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

2010

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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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, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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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

WU Tak Lung
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

AUDIT COMMITTEE

WU Tak Lung *(Committee Chairman)*
LIANG Zhi Li
WANG Heng Yi

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL PLACE OF BUSINESS IN CHINA

63 Huan Shi Road South
Information Technology Park
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)
Guangzhou Rural Commercial Bank

GEM STOCK CODE

8298

COMPANY HOMEPAGE/WEBSITE

www.akmcompany.com

CHAIRMAN'S STATEMENT

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 2010.

RESULT ANALYSIS AND BUSINESS REVIEW

2010 was a year in which we underwent restructuring, consolidation and intensification. During the year, the Group purchased new facilities for the new factory in Nansha ("Nansha New Factory"), putting it in a better position for securing contracts of high-end products from the international clients. A new factory is under construction on the land we bought in Suzhou ("Suzhou New Factory") as an effort to meet the huge demand in the Eastern China. The establishment of our new electronic components business is in smooth progress, and the electronic components business of the Group is growing rapidly. The operation of the Group was constantly improving during the year and we made operational profit for the first time over the past few years. Through constant adjustment, consolidation and improvement, the Group's core competitiveness has been remarkably enhanced, with sales orders for flexible printed circuits ("FPC") rebounced and sales to the major customers increased remarkably. The management of the Group believed that, with our FPC business further expanding and the high-end product business continuously growing, the Group will be in a secure position to create satisfactory returns for the shareholders.

The turnover of the Group for 2010 amounted to approximately HK$345.95 million, representing an increase of approximately 29.31% as compared to that of 2009 while the profit attributable to the owners of the Company was approximately HK$2.17 million.

In 2010, the Group aimed to cope with the demands of its major international customers in accordance with its corporate development strategy. The Group focused its efforts on securing international clients and introducing and upgrading new equipment in the Nansha New Factory, constructing the Suzhou New Factory as well as the establishment of the electronic components business. Besides, the Group has further strengthened internal control in the operation such as the continuous tracking of changes in inventories and receivables and enhancement of cost control. During the year, the Group established a new electronic components business unit, which focused on the enhancement of profit margins for sourcing and sales of electronic components and had rendered satisfactory results. The business of the manufacture and sales of electronic modules for Liquid Crystal Display Module ("LCM") commenced from the fourth quarter of 2009 had been performed unfavourably. Hence, the Group is adjusting its business direction to give development priority to the business of encapsulation of Chip On Film (COF) modules.

In 2011, the Group will continue to focus on the following aspects, i.e. identifying and developing large international clients, securing more sales orders, relocation and operation of the Suzhou New Factory and establishment of the new electronic components business. Management will be strengthened and a system of clear division of responsibilities is to be adopted for enhancing our profitability.

The Group is dedicated to strengthen its core competence and achieve the Company's profit goal, thereby creating greater value for its shareholders, staffs as well as the community. It is the Group's mission to become a major international supplier of FPC and electronic modules and to become an industry leader in the PRC market. Besides, the Group will further explore the electronic modules business and enhance the capability to meet the customers' demands for one stop services with an aim to provide better services to the fast growing electronic market in the PRC.

CHAIRMAN'S STATEMENT

With the smooth operation of the Nansha New Factory and the completion of construction of the Suzhou New Factory in the new year, the Board is of the view that the Group has completed the layout of the FPC production bases in the Southern and the Eastern China, and with the expansion of the electronic components business, the Group will be able to provide better services to large international clients, which allows the Group to increase its market share effectively in the future. The gross profit margin of the Group's major products is expected to be constantly improved following the uplift of our internal management standards and business synergies. The Board is committed to delivering satisfactory results and offering promising long term returns to its shareholders in the future to come.

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, 24 March 2011

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 41, 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. From April 2003 to January 2011, he was an alternate director of Raymond Industrial Ltd, a company whose shares are listed on the Stock Exchange of Hong Kong, and is a non-executive director since January 2011. 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, Giant Rise Technology Ltd. and Ever Proven Investments Limited. 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, substantial shareholders, or controlling shareholders of the Company.

