes.

The construction of a new production facility had been substantially completed on the Nansha Land and the relocation is in progress. The capital commitment in relation to the new production facility is funded by internal resources and/or borrowings.

Save as disclosed above, the Group had no other future plans for material investments or capital assets as at 31 December 2008.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2008, bank deposits of approximately HK$2.35 million (31 December 2007: HK$8.68 million) and bill receivables of approximately HK$0.81 million (31 December 2007: Nil) of the Group were pledged as collateral to secure the banking facilities granted to the Group.

As at 31 December 2008, land use rights of approximately HK$20.45 million (as at 31 December 2007: approximately HK$19.73 million) were pledged to secure general banking facilities granted to Group.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no significant contingent liabilities.

GEARING RATIO

As at 31 December 2008, the Group had a net cash and cash equivalent position of HK$35,777,730. The Group's gearing ratio as at 31 December 2008 was approximately 51.55% (31 December 2007: 39.08%) which was calculated based on the Group's total liabilities of approximately HK$174,277,026 (31 December 2007: HK$111,074,707) and total assets of approximately HK$338,087,861 (31 December 2007: HK$284,208,451).

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 35 to the consolidated financial statements.

Corporate Governance Report

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 2008.

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 6 of this annual report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. There is no relationship among the members of the Board.

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. Xiong Zheng Feng, Mr. Li Kung Man and Mr. Liang Zhi Li will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

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 audit service.

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 2008 and annual audited results for the year ended 31 December 2007 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 28.

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.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

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 2008 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 and trading of flexible printed circuits. The activities of its principal subsidiaries and jointly controlled entity are set out in notes 15 and 14 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 29.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2008.

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 28 to the consolidated financial statements.

DIRECTORS

The Directors during the year under review 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. Xiong Zheng Feng, Mr. Li Kung Man and Mr. Liang Zhi Li 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 which is terminable by not less than three calender months' prior notice in writing served by either party on the other.

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 6 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 29 to the consolidated financial statements. During the year ended 31 December 2008, no 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 1.1.2008	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2008
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	7,400,000	–	(600,000)	6,800,000
Total				12,800,000	–	(600,000)	12,200,000

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.

SHARE OPTION SCHEMES *(continued)*

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

Name or category of participant	Date of grant (Note 1)	Exercisable period (Notes 1 & 2)	Exercise price per share HK$	Number of share options: Outstanding at 1.1.2008	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2008
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	9.7.2007	10.7.2007 to 9.7.2017	0.36	21,700,000	–	(2,700,000)	19,000,000
Total				31,700,000	–	(2,700,000)	29,000,000

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 AND UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as at 31 December 2008, 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 Stock Exchange pursuant to Rules 5.46 to 5.68 of the 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 the 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 shares 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 nor Mr. Wang Heng Yi is interested in any securities of the Company other than under 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 2008, 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' INTERESTS 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 2008, 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 5% 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 2008 comprised the retained profits of HK$47,515,116.

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 30 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 its independent non-executive Directors are independent.

PENSION SCHEME

Details of the Group's pension scheme for the year ended 31 December 2008 are set out in note 36 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 29 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 2008, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 69% of the Group's turnover and the turnover attributable to the Group's largest customer accounted for approximately 51% of the Group's turnover.

For the year ended 31 December 2008, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 77% of the Group's purchases and the purchases attributable to the Group's largest supplier accounted for approximately 60% of the Group's purchases.

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 2008.

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 2008, the Group entered into the following connected transactions:

1. Pursuant to a property lease dated 17 January 2008 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") (the "2008 Factory Lease"), 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, Nansha District, Guangzhou, Guangdong Province, the Peoples' Republic of China ("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 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 2008, the aggregate rental paid by AKM Panyu to ALI Guangzhou pursuant to the 2008 Factory Lease amounted to RMB1,042,257 (equivalent to approximately HK$1,148,999).

2. Pursuant to a property lease 17 January 2008 entered into between AKM Panyu and ALI Guangzhou (the "2008 Dormitory Lease"), 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, Nansha 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 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, 2008, the aggregate rental paid by AKM Panyu to ALI Guangzhou pursuant to the 2008 Dormitory Lease amounted to RMB381,399 (equivalent to approximately HK$420,460).

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, Nansha 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$835,944).

   For the year ended 31 December 2008, the aggregate rental paid by AKM Panyu to ALI Guangzhou under the 2007 Factory Lease amounted to RMB758,285 (equivalent to approximately HK$835,944).

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, Nansha 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$359,615).

   For the year ended 31 December 2008, the aggregate rental paid by AKM Panyu to ALI Guangzhou under the 2007 Dormitory Lease amounted to RMB326,207 (equivalent to approximately HK$359,615).

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.

On 22 January 2009, ALI Guangzhou and AKM Panyu entered into a cancellation agreement ("Cancellation Agreement") to terminate all rights and obligations of the parties under the 2008 Factory Lease, the 2008 Dormitory Lease, the 2007 Factory Lease and the 2007 Dormitory Lease with effect from 30 April 2009 (collectively, "Connected Leases"). Relevant details in relation to the termination of the continuing connected transactions and the Cancellation Agreement had been disclosed in an announcement of the Company dated 22 January 2009.

Pricing basis

The aggregate rentals paid by AKM Panyu to ALI Guangzhou for the year ended 31 December 2008 under the 2008 Factory Lease, the 2008 Dormitory Lease, the 2007 Factory Lease and the 2007 Dormitory Lease were RMB2,508,148 (equivalent to approximately HK$2,765,018), 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 2008 Factory 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 auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor 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. Following the completion of the production plant on the Nansha Land and the relocation of the production plant from the Panyu Land to the Nansha Land, the Connected Leases will be determined pursuant to the Cancellation Agreement.

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

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 37 to the consolidated financial statement.

AUDITOR

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 auditor of the Company.

On behalf of the Board

AKM Industrial Company Limited
Xiong Zheng Feng
Chairman

Hong Kong, 25 March 2009

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 29 to 83, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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 2008 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, 25 March 2009

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 HK$	2007 HK$
Revenue	5	**378,194,134**	279,333,118
Cost of sales		**(377,610,695)**	(281,720,697)
Gross profit (loss)		**583,439**	(2,387,579)
Other income		**950,384**	1,652,514
Distribution costs		**(6,810,113)**	(5,964,088)
Administrative expenses		**(17,545,947)**	(22,403,899)
Research and development expenses		**(7,852,085)**	(7,799,889)
Share of result of a jointly controlled entity		**10,200,962**	6,141,109
Finance costs	6	**(1,058,753)**	(719,636)
Loss before taxation	7	**(21,532,113)**	(31,481,468)
Taxation (charge) credit	8	**(1,047,265)**	177,495
Loss for the year		**(22,579,378)**	(31,303,973)
Attributable to:			
Equity holders of the parent		**(24,893,938)**	(32,317,044)
Minority interests		**2,314,560**	1,013,071
		(22,579,378)	(31,303,973)
Loss per share	11		
– basic		**(4.61 cents)**	(5.98 cents)