Mr. Chai Zhi Qiang (柴志強), aged 50, 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 New Career Guangzhou Electronics Company 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, substantial shareholders, or controlling shareholder of the Company.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

Ms. Li Ying Hong (李映紅), aged 47, 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, substantial shareholders, or controlling shareholders of the Company.

Non-executive Director

Mr. Han Li Gang (韓立剛), aged 49, 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 supervisor of the strategic management department and since November 2010 the general manager of the investment department. He was appointed as a non-executive Director of the Company in March 2004. Mr. Han is also 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, substantial shareholders, or controlling shareholders of the Company.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

Independent non-executive Directors

Mr. Wu Tak Lung, aged 45, is currently a director and Head of Investment Banking of Ample Capital Limited, a company licensed by the Securities and Futures Commission of Hong Kong. Mr. Wu had worked in an international audit firm, Deloitte Touche Tohmatsu for five years, and was then employed by several listed and private companies in Hong Kong as head of corporate finance, chief financial officer and/or executive director. Mr. Wu was awarded the degree of Bachelor of Business Administration in Accounting by the Hong Kong Baptist University and the degree of Master of Business Administration jointly by The University of Manchester and The University of Wales. Mr. Wu is a fellow member of The Association of Chartered Certified Accountants, The Hong Kong Institute of Chartered Secretaries and the Taxation Institute of Hong Kong. Mr. Wu is also a Member of the Hong Kong Securities Institute and an associate member of The Hong Kong Institute of Certified Public Accountants. Mr. Wu is an independent non-executive director for several companies listed on the Main Board of the Stock Exchange, namely Neo-Neon Holdings Limited, China Water Industry Group Limited and Aupu Group Holding Company Limited. He is also an independent non-executive director for iMerchants Limited, a company listed on GEM. Mr. Wu was appointed as an independent non-executive director of Apollo Solar Energy Limited (formerly known as "RBI Holdings Limited"), a company listed on the Main Board of the Stock Exchange, on 1 May 2008 and had resigned on 13 December 2010. He was an independent non-executive director of Finet Group Limited, a company listed on GEM, for the period from February 2004 to 22 September 2010. Mr. Wu was also an independent director of Sinobest Technology Holdings Ltd., a company listed on the Singapore Stock Exchange, and had resigned on 1 December 2008. Mr. Wu was appointed as an independent non-executive Director in January 2010. Save as disclosed above, Mr. Wu does not hold any directorship in other listed companies in the past three years and does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company.

Mr. Liang Zhi Li (梁志立), aged 67, 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, substantial shareholders, or controlling shareholder of the Company.

Mr. Wang Heng Yi (王恒義), aged 70, 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, substantial shareholders, or controlling shareholders of the Company.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

COMPANY SECRETARY

Mr. Lam Sau Yan (林守仁), aged 50, is the 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2010, the turnover of the Group amounted to approximately HK$345.95 million, representing an increase of approximately 29.31% as compared to that of last year. The increase in turnover was mainly attributed to the increase in the sales of FPC and electronic modules for Liquid Crystal Display Module ("LCM"). The gross profit margin for the year was increased to approximately 10.90% (year of 2009: 3.95%) due to the increase in both of gross profit margin for the sales of FPC and sourcing of electronic components.

The profit attributable to the owners of the Company for 2010 was approximately HK$2.17 million, while the profit was approximately HK$18.34 million for 2009, representing a decrease of approximately 88.16%. The profit in last year was attributed to the relocation compensation granted from the relevant PRC government authority, which amounted to RMB51,021,508 (equivalent to approximately HK$57,858,390 at the date of the relevant announcement), and relevant disclosure of the relocation compensation had been made in the announcement of the Company dated 7 May 2009.

The other income of the Group for the year ended 31 December 2010 amounted to approximately HK$6.47 million, representing a decrease of approximately HK$52.49 million as compared to that of last year. The decrease in other income was due to the relocation compensation granted from the relevant PRC government authority in last year but no such extraordinary income during the year ended 31 December 2010.