Consolidated Balance Sheet

AT 31 DECEMBER 2008

	Notes	2008 HK$	2007 HK$
Non-current assets			
Property, plant and equipment	12	**134,018,842**	86,352,980
Prepaid lease payments	13	**57,439,578**	25,510,524
Interest in a jointly controlled entity	14	**29,097,380**	12,478,805
		220,555,800	124,342,309
Current assets			
Inventories	16	**27,333,000**	32,994,768
Trade and other receivables	17	**41,533,614**	64,867,375
Bills receivables	17	**5,323,566**	18,446,500
Prepaid lease payments	13	**1,199,720**	527,584
Amount due from a jointly controlled entity	18	**3,013,321**	15,117,070
Tax recoverable		**220,545**	–
Pledged bank deposits	19	**2,349,707**	8,684,583
Bank balances and cash	25	**36,558,588**	19,228,262
		117,532,061	159,866,142
Current liabilities			
Trade and other payables	20	**45,039,546**	55,347,190
Bills payables	20	**5,851,491**	7,322,341
Deferred income	21	**340,329**	643,363
Amount due to a fellow subsidiary	22	**2,939,172**	4,413,940
Loan from an intermediate holding company	22	**–**	15,604,000
Taxation payable		**3,344,842**	3,032,849
Borrowings	23	**34,962,952**	18,174,440
Loan from a jointly controlled entity	24	**4,086,894**	–
Loan from a minority shareholder of a subsidiary	24	**2,247,500**	2,247,500
Loan from ultimate holding company	26	**4,537,720**	4,289,084
Bank overdrafts	25	**780,858**	–
		104,131,304	111,074,707
Net current assets		**13,400,757**	48,791,435
Total assets less current liabilities		**233,956,557**	173,133,744

Consolidated Balance Sheet
AT 31 DECEMBER 2008

	Notes	2008 HK$	2007 HK$
Capital and reserves			
Share capital	28	**54,000,000**	54,000,000
Reserves		**105,882,630**	118,107,252
Equity attributable to equity holders of the parent		**159,882,630**	172,107,252
Minority interests		**3,928,205**	1,026,492
Total equity		**163,810,835**	173,133,744
Non-current liabilities			
Deferred income	21	**30,346,001**	–
Loans from an intermediate holding company	22	**38,750,000**	–
Deferred taxation	27	**1,049,721**	–
		70,145,722	–
		233,956,557	173,133,744

The financial statements on pages 29 to 83 were approved and authorised for issue by the Board of Directors on 25 March 2009 and are signed on its behalf by:

Li Ying Hong
Director

Xiong Zheng Feng
Director

Balance Sheet
AS AT 31 DECEMBER 2008

	Notes	2008 HK$	2007 HK$
Non-current assets			
Property, plant and equipment	12	**88,012**	29,471
Interests in subsidiaries	15	**197,954,447**	209,154,447
		198,042,459	209,183,918
Current assets			
Trade and other receivables	17	**14,924,137**	14,676,785
Amount due from a subsidiary	15	**2,742,500**	2,742,500
Taxation recoverable		**180,300**	180,300
Pledged bank deposits	19	**2,349,707**	1,707,708
Bank balances and cash	25	**65,703**	2,258,373
		20,262,347	21,565,666
Current liabilities			
Trade and other payables	20	**2,874,605**	2,946,073
Amounts due to subsidiaries	15	**15,541,190**	32,384,184
Loan from an intermediate holding company	22	**–**	15,604,000
Borrowings	23	**1,156,939**	7,451,729
Bank overdrafts	25	**780,858**	–
		20,353,592	58,385,986
Net current liabilities		**(91,245)**	(36,820,320)
Total assets less current liabilities		**197,951,214**	172,363,598
Capital and reserves			
Share capital	28	**54,000,000**	54,000,000
Reserves	30	**105,201,214**	118,363,598
Total equity		**159,201,214**	172,363,598
Non-current liabilities			
Loans from an intermediate holding company	22	**38,750,000**	–
		197,951,214	172,363,598

Li Ying Hong
Director

Xiong Zheng Feng
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2008

	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 2007	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
Exchange differences from translation directly recognised in equity	–	–	12,637,303	–	–	12,637,303	587,153	13,224,456
Loss for the year	–	–	–	–	(24,893,938)	(24,893,938)	2,314,560	(22,579,378)
Total recognised income and expenses for the year	–	–	12,637,303	–	(24,893,938)	(12,256,635)	2,901,713	(9,354,922)
Recognition of equity-settled share based payments	–	–	–	32,013	–	32,013	–	32,013
Lapse of share options	–	–	–	(312,561)	312,561	–	–	–
At 31 December 2008	**54,000,000**	**53,868,328**	**39,691,732**	**3,817,770**	**8,504,800**	**159,882,630**	**3,928,205**	**163,810,835**

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 HK$	2007 HK$
OPERATING ACTIVITIES		
Loss before taxation	**(21,532,113)**	(31,481,468)
Adjustments for:		
Interest expense	**1,058,753**	719,636
Interest income	**(289,063)**	(1,052,536)
Share of result of a jointly controlled entity	**(10,200,962)**	(6,141,109)
Allowance for bad and doubtful debts	**2,466,388**	965,514
Allowance for obsolete inventories	**4,928,097**	15,541,778
Amortisation of prepaid lease payments	**958,047**	328,544
Depreciation of property, plant and equipment	**9,787,255**	10,912,330
Impairment loss on goodwill	**–**	2,120,863
(Gain) loss on disposal of property, plant and equipment	**(39)**	209,205
Deferred income recognised	**(330,724)**	(490,028)
Share-based payment expense	**32,013**	3,212,625
Operating cash flows before movements in working capital	**(13,122,348)**	(5,154,646)
Decrease (increase) in inventories	**2,234,167**	(11,727,743)
Decrease (increase) in trade and other receivables	**22,100,024**	(11,107,838)
Decrease (increase) in bills receivable	**13,414,628**	(4,701,141)
Decrease (increase) in amount due from a jointly controlled entity	**12,874,647**	(14,151,327)
(Decrease) increase in trade and other payables	**(12,019,205)**	23,556,331
(Decrease) increase in bills payables	**(1,791,471)**	3,281,386
(Decrease) increase in amount due to a fellow subsidiary	**(1,774,978)**	1,794,549
Deferred income received	**–**	881,541
Cash generated from (used in) operations	**21,915,464**	(17,328,888)
Interest paid	**(2,757,464)**	(1,223,952)
Profits tax refund	**–**	377,240
Income Tax paid	**(89,371)**	(31,014)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**19,068,629**	(18,206,614)
INVESTING ACTIVITIES		
Dividend received from a jointly controlled entity	**3,021,000**	–
Investment in a jointly controlled entity	**(7,090,000)**	–
Interest received	**289,063**	1,052,536
Government grant received	**29,489,582**	–
Increase in prepaid lease payment	**(31,172,358)**	(6,388,433)
Proceeds on disposal of property, plant and equipment	**79,644**	1,986,406
Additions of property, plant and equipment	**(47,343,259)**	(20,207,423)
Decrease (increase) in pledged bank deposits	**6,334,876**	(3,356,647)
NET CASH USED IN INVESTING ACTIVITIES	**(46,391,452)**	(26,913,561)

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 HK$	2007 HK$
FINANCING ACTIVITIES		
New borrowings raised	**65,924,374**	15,323,499
Repayment of borrowings	**(50,391,361)**	(6,828,331)
Loans raised from an intermediate holding company	**39,682,214**	–
Loan raised from a jointly controlled entity	**3,980,854**	–
Repayment of loans from an intermediate holding company	**(16,536,214)**	–
NET CASH FROM FINANCING ACTIVITIES	**42,659,867**	8,495,168
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**15,337,044**	(36,625,007)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**19,228,262**	53,131,300
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,212,424**	2,721,969
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**35,777,730**	19,228,262
REPRESENTING		
Bank balances and cash	**36,558,588**	19,228,262
Bank overdrafts	**(780,858)**	–
	35,777,730	19,228,262

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 ("CNIC"), 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 and trading of flexible printed circuit ("FPC"). Its subsidiaries are principally engaged in manufacture and sale of FPC and sourcing of components.