The distribution costs of the Group for the year ended 31 December 2010 amounted to approximately HK$7.20 million, representing an increase of approximately 150.93% as compared to that of last year. The increase in distribution costs was mainly due to the fact that during last year, there was recovery of certain debts which were written off in the previous years, however, there was no such debts recovery during the year under review. Further, there was increase in fee expenses and salaries in line with the increase in turnover during the year.

The administrative expenses of the Group for the year ended 31 December 2010 amounted to approximately HK$18.07 million, representing an increase of approximately 12.42% as compared to that of last year.

The research and development expenses of the Group for the year ended 31 December 2010 amounted to approximately HK$9.73 million, representing an increase of approximately 27.47% as compared to that of last year. The increase in research and development expenses was due to the increase in research and development projects and activities.

The finance cost of the Group for the year ended 31 December 2010 amounted to approximately HK$3.91 million, representing an increase of approximately 319.42% as compared to that of last year. The increase in finance costs was mainly due to the increase in bank borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Review

The Group is principally engaged in the manufacture and sale of FPC and electronic components, 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 electronic components and the manufacture and sale of electronic modules for LCM.

For the year ended 31 December 2010, the turnover of the Group amounted to approximately HK$345.95 million, representing an increase of approximately 29.31% as compared to that of last year. During the year under review, the turnover for sales of FPC, sourcing of electronic components and sales of electronic modules for LCM were approximately HK$212.76 million, HK$98.87 million and HK$34.32 million respectively. The turnover for sales of FPC, sourcing of electronic components and sales of electronic modules for LCM during the year ended 31 December 2009 were approximately HK$142.39 million, HK$123.98 million and HK$1.16 million respectively. In 2010, the profit attributable to the owners of the Company amounted to approximately HK$2.17 million, while the profit was approximately HK$18.34 million for 2009. The profit in last year was attributed to the relocation compensation granted from the relevant PRC government authority, which amounted to RMB51,021,508. Such relocation compensation had been included in the other income of last year.

For the year ended 31 December 2010, the turnover of FPC increased by approximately 49.42% as compared to that of last year. The gross profit margin of FPC was increased to approximately 14.70% (year of 2009: approximately 7.28%). The turnover for sourcing of electronic components decreased by approximately 20.26% as compared to that of last year, while the gross profit margin was increased to approximately 7.86% (year of 2009: approximately 0.51%), the decrease in turnover and increase in gross profit margin of the sourcing and sale of electronic components business was mainly attributed to the establishment of a new electronic components business units which had successfully increased the profit margin of the sourcing and sale of electronic components by adjusting business model. The business of the manufacture and sale of electronic modules for LCM commenced from the fourth quarter of 2009 had been performed unfavourably, the Group will emphasize on developing the business of encapsulation of Chip On Film (COF) modules in the future, and staged progress has been achieved at present.

During the year under review, all the new equipments introduced by the Group's wholly-owned subsidiary AKM Electronics Industrial (Panyu) Ltd. were installed and had passed test at the FPC production plant on the Group's Nansha New Factory and had commenced its official production at the second half of the year. This production plant will become the Group's manufacturing base of high-end FPC in the Southern China and it is expected that it will generate satisfactory returns for the Group.

During the year under review, the Group's wholly-owned subsidiary AKM Electronic Technology (Suzhou) Company Limited made smooth progress in the establishment of the Suzhou new production plant. The construction and renovation of the production plant have been completed and preparations for relocation according to production requirements is being made. Trial production is expected to commence in the middle of 2011. Upon its completion, this production plant will become the Group's manufacturing base of FPC in the Eastern China.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the Group continued to intensify efforts to develop overseas customers and has made initial success. A well-known and important customer has been introduced and mass production has started. The Group strived to increase orders and to become a core supplier on the basis of consolidating of its supplies to the existing customers.

During the year under review, the Group established a new electronic components business unit, which is principally engaged in the sale and sourcing of electronic components and in the provision of services to the Group and other manufacturers. This business is progressing well now and has achieved good results.