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

In the current year, the Group and the Company has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The application 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.

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

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

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKAS 1 (Revised)	Presentation of financial statements [2]
HKAS 23 (Revised)	Borrowing costs [2]
HKAS 27 (Revised)	Consolidated and separate financial statements [3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [3]
HKAS 39 (Amendment)	Eligible hedged items [3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [2]
HKFRS 3 (Revised)	Business combinations [3]
HKFRS 7 (Amendments)	Improving disclosures about financial instruments [2]
HKFRS 8	Operating segments [2]
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives [4]
HK(IFRIC) – INT 13	Customer loyalty programmes [5]
HK(IFRIC) – INT 15	Agreements for the construction of real estate [2]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation [6]
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners [3]
HK(IFRIC) – INT 18	Transfer of assets from customers [7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods ending on or after 30 June 2009.
5 Effective for annual periods beginning on or after 1 July 2008.
6 Effective for annual periods beginning on or after 1 October 2008.
7 Effective for transfers on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments 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 December 31 each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in subsidiaries

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods 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.

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

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 are ready for their intended use.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 on a straight-line basis over the lease term. 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).

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 profit or loss 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 and the Company'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 subsidiary, 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 (see accounting policy in respect of impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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 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.

Interest income is recognised on an effective interest basis.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables 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.

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 credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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.

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, amounts due to subsidiaries, amount due to a fellow subsidiary, loans from an intermediate holding company, loan from a jointly controlled entity, loan from a minority shareholder of a subsidiary, loan from ultimate holding company, borrowings and bank overdrafts 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 Company 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 receivable 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 expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable 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.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss 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 depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated 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 and the Company'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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

For the 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.

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 or recognised as an expense in full at the grant date when the share options granted vested immediately, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate during the vesting period, 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 accumulated 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, unless the fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair value of the goods or services received are recognised as expenses with a corresponding increase in equity, when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

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 lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

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.

Estimation of useful lives of property, plant and equipment

Management estimates the useful lives of property, plant and equipment. The estimated useful lives are based on the expected lifespan of those property, plant and equipment. The useful lives of property, plant and equipment could change significantly as a result of technical obsolescence. When the actual useful lives of property, plant and equipment are different from their estimated useful lives due to the change of commercial and technological environment, such differences will cause an impact on the depreciation charges and the amount of assets written down for future periods.

The carrying amount of property, plant and equipment for the Group and the Company as at 31 December 2008 are HK$134,018,842 and HK$88,012 (2007: HK$86,352,980 and HK$29,471) respectively.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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 cause an impact on the carrying amounts of trade receivables and doubtful debts expenses in the year in which such estimate is changed.

The carrying amount of trade debts as at 31 December 2008 for the Group and the Company are HK$37,960,073 (2007: HK$61,462,039), net of allowance for bad and doubtful debts of HK$12,222,532 (2007: HK$9,406,519) and HK$14,917,451 (2007: HK$13,627,155), net of allowance for bad and doubtful debts of HK$166,061 (2007: HK$167,175) respectively.

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. If the net realisable value of inventories is estimated to be less than its carrying amount, the carrying amount of the inventories is reduced to its net realisable value.

The carrying amount of inventories for the Group as at 31 December 2008 is HK$27,333,000 (2007: HK$32,994,768).

5. REVENUE AND SEGMENTS INFORMATION

Revenue 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 ("FPC") business	–	the manufacture and sale of 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.

5. REVENUE AND SEGMENTS INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2008

Consolidated income statement

	FPC business HK$	Sourcing and sale of components HK$	Total HK$
Revenue			
External sales	145,209,827	232,984,307	378,194,134
Result			
Segment results	(14,583,002)	504,243	(14,078,759)
Interest income			289,063
Share of result of a jointly controlled entity			10,200,962
Finance costs			(1,058,753)
Unallocated corporate expenses			(16,884,626)
Loss before taxation			(21,532,113)
Taxation charge			(1,047,265)
Loss for the year			(22,579,378)
Assets and liabilities			
ASSETS			
Segment assets	258,255,061	11,606,580	269,861,641
Interest in a jointly controlled entity			29,097,380
Unallocated corporate assets			39,128,840
Consolidated total assets			338,087,861
LIABILITIES			
Segment liabilities	73,588,419	10,928,120	84,516,539
Unallocated corporate liabilities			89,760,487
Consolidated total liabilities			174,277,026

5. REVENUE AND SEGMENTS INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2008 *(continued)*

Other information

	FPC business HK$	Sourcing and sale of components HK$	Total HK$
Additions of prepaid lease payments	**31,172,358**	**–**	**31,172,358**
Allowance for bad and doubtful debts	**2,466,388**	**–**	**2,466,388**
Allowance for obsolete inventories	**4,928,097**	**–**	**4,928,097**
Amortisation of prepaid lease payments	**958,047**	**–**	**958,047**
Capital additions	**49,041,970**	**–**	**49,041,970**
Depreciation	**9,787,255**	**–**	**9,787,255**
Net foreign exchange losses	**2,265,165**	**10,594**	**2,275,759**

Year ended 31 December 2007

Consolidated income statement

	FPC business HK$	Sourcing and sale of components HK$	Total HK$
Revenue			
External sales	154,848,784	124,484,334	279,333,118
Result			
Segment results	(19,039,060)	766,641	(18,272,419)
Interest income			1,052,536
Share of result of a jointly controlled entity			6,141,109
Finance costs			(719,636)
Unallocated corporate expenses			(19,683,058)
Loss before taxation			(31,481,468)
Taxation credit			177,495
Loss for the year			(31,303,973)

5. REVENUE AND SEGMENTS INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2007 *(continued)*

	FPC business HK$	Sourcing and sale of components HK$	Total HK$
Assets and liabilities			
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			
Additions of prepaid lease payments	6,388,433	–	6,388,433
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
Net foreign exchange losses	3,043,369	(6,445)	3,036,924

5. REVENUE 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	
	2008	2007
	HK$	HK$
PRC other than Hong Kong	**86,224,892**	178,492,784
Hong Kong	**272,972,768**	80,463,106
Others	**18,996,474**	20,377,228
	378,194,134	279,333,118

Over 90% of 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. Accordingly, no geographical segment asset analysis is presented.

6. FINANCE COSTS

	2008	2007
	HK$	HK$
Interests on:		
Bank borrowings wholly repayable within five years	**92,292**	376,826
Borrowings from a financial institution wholly repayable within five years	**1,340,342**	156,128
Other borrowings wholly repayable within five years	**1,324,830**	690,998
Total borrowing costs	**2,757,464**	1,223,952
Less: Amounts capitalised	**(1,698,711)**	(504,316)
	1,058,753	719,636

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 2.06% (2007: 3.26%) per annum to expenditure on qualifying assets.

7. LOSS BEFORE TAXATION

	2008 HK$	2007 HK$
Loss before taxation has been arrived at after charging:		
Research and development expenses		
Staff costs	475,255	543,073
Other research and development expenses	7,707,554	7,746,844
	8,182,809	8,289,917
Less: Amounts reduced by government grants recognised	(330,724)	(490,028)
	7,852,085	7,799,889
Directors' remuneration (note 9)	669,515	1,634,685
Other staff costs	29,143,624	32,611,443
Other staff's retirement benefits costs	1,568,226	873,000
Total staff costs	31,381,365	35,119,128
Less: Other staff costs included in research and development expenses shown above	(475,255)	(543,073)
	30,906,110	34,576,055
Auditor's remuneration	800,000	886,241
Amortisation of prepaid lease payments	958,047	328,544
Allowance for bad and doubtful debts	2,466,388	965,514
Cost of inventories recognised as an expense	372,682,598	266,178,919
Depreciation of property, plant and equipment	9,787,255	10,912,330
Loss on disposal of property, plant and equipment	–	209,205
Minimum lease payments under operating leases in respect of land and buildings	3,284,909	3,642,868
Impairment loss on goodwill (included in administrative expenses)	–	2,120,863
Net foreign exchange losses	2,275,759	3,036,924
Allowance for obsolete inventories (included in cost of sales)	4,928,097	15,541,778
Shipping and handling expenses (included in distribution costs)	815,108	981,221
and after crediting:		
Interest income	289,063	1,052,536
Gain on disposal of property, plant and equipment	39	–

8. TAXATION (CHARGE) CREDIT

	2008	2007
	HK$	HK$
Current tax:		
Hong Kong Profits Tax	**(22,545)**	(66,596)
PRC Enterprise Income Tax	**–**	–
	(22,545)	(66,596)
Overprovision in prior years:		
Hong Kong Profits Tax	**25,001**	23,904
PRC Enterprise Income Tax	**–**	220,187
	25,001	244,091
Deferred tax:		
Current year (note 27)	**(1,049,721)**	–
	(1,047,265)	177,495

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009.

Hong Kong Profits tax is calculated at 16.5% (2007: 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. On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate to 25% from 1 January 2008.

Pursuant to the relevant laws and regulation in the PRC, AKM (Suzhou) FPC Company Limited ("AKM (Suzhou)") is exempted from PRC income tax for two years commenced from 1 January 2008, followed by a 50% reduction for the next three years.

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

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") was 24% prior to application of New Law and Implementation Regulations as mentioned above. 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 December 2008, AKM Panyu was awarded the Foreign Invested Advanced – technology Enterprise Certificate. AKM Panyu is entitled for a tax reduction from 25% to 15% for three years commenced from 1 January 2008.

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

	2008 HK$	2007 HK$
Loss before taxation	**21,532,113**	31,481,468
Tax at the applicable income tax rate (note)	**3,229,817**	7,555,552
Tax effect of share of result of a jointly controlled entity	**1,530,144**	1,473,866
Tax effect of income that are not taxable in determining taxable profit	**74,519**	151,701
Tax effect of expenses that are not deductible in determining taxable profit	**(209,586)**	(1,602,885)
Tax effect of deductible temporary differences not recognised	**(1,108,961)**	(3,961,750)
Tax effect of tax loss not recognised	**(3,791,068)**	(3,708,233)
Overprovision in prior year	**25,001**	244,091
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,050)**	25,153
Utilisation of tax losses previously not recognised	**254,640**	–
Deferred taxation arising from withholding tax on undistributed profit of a jointly controlled entity	**(1,049,721)**	–
Taxation (charge) credit for the year	**(1,047,265)**	177,495

Note: AKM Panyu is the Group's major operating subsidiary and accordingly its applicable income tax rate of 15% (2007: 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 (2007: seven) directors were as follows:

		Other emoluments		
	Fees	Salaries and other benefits	Pension costs	Total emoluments
	HK$	HK$	HK$	HK$
Xiong Zheng Feng	–	5,002	–	5,002
Li Ying Hong	–	1,501	–	1,501
Chai Zhi Qiang	–	470,017	20,799	490,816
Han Li Gang	–	–	–	–
Liang Zhi Li	56,098	–	–	56,098
Li Kung Man	60,000	–	–	60,000
Wang Heng Yi	56,098	–	–	56,098
Total for 2008	172,196	476,520	20,799	669,515

		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

For the year ended 31 December 2008, Mr. Xiong Zheng Feng and Ms. Li Ying Hong waived their nominal salary of HK$10 (2007: HK$10) and HK$10 (2007: 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 (2007: one) was director of the Company whose emoluments are included in the disclosures in Note 9(i) above. The emoluments of remaining four (2007: four) individuals were as follows:

	2008 **HK$**	2007 HK$
Salaries, allowances and other benefits	**1,546,786**	1,456,643
Pension costs	**24,875**	65,208
Performance related incentive payments	**103,945**	98,514
	1,675,606	1,620,365

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

No dividend was paid or proposed during both year 2007 and 2008, 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:

	2008 **HK$**	2007 HK$
Loss for the year attributable to equity holders of the parent	**(24,893,938)**	(32,317,044)

	Number of shares **2008**	2007
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 2007 and 31 December 2008 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	Plant and machinery	Leasehold improvements	Office equipment	Motor vehicles	Construction in progress	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
COST							
At 1 January 2007	–	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
Additions	–	4,817,719	283,487	1,544,084	271,668	42,125,012	49,041,970
Disposals	–	–	–	(36,244)	(680,518)	–	(716,762)
Currency realignment	63,991	7,264,174	449,550	509,693	133,210	4,594,928	13,015,546
At 31 December 2008	**1,167,877**	**139,540,619**	**8,460,122**	**10,000,879**	**2,717,811**	**65,376,684**	**227,263,992**
DEPRECIATION							
At 1 January 2007	–	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
Provided for the year	20,429	7,623,917	323,808	1,534,440	284,661	–	9,787,255
Eliminated on disposals	–	–	–	(24,691)	(612,466)	–	(637,157)
Currency realignment	1,553	3,776,196	423,670	233,164	90,211	–	4,524,794
At 31 December 2008	**38,540**	**78,353,263**	**7,870,353**	**5,009,499**	**1,973,495**	**–**	**93,245,150**
CARRYING VALUES							
At 31 December 2008	**1,129,337**	**61,187,356**	**589,769**	**4,991,380**	**744,316**	**65,376,684**	**134,018,842**
At 31 December 2007	1,087,328	60,505,576	604,210	4,716,760	782,362	18,656,744	86,352,980

The buildings are located on land under medium-term lease in the PRC and the Group is in the process of obtaining the property ownership certificate.