During the year under review, the Group aimed to cope with the demands of its major international customers in accordance with its corporate development strategy. The Group focused its efforts on securing international clients and introducing and upgrading new equipment in the Nansha New Factory, constructing the Suzhou New Factory as well as the establishment of the electronic components business. Besides, the Group has further strengthened internal control in the operation such as the continuous tracking of changes in inventories and receivables and enhancement of cost control. The Group's orders and production yield have been constantly improving and demonstrating a promising development trend.

Outlook

In light of changes in competition situation of the mobile market in Mainland China and the adjustment to the Group's corporate competing strategies, the Group has shifted its focus to serving large international clients with the provision of high density interconnect FPC and rigid-flex FPC products. Upgrade of complexity in product techniques enhanced our internal core capability. For the coming year, the Group will continue to focus on the following aspects, i.e. identifying and developing major international customers, securing more sales orders, relocation and operation of the Suzhou new production plant and the establishment of the new electronic components business. Internal management will be strengthened and our profitability will be improved.

The Group is dedicated to strengthen its core competence and achieve the Company's profit goal, thereby creating greater value for its shareholders, staffs as well as the community. It is the Group's mission to become a major international supplier of FPC and electronic modules and to become an industry leader in the PRC market. Besides, the Group will further enhance the capability to meet the customers' demands for one stop services with an aim to provide better services to the fast growing electronic market in the PRC.

The Group is seeking to enter into cooperation and strategic alliance with large international manufacturers and related design institutions of the industry through the introduction of technical experts from abroad and the setting up of overseas offices, in order to further improve the Group's R&D, manufacturing and management capabilities and build up our core competitive edge.

With the completion of construction and the commencement of production of the Nansha and Suzhou new production plants, the Board is of the view that the Group has completed the layout of the FPC production bases in the Southern and the Eastern China, which was supported by the sourcing business of electronic components and SMT business, to provide better services to both large international clients and domestic clients, which allows the Group to increase its market share effectively. The gross profit margin of the Group's major products was improved and operation efficiency turnarounded following the uplift of our internal management standards and increased core capability, as well as enhanced quality management. The Board is committed to delivering satisfactory results and offering promising long term returns to its shareholders in the future.

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 2010, the Group had outstanding bank borrowings amounting to HK$100,427,418, of which approximately HK$5,332,560 and HK$95,104,858 were trust receipts loans and bank borrowings respectively, and had bank overdrafts amounting to HK$8,194,807.

EMPLOYEES

As at 31 December 2010, the Group had a total of 1,111 full-time employees (2009: 1,016 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 2010 amounted to HK$43,567,271 (2009: HK$30,356,883). 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 2010.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions or disposals during the year ended 31 December 2010.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSETS

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 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. The construction of a new production plant had been substantially completed on the Suzhou Land and the Adjacent Land and the operation of AKM ET will be relocated once the construction is completed. The capital commitment in relation to the new production plant is funded by the development support fund ("Development Support Fund"). 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, the Group had no other future plans for material investments or capital assets as at 31 December 2010.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2010, bank deposits of approximately HK$2.35 million (as at 31 December 2009: approximately HK$2.35 million) and no bills receivables (as at 31 December 2009: nil) of the Group were pledged as collateral to secure the banking facilities granted to the Group.

As at 31 December 2010, land use rights and buildings with carrying amounts of approximately HK$51.48 million and HK$63.26 million respectively (as at 31 December 2009: approximately HK$20.13 million and HK$62.38 million) were pledged to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had no significant contingent liabilities.

GEARING RATIO

As at 31 December 2010, the Group had a net cash and cash equivalent position of HK$3,049,223. The Group's gearing ratio as at 31 December 2010 was approximately 58.52% (31 December 2009: 50.73%) which was calculated based on the Group's total liabilities of approximately HK$274,359,681 (31 December 2009: HK$188,059,706) and total assets of approximately HK$468,868,383 (31 December 2009: HK$370,670,725).