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

	Office equipment HK$	Motor vehicles HK$	Total HK$
THE COMPANY			
COST			
At 1 January 2007 and 31 December 2007	80,686	490,680	571,366
Addition	97,418	–	97,418
Disposal	(16,524)	–	(16,524)
At 31 December 2008	**161,580**	**490,680**	**652,260**
DEPRECIATION			
At 1 January 2007	35,078	490,680	525,758
Provided for the year	16,137	–	16,137
At 31 December 2007	51,215	490,680	541,895
Provided for the year	31,992	–	31,992
Eliminated on disposal	(9,639)	–	(9,639)
At 31 December 2008	**73,568**	**490,680**	**564,248**
CARRYING VALUES			
At 31 December 2008	**88,012**	**–**	**88,012**
At 31 December 2007	29,471	–	29,471

13. PREPAID LEASE PAYMENTS

	2008 HK$	2007 HK$
The Group's prepaid lease payments comprise:		
Land in PRC:		
Medium term lease	**58,639,298**	26,038,108
Analysed for reporting purposes as:		
Current assets	**1,199,720**	527,584
Non-current assets	**57,439,578**	25,510,524
	58,639,298	26,038,108

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$20,451,140 (2007: HK$19,730,502) to secure general banking facilities granted to the Group.

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

As at 31 December 2007 and 2008, 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 equity joint venture	HK$30,000,000 (2007: HK$30,000,000)	HK$30,000,000 (2007: HK$16,380,000)	53% (2007: 53%)	Provision of surface mount technology service

	2008 HK$	2007 HK$
Cost of unlisted investment in a jointly controlled entity	**17,728,839**	8,810,000
Share of post-acquisition profit, net of dividend received	**11,368,541**	3,668,805
	29,097,380	12,478,805

The Group holds 53% (2007: 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.

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

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

	2008 HK$	2007 HK$
Current assets	**25,001,331**	11,213,473
Non-current assets	**11,271,559**	14,166,290
Current liabilities	**7,175,510**	10,554,004
Non-current liabilities	**–**	1,221,853
Income	**22,300,773**	43,677,209
Expenses	**12,099,081**	37,536,100

15. INTERESTS IN SUBSIDIARIES

	2008 HK$	2007 HK$
THE COMPANY		
Capital contribution, at cost	**219,954,447**	219,154,447
Impairment loss recognised	**(22,000,000)**	(10,000,000)
	197,954,447	209,154,447

The Company also has amount due from a subsidiary of HK$2,742,500 (2007: HK$2,742,500) included in current assets and amounts due to subsidiaries of HK$15,541,190 (2007: HK$32,384,184) included in current liabilities. Impairment loss recognised in respect of interests in subsidiaries and amount due from a subsidiary as at 31 December 2008 amount to HK$22,000,000 (2007: HK$10,000,000) and HK$4,000,000 (2007: 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 based on its value in use calculation and 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. The discount rate used in estimating the present value of the future cash flows from the investments in subsidiaries was 7.5% (2007: 5.5%). Due to the continuance of operating losses of the subsidiaries, impairment losses in respect of interests in subsidiaries and amount due from a subsidiary were made.

15. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the Company's subsidiaries as at 31 December 2008 and 31 December 2007 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 Panyu 安捷利（番禺）電子實業有限公司	The PRC	Wholly owned-foreign enterprise	US$21,700,000 (2007: US$21,700,000)	100%	–	Manufacture and sale of FPC
AKM (Suzhou) 安捷利（蘇州）柔性電路板有限公司	The PRC	Wholly owned-foreign enterprise	US$2,642,460 (2007: US$2,642,460)	100%	–	Manufacture and sale of FPC
Ever Proven Investments Limited	British Virgin Islands/ Hong Kong	International business company	US$100 (2007: 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$1,000,000 (2007: HK$200,000)	100%	–	Research and development of FPC
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 (2007: US$4,520,000)	100%	–	Manufacture and sale of FPC
Giant Rise Technology Limited 嘉升科技有限公司	Hong Kong	Limited company	HK$1,000,000 (2007: HK$1,000,000)	–	75%	Trading of raw materials and FPC, sourcing of components

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

16. INVENTORIES

	THE GROUP	
	2008	2007
	HK$	HK$
Raw materials	**15,298,502**	16,702,949
Work in progress	**6,856,388**	8,177,641
Finished goods	**5,178,110**	8,114,178
	27,333,000	32,994,768

17. 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	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Trade and bills receivables	**55,506,171**	89,315,058	**15,083,512**	13,794,330
Less: Allowance for doubtful debts	**(12,222,532)**	(9,406,519)	**(166,061)**	(167,175)
	43,283,639	79,908,539	**14,917,451**	13,627,155

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

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

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Within 30 days	**13,166,791**	13,521,599	**3,289,022**	2,225,237
31 – 60 days	**8,810,076**	21,363,334	**4,008,101**	4,978,654
61 – 90 days	**12,896,912**	22,177,798	**4,722,278**	5,199,871
91 – 120 days	**4,422,562**	11,232,436	**2,435,090**	1,189,048
121 days – 1 year	**3,439,065**	11,195,685	**462,788**	34,345
Over 1 years	**548,233**	417,687	**172**	–
	43,283,639	79,908,539	**14,917,451**	13,627,155

17. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(continued)*

The management has delegated a team responsible 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 67% (2007: 79%) of the trade receivables that are neither past due nor impaired.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$13,067,115 (2007: HK$16,726,345) 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 147 days (2007: 161 days).

Included in the Company's trade receivable balance are debtors with aggregate carrying amount of HK$6,808,987 (2007: HK$1,223,393) 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 (2007: 96 days).

Ageing of trade receivables which are past due but not impaired

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
0-30 days	**797,722**	–	**797,722**	–
31-60 days	**1,047,635**	–	**1,047,635**	–
61-90 days	**3,657,133**	–	**2,155,429**	–
91-120 days	**3,634,280**	5,112,973	**2,432,940**	1,189,048
121 days – 1 year	**3,382,112**	11,195,685	**375,089**	34,345
Over 1 year	**548,233**	417,687	**172**	–
Total	**13,067,115**	16,726,345	**6,808,987**	1,223,393

Movement in the allowances for doubtful debts

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Balance at beginning of the year	**9,406,519**	9,181,120	**167,175**	166,682
Impairment losses recognised on receivables	**2,466,388**	965,514	**–**	–
Amounts written off as uncollectible	**(237,018)**	(1,406,518)	**–**	–
Currency realignment	**586,643**	666,403	**(1,114)**	493
Balance at end of the year	**12,222,532**	9,406,519	**166,061**	167,175

17. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(continued)*

Included in the Group's and the Company's allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$12,222,532 and HK$166,061 (2007: HK$9,406,519 and HK$167,175) 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	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
United States Dollar ("USD")	**21,504,329**	17,816,947	**14,917,451**	13,627,155

18. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount is trade in nature and is unsecured, interest free and with an age within 60 days. The Group allows a credit period of 60 days to its jointly controlled entity. The balance is not past due at the reporting date.

19. 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 pledged bank deposits of the Group and the Company carried fixed interest rate ranged from 0.6% to 1.2% per annum (2007: 1.9% to 2.7% per annum). The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

20. 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	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Within 30 days	**18,359,644**	22,846,603	**1,221,875**	424,039
31 – 60 days	**14,451,708**	16,787,882	**243,543**	454,198
61 – 90 days	**8,153,084**	9,215,801	**–**	464,363
91 – 120 days	**3,116,262**	5,033,071	**–**	–
121 days – 1 year	**588,605**	1,211,217	**–**	439,093
Over 1 year	**619,325**	472,672	**–**	–
	45,288,628	55,567,246	**1,465,418**	1,781,693

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	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
USD	**19,955,651**	18,657,239	**1,465,418**	1,781,693

21. DEFERRED INCOME

	THE GROUP	
	2008	2007
	HK$	HK$
Government grants received in respect of:		
Development of new products (note 1)	**340,329**	643,363
Construction on existing lands (note 2)	**30,346,001**	–
	30,686,330	643,363
Less: Amounts to be released to income in the following year	**(340,329)**	(643,363)
Amount shown under non-current liabilities	**30,346,001**	–

Notes:

1. 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$330,724 (2007: HK$490,028).

2. The amount was received in respect of a development support fund for the construction on the lands owned by the Group located at Suzhou pursuant to "Implementation Measures for Development Support Policies for Advanced Manufacturing Industries in Suzhou Guoxin District". The amount will be released over the estimated useful lives of the constructed factory upon the commencement of operation of the new factory. As the condition was not yet fulfilled in the current year, no amount is released to the consolidated income statement. Details in relation to the grant of the fund had been disclosed in an announcement of the Company dated 25 September 2008.

22. AMOUNT DUE TO A FELLOW SUBSIDIARY/LOANS 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

Unsecured loans from an intermediate holding company comprise:

	2008	2007
	HK$	HK$
Loan of USD2 million (note a)	**15,604,000**	15,604,000
Loan of USD3 million (note b)	**23,146,000**	–
	38,750,000	15,604,000
Less: Amounts due within one year shown under current liabilities	**–**	(15,604,000)
	38,750,000	–

Notes:

(a) As at 31 December 2007, the loan is unsecured, bearing interest at London Interbank Offer Rate less 1% and repayable within one year from the balance sheet date. During the year, an extension agreement was signed and the loan will be repaid in full in July 2010.

(b) The loan bears interest at USD prime rate less 0.25% and repayable in full in July 2010.

23. BORROWINGS

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Borrowings which are repayable within one year comprise the following:				
Loans from a financial institution – secured	**33,806,013**	10,722,711	**–**	–
Trust receipts loans – secured	**1,156,939**	7,451,729	**1,156,939**	7,451,729
	34,962,952	18,174,440	**1,156,939**	7,451,729

The loans from a financial institution are secured by charges over the Group's land use right while the trust receipts loans are secured by charges over the Group's bank deposits and bills receivables (note 33). The loans from a financial institution bear interest at fixed rates and will be repayable in May and June 2009 (2007: March 2008).

The trust receipt loans carry prevailing market rate, if no repayment is made within the credit period granted.

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

	THE GROUP	
	2008	2007
Effective interest rates:		
Fixed-rate borrowings	**4.21% to 5.22%**	5.62% to 6.52%

24. LOAN FROM A JOINTLY CONTROLLED ENTITY/MINORITY SHAREHOLDER OF A SUBSIDIARY

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

25. BANK BALANCES AND BANK OVERDRAFTS

Bank balances

Bank balances comprise short-term bank deposits carry interest rates which range from 0.01% to 1.5% (2007: 0.01% to 2.5%) per annum.

Included in the Group's bank balances are the short-term deposits of HK$12,125,993 (2007: HK$12,422,862) kept in banks registered in the PRC and HK$24,285,200 (2007: HK$4,198,216) kept in a financial institution registered in the PRC which are subject to exchange control in the PRC. The Company has short-term bank deposits of HK$3,020 (2007: HK$3,020) 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 relevant group entities are set out below:

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
USD	**3,060,977**	4,080,153	**1,552**	2,172,381

Bank overdrafts

Bank overdrafts are secured by pledged bank deposit and carry interest at market rates which range from 4% to 7.50% per annum.

26. LOAN FROM ULTIMATE HOLDING COMPANY

As at 31 December 2007 and 2008, AKM Panyu (a wholly owned subsidiary of the Group), obtained a non-interest bearing and unsecured loan of RMB4,000,000 from CNIC for the development of a project. The loan is repayable on demand.

27. DEFERRED TAXATION

The following deferred tax liability mainly arising from withholding tax applied on the profit of the PRC jointly controlled entity for the year ended 31 December 2008 and movement thereon during the year:

	HK$
At 1 January 2007 and 31 December 2007	–
Charged to consolidated income statement	1,049,721
At 31 December 2008	1,049,721

At 31 December 2007 and 2008, the deductibility of the allowance for doubtful debts for taxation purpose, allowance for obsolete inventories 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, accumulated allowance for obsolete inventories and unused tax loss of approximately HK$11,713,000 (2007: HK$9,247,000), HK$25,782,000 (2007: HK$20,854,000) and HK$51,125,000 (2007: HK$27,549,000) respectively have not been recognised in the consolidated financial statements.

28. SHARE CAPITAL

	Number of shares	Share capital HK$
Authorised:		
At 31 December 2007 and 31 December 2008	2,000,000,000	200,000,000
Issued and fully paid:		
At 31 December 2007 and 31 December 2008	540,000,000	54,000,000

29. 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 2008, and there were 600,000 (2007: 800,000) 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.

As at 31 December 2008, the total number of shares in respect of which share options are issuable under this scheme is 12,200,000 (2007: 12,800,000) representing approximately 2.26% (2007: 2.37%) of the issued share capital of the Company.

29. 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 1.1.2007	Lapsed during the year	Outstanding at 1.1.2008	Lapsed during the year	Outstanding at 31.12.2008
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	8,200,000	(800,000)	7,400,000	(600,000)	6,800,000
				13,600,000	(800,000)	12,800,000	(600,000)	12,200,000

The number of share options granted expected to vest has been reduced to reflect the forfeiture of options granted prior to completion of vesting period and accordingly the share option expense has been adjusted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is 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.

29. 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 shares in 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.

29. 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.

As at 31 December 2008, the total number of shares in respect of which share options are issuable under this scheme is 29,000,000 (2007: 31,700,000) representing approximately 5.37% (2007: 5.87%) 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 1.1.2007	Granted during the year	Lapsed during the year	Outstanding at 1.1.2008	Lapsed during the year	Outstanding at 31.12.2008
Directors	9 July 2007	10 July 2007 to 9 July 2017	0.36	–	10,000,000	–	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	(2,700,000)	19,000,000
				–	36,500,000	(4,800,000)	31,700,000	(2,700,000)	29,000,000

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$32,013 (2007: HK$3,212,625) 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.

30. RESERVES

	Share premium HK$	Share options reserve HK$	Retained profits HK$	Total HK$
THE COMPANY				
At 1 January 2007	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	–	–	(14,557,119)	(14,557,119)
At 31 December 2007	53,868,328	4,098,318	60,396,952	118,363,598
Recognition of equity-settled share-based payments	–	32,013	–	32,013
Lapse of share options	–	(312,561)	312,561	–
Loss for the year	–	–	(13,194,397)	(13,194,397)
At 31 December 2008	**53,868,328**	**3,817,770**	**47,515,116**	**105,201,214**

31. 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, loans from an intermediate holding company, loan from a minority shareholder of a subsidiary, loan from ultimate holding company, loan from a jointly controlled entity, borrowings and bank overdrafts. 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, loans from an intermediate holding company, borrowings and bank overdrafts. 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.