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$ and RMB. The results of operations and the financial position of the Group may be affected by any changes in the exchanges rates and the Group has not taken any hedging measures in this connection. Further, the conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the government of China. However, taking into account the Group's current operational and capital requirements, the Directors do not consider the Group is significantly exposed to any foreign currency exchange risk.

CAPITAL COMMITMENTS

Details of the Company's capital commitments are set out in note 37 to the consolidated financial statements.

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 2010.

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. Wu Tak Lung
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 5 to 7 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.

CORPORATE GOVERNANCE REPORT

Save for the transitional period ("Transitional Period") between the date of resignation of Mr. Li Kung Man as an independent non-executive Director on 15 October 2009 and the date of appointment of Mr. Wu Tak Lung as an independent non-executive Director on 13 January 2010, the Company maintained the appointment of 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 during the year under review and as at the date of this report. Mr. Han Li Gang is the non-executive Director, Mr. Liang Zhi Li and Mr. Wang Heng Yi are the independent non-executive Directors. Mr. Wu Tak Lung was appointed an independent non-executive Director with effect from 13 January 2010. Mr. Han Li Gang and Mr. Liang Zhi Li were first appointed under a letter of appointment by the Company for a term of three years commenced from 19 March 2004, and was then reappointed for a further term of three years commenced from 19 March 2007. Following the expiration of such term, Mr. Han Li Gang and Mr. Liang Zhi Li have been appointed for a further term of three years commenced from 19 March 2010. Mr. Wang Heng Yi was first appointed under a letter of appointment by the Company for a term of three years commenced from 18 June 2004 and was then reappointed for a further term of three years commenced from 18 June 2007. Following the expiration of such term, Mr. Wang Heng Yi had been appointed for a further term of three years commenced from 18 June 2010. Mr. Wu Tak Lung has been appointed for a term of three years commenced from 13 January 2010. 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	4/4
Mr. Wu Tak Lung	4/4
Mr. Liang Zhi Li	4/4
Mr. Wang Heng Yi	4/4

CORPORATE GOVERNANCE REPORT

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. As at the date of this report, the chairman of the committee is Mr. Han Li Gang, a non-executive Director, and other members are Mr. Wu Tak Lung 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. Wu Tak Lung	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.

CORPORATE GOVERNANCE REPORT

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.

The Board considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Pursuant to Article 101 of the Articles of Association, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office, provided that every Director shall be subject to retirement by rotation at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election. Accordingly, Mr. Chai Zhi Qiang and Ms. Li Ying Hong will retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company in accordance with the Articles of Association.

AUDITOR'S 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$700,000 to the external auditor for their audit service.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group and provide advice and comments on the Company's draft annual reports and accounts, half year reports and quarterly reports to Directors. Save for the Transitional Period, the audit committee comprised three members who were independent non-executive Directors during the year under review. As at the date of this report, the audit committee comprises three members, Mr. Wu Tak Lung, 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. Wu Tak Lung. The audited consolidated results of the Group for the year had been reviewed by the audit committee.

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. Wu Tak Lung	4/4
Mr. Liang Zhi Li	4/4
Mr. Wang Heng Yi	4/4

The Group's unaudited quarterly and interim results in 2010 and annual audited results for the year ended 31 December 2009 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 AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

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

INTERNAL CONTROL

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

AUDITOR

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

DIRECTORS' REPORT

The directors of the Company (the "Directors") present their annual report and the audited consolidated financial statements for the year ended 31 December 2010.

SEGMENT INFORMATION

The Group's principal activities are the manufacture and sale of flexible printed circuit, sourcing and sale of electronic components and manufacture and sale of electronic modules for Liquid Crystal Display Module. An analysis of the Group's turnover by geographical market of its customers and operating segments for the year ended 31 December 2010 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 circuit. The activities of its principal subsidiaries and jointly controlled entity are set out in notes 16 and 17 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 30.

The directors do not recommend the payment of a dividend for the year ended 31 December 2010.

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 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the consolidated financial statements.