31. FINANCIAL INSTRUMENTS *(continued)*

(b) Categories of financial instruments

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Financial assets				
Loans and receivables (including cash and cash equivalents)	**87,749,950**	126,343,790	**20,082,047**	21,385,366
Financial liabilities				
Amortised cost	**134,841,733**	107,398,495	**58,180,836**	58,385,986

(c) Foreign currency risk management

Certain trade and other receivables, trade and other payables, amount due from a jointly controlled entity, loans from an intermediate holding company, borrowings and bank balances of the Group and the Company are denominated in USD, other than the functional currency of the relevant group entities, which expose the Group and the Company to foreign currency risk. The Group and the Company 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 and the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	THE GROUP			
	Liabilities		Assets	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
USD	**61,102,027**	34,740,866	**35,723,489**	38,635,993

	THE COMPANY			
	Liabilities		Assets	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
USD	**42,572,476**	17,624,073	**14,925,689**	16,217,755

31. FINANCIAL INSTRUMENTS *(continued)*

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

Foreign currency sensitivity

The following table details the Group's and the Company'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 adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis represents the trade and other receivables, trade and other payables, amount due from a jointly controlled entity, loans from an intermediate holding company, borrowings and bank balances where the denomination 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.

	THE GROUP		**THE COMPANY**	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
(Decrease) increase in loss for the year	**(1,269,089)**	123,115	**(1,380,898)**	(70,732)

(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 2008 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 consider that the Group's and the Company's credit risk is significantly reduced.

The Group has concentrations of credit risk as 26% (2007: 16%) and 45% (2007: 46%) 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, in which, in the opinion of the directors, one (2007: two) of the five largest customers is state-controlled entity and two (2007: two) of the five largest customers are large international customers. The management considers, based on the strong financial background and good credibility of those debtors, there are no significant credit risk.

Credit risks relating to amount due from a jointly controlled entity is closely monitored 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.

31. FINANCIAL INSTRUMENTS *(continued)*

(e) Interest rate risk management

The Group's cash flow interest rate risk relates primarily to variable-rate bank balances and loans from an intermediate holding company (see note 22 for details). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to fair value interest rate risk in relation to the fixed-rate borrowing. However, the management considers the fair value interest rate risk on the fixed-rate borrowing is insignificant as the borrowings are short-term.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the balance sheet date. The analysis is prepared assuming the financial instruments outstanding at the balance sheet date were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For variable-rate bank balances and loans from an intermediate holding company, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2008 would increase/decrease by HK$109,570 (2007: decrease/increase by HK$181,213) and the Company's loss for the year ended 31 December 2008 would increase/decrease by HK$1,934,215 (2007: increase/decrease by HK$667,281).

The Company's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate loans from an intermediate holding company.

(f) Liquidity risk management

Liquidity risk reflects the risk that the Group and the Company will have insufficient resources to meet its financial liabilities as they fall due. The Group and the Company’s strategy to managing liquidity risk is to ensure that the Group and the Company has sufficient funds to meet all its potential liabilities as they fall due.

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. Prudent liquidity risk management implies maintaining sufficient cash. Internally generated cash flow and borrowings are the general source of funds to finance the operation of the Group. The management also monitors the utilisation of borrowings and ensures compliance with loan covenants.

Liquidity forecasts are produced on a weekly basis, to ensure the utilisation of current facilities is optimised; on a monthly basis to ensure that covenant compliance targets and medium-term liquidity is maintained; and on a long-term projection basis, for the purpose of identifying long term strategic funding requirements. The Directors also continually assess the balance of capital and debt funding of the Group and the Company.

The Group relies on borrowings as one of the source of liquidity. As at 31 December 2008, the Group had available unutilised short-term loan facilities of approximately RMB10.2 million (2007: RMB30 million).

31. FINANCIAL INSTRUMENTS *(continued)*

(f) Liquidity risk management *(continued)*

Liquidity tables

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.

THE GROUP

	Weighted average interest rate	On demand	1 – 3 months	4 – 6 months	7 – 12 months	1 – 2 years	Total undiscounted cash flows	Total carrying amount
	%	HK$	HK$	HK$	HK$	HK$	HK$	HK$
At 31 December 2008								
Non-derivative financial liabilities								
Trade and other payables	–	(11,789,756)	(25,835,319)	(3,060,071)	–	–	(40,685,146)	(40,685,146)
Bills payables	–	–	(4,719,017)	(1,132,474)	–	–	(5,851,491)	(5,851,491)
Amount due to a fellow subsidiary	–	(2,939,172)	–	–	–	–	(2,939,172)	(2,939,172)
Loans from an intermediate holding company	3.7	–	–	–	–	(40,182,588)	(40,182,588)	(38,750,000)
Loan from a jointly controlled entity	–	(4,086,894)	–	–	–	–	(4,086,894)	(4,086,894)
Loan from a minority shareholder of a subsidiary	–	(2,247,500)	–	–	–	–	(2,247,500)	(2,247,500)
Loan from ultimate holding company	–	(4,537,720)	–	–	–	–	(4,537,720)	(4,537,720)
Bank overdrafts	4.88	(780,858)	–	–	–	–	(780,858)	(780,858)
Borrowings								
– fixed rate loans from a financial institution	4.55	–	–	(34,446,919)	–	–	(34,446,919)	(33,806,013)
– trust receipts loans	–	–	(968,382)	(188,557)	–	–	(1,156,939)	(1,156,939)
		(26,381,900)	(31,522,718)	(38,828,021)	–	(40,182,588)	(136,915,227)	(134,841,733)
At 31 December 2007								
Non-derivative 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)
Borrowings								
– fixed rate loans from a financial institution	5.62	–	(10,859,120)	–	–	–	(10,859,120)	(10,722,711)
– trust receipts loans	–	(2,259,615)	(5,192,114)	–	–	–	(7,451,729)	(7,451,729)
		(63,244,205)	(44,771,043)	(210,654)	–	–	(108,225,902)	(107,398,495)

31. FINANCIAL INSTRUMENTS *(continued)*

(f) Liquidity risk management *(continued)*

Liquidity and interest risk tables

THE COMPANY

	Weighted average interest rate %	On demand HK$	1 – 3 months HK$	4 – 6 months HK$	7 – 12 months HK$	1 – 2 years HK$	Total undiscounted cash flows HK$	Total carrying amount HK$
At 31 December 2008								
Non-derivative financial liabilities								
Trade and other payables	–	(222,676)	(1,729,173)	–	–	–	(1,951,849)	(1,951,849)
Amount due to subsidiaries	–	(15,541,190)	–	–	–	–	(15,541,190)	(15,541,190)
Loans from an intermediate holding company	3.7	–	–	–	–	(40,182,588)	(40,182,588)	(38,750,000)
Bank overdrafts	4.88	(780,858)	–	–	–	–	(780,858)	(780,858)
Borrowings – trust receipts loans	–	–	(968,382)	(188,557)	–	–	(1,156,939)	(1,156,939)
		(16,544,724)	(2,697,555)	(188,557)	–	(40,182,588)	(59,613,424)	(58,180,836)
At 31 December 2007								
Non-derivative financial liabilities								
Trade and other payables	–	(2,946,073)	–	–	–	–	(2,946,073)	(2,946,073)
Loan from an intermediate holding company	4.43	–	(16,294,998)	–	–	–	(16,294,998)	(15,604,000)
Amount due to subsidiaries	–	(32,384,184)	–	–	–	–	(32,384,184)	(32,384,184)
Borrowings – trust receipts loans	–	(2,259,615)	(5,192,114)	–	–	–	(7,451,729)	(7,451,729)
		(37,589,872)	(21,487,112)	–	–	–	(59,076,984)	(58,385,986)

(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) 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.

32. 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 remain unchanged from prior year.

The capital structure of the Group and the Company consist of borrowings disclosed in note 23, loans from an intermediate holding company disclosed in note 22, loans from a jointly controlled entity and a minority shareholder of a subsidiary disclosed in note 24, loan from ultimate holding company disclosed in note 26, 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.

33. PLEDGE OF ASSETS

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

	THE GROUP		**THE COMPANY**	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Bank deposits	**2,349,707**	8,684,583	**2,349,707**	1,707,708
Bills receivables	**810,235**	–	**–**	–
Land use rights	**20,451,140**	19,730,502	**–**	–
	23,611,082	28,415,085	**2,349,707**	1,707,708

34. 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	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Within one year	**231,361**	3,026,732	**120,000**	120,000
In the second to fifth years inclusive	**20,000**	4,173,896	**20,000**	140,000
	251,361	7,200,628	**140,000**	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.

35. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Capital expenditure in respect of acquisition of property, plant and equipment:				
– contracted for but not provided in the consolidated financial statements	**20,217,493**	30,420,181	**–**	375,435

36. 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 consolidated income statement amounted to HK$19,283 (2007: HK$18,633) representing 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 state-managed retirement benefits scheme contributions charged to the consolidated income statement amounted to HK$1,569,742 (2007: HK$867,603). 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.

37. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events had taken place:

(a) In January 2009, the Group commenced the relocation of the Group's production plant to a new location in the PRC as a result of the requisition from PRC government of the land leased by the Group from 銀利（廣州）電子電器實業有限公司 (Alpha Luck Electronic & Electric Appliance Industrial (Guangzhou) Ltd.) ("ALI Guangzhou"), a wholly owned subsidiary of Alpha Luck, the controlling shareholder and a substantial shareholder of the Company (details of which has been disclosed in the Company's Annual Report 2007). The directors expected that the relocation will take approximately three months, and shall be completed in or about the end of April 2009. The directors considered the direct costs which may be incurred as a result of the relocation will be insignificant, and the Group has been discussing with ALI Guangzhou and the relevant PRC government authority in relation to the compensation packages. The amount of compensation to be provided by the PRC government may be determined with reference to the valuation prepared by an independent valuer mutually appointed by the PRC government and the Group. As at the date of this report, the negotiation in relation to the compensation packages is still under process.

(b) As a result of the relocation disclosed in (a) above, the operation in the Group's existing factory and the occupation of the existing dormitory will cease after completion of the relocation. Accordingly, ALI Guangzhou and AKM Panyu entered into a cancellation agreement ("Cancellation Agreement") on 22 January 2009, to terminate all rights, duties and obligations of the parties under the factory and dormitory leases (details of which has been disclosed in the directors' report) with effect from 30 April 2009. Pursuant to the Cancellation Agreement, ALI Guangzhou is obliged to assist AKM Panyu to negotiate with the PRC government for the compensation packages and if no such compensation is provided by the PRC government or if there is a shortfall for the compensation to indemnify AKM Panyu for the cost and damages incurred for the relocation. Further, according to the Cancellation Agreement, ALI Guangzhou agreed to unconditionally and irrevocably waive the rental and property management fees for January 2009 to April 2009 payable by AKM Panyu under the leases.

38. 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:

	2008 HK$	2007 HK$
Rentals for factory premises and staff quarter charged to the Group	**2,765,018**	2,661,469
Rentals for office charged to the Group	**120,000**	100,000
Acquisition of properties by the Group	**–**	995,514
Transactions with a jointly controlled entity:		
Subcontracting fee paid by the Group	**35,364,298**	9,297,517
Sales of goods by the Group	**–**	60,956,282
Sales of equipments by the Group	**–**	7,471,708
Purchases of goods by the Group	**–**	53,571,701
Income from leasing equipments	**595,304**	557,736
Transactions with an intermediate holding company:		
Interest paid by the Group	**1,324,830**	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 CNIC 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.

38. 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 2008 amounted to approximately HK$22.2 million (2007: HK$46.6 million) and HK$5.9 million (2007: HK$5.5 million) respectively. Amounts due from and due to these state-controlled entities as at 31 December 2008 amounted to approximately HK$5.8 million (2007: HK$20.8 million) and HK$0.1 million (2007: HK$0.2 million) respectively.

The Group also leased factory plants with a lessor which, in the opinion of the directors, is a state-controlled entity. Lease payments to the state-controlled entity for the year ended 31 December 2008 amounted to approximately HK$0.3 million (2007: HK$0.7 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 the year represented remuneration paid to the directors as disclosed in note 9 to the consolidated financial statements.

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

Financial Summary

RESULTS	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$	HK$	HK$	HK$	HK$ (Restated)
Revenue	**378,194,134**	279,333,118	159,870,101	202,402,207	243,974,808
Cost of sales	**(377,610,695)**	(281,720,697)	(141,321,683)	(152,665,813)	(159,260,437)
Gross profit (loss)	**583,439**	(2,387,579)	18,557,418	49,736,394	84,714,371
Other income	**950,384**	1,652,514	6,209,978	4,489,746	3,355,571
Distribution costs	**(6,810,113)**	(5,964,088)	(3,481,131)	(5,036,148)	(15,715,011)
Administrative expenses	**(17,545,947)**	(22,403,899)	(16,893,026)	(16,482,468)	(16,480,312)
Research and development expenses	**(7,852,085)**	(7,799,889)	(9,272,433)	(5,624,813)	(6,870,292)
Share of result of a jointly controlled entity	**10,200,962**	6,141,109	(1,877,373)	(594,931)	–
Finance costs	**(1,058,753)**	(719,636)	(251,819)	(61,856)	(924,518)
(Loss) profit before taxation	**(21,532,113)**	(31,481,468)	(7,008,386)	26,425,924	48,079,809
Taxation (charge) credit	**(1,047,265)**	177,495	(920,019)	(3,130,857)	(7,060,799)
(Loss) profit for the year	**(22,579,378)**	(31,303,973)	(7,928,405)	23,295,067	41,019,010

ASSETS AND LIABILITIES	At 31 December				
	2008	2007	2006	2005	2004
	HK$	HK$	HK$	HK$	HK$ (Restated)
Total assets	**338,087,861**	284,208,451	258,408,531	265,781,514	228,662,247
Total liabilities	**(174,277,026)**	(111,074,707)	(72,701,476)	(74,836,091)	(61,595,085)
	163,810,835	173,133,744	185,707,055	190,945,423	167,067,162
Equity attributable to equity holders of the parent	**159,882,630**	172,107,252	185,693,634	190,932,425	167,067,162
Minority interests	**3,928,205**	1,026,492	13,421	12,998	–
Total equity	**163,810,835**	173,133,744	185,707,055	190,945,423	167,067,162

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.