DIRECTORS' REPORT

DIRECTORS

The Directors during the year and up to the date of this report were 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. Wu Tak Lung (appointed on 13 January 2010)
Mr. Liang Zhi Li
Mr. Wang Heng Yi

Pursuant to Article 101 of the Articles of Association, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office, provided that every Director shall be subject to retirement by rotation at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election. Accordingly, Mr. Chai Zhi Qiang and Mr. Li Ying Hong will retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company in accordance with the Articles of Association.

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 calendar month's 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 11 to the consolidated financial statements.

DIRECTORS' 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 31 to the consolidated financial statements. During the year ended 31 December 2010, 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 1.1.2010	Lapsed during the year	Outstanding at 31.12.2010
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	6,000,000	(500,000)	5,500,000
Total				11,400,000	(500,000)	10,900,000

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.

DIRECTORS' REPORT

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 price (Notes 1 & 2)	Exercise price per share HK$	Number of share options: Outstanding at 1.1.2010	Lapsed during the year	Outstanding at 31.12.2010
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. 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
				9,200,000	–	9,200,000
Employees	9.7.2007	10.7.2007 to 9.7.2017	0.36	12,200,000	(500,000)	11,700,000
Total				21,400,000	(500,000)	20,900,000

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' REPORT

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as at 31 December 2010, none of the Directors and the chief executive and their respective associates had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rules 5.46 to 5.68 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange (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

DIRECTORS' REPORT

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
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
Mr. Han Li Gang	the Company	1,600,000 ordinary shares	2	Beneficial owner	Long	0.30
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. 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. 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 2010, to the best knowledge of the Directors, none of the Directors nor chief executive of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of any associated corporations of the Company (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and Rules 5.46 to 5.68 of the GEM Listing Rules.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the top five highest paid individuals of the Group are set out in note 11 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2010, 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	39,660,000 ordinary shares	Long	7.34

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.

DIRECTORS' REPORT

RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2010 comprised the retained profits of HK$50,645,932.

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 34 and note 32 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 2010 are set out in note 38 to the consolidated financial statements.

EMOLUMENT POLICY

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

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

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes are set out in note 31 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 2010, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 35% of the Group's turnover and the turnover attributable to the Group's largest customer accounted for approximately 14% of the Group's turnover.

For the year ended 31 December 2010, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 23% of the Group's purchases and the purchases attributable to the Group's largest supplier accounted for approximately 8% 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.

DIRECTORS' REPORT

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 2010.

COMPETING INTERESTS

None of the Directors 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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2010.

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, 24 March 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of AKM Industrial Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 93, which comprise the consolidated and Company's statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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 2010 and of the Group's profit 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
24 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 HK$	2009 HK$
Revenue	5	**345,945,237**	267,530,512
Cost of sales		**(308,229,261)**	(256,973,076)
Gross profit		**37,715,976**	10,557,436
Other income	6	**6,468,254**	58,956,676
Distribution costs		**(7,195,299)**	(2,867,427)
Administrative expenses		**(18,074,702)**	(16,077,590)
Factory relocation costs	7	**–**	(21,411,502)
Research and development expenses		**(9,733,038)**	(7,635,300)
Share of result of a jointly controlled entity		**(82,129)**	(3,040,780)
Finance costs	8	**(3,914,101)**	(933,218)
Profit before taxation	9	**5,184,961**	17,548,295
Taxation (charge) credit	10	**(2,101,443)**	159,586
Profit for the year		**3,083,518**	17,707,881
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**8,814,165**	1,092,303
Total comprehensive income for the year		**11,897,683**	18,800,184
Profit for the year attributable to:			
Owners of the Company		**2,170,842**	18,339,436
Non-controlling interests		**912,676**	(631,555)
		3,083,518	17,707,881
Total comprehensive income attributable to:			
Owners of the Company		**10,785,141**	19,401,388
Non-controlling interests		**1,112,542**	(601,204)
		11,897,683	18,800,184
Earnings per share	13		
– basic and diluted		**0.40 cents**	3.40 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	Notes	**2010 HK$**	2009 HK$
Non-current assets			
Property, plant and equipment	14	**190,535,065**	146,609,580
Prepaid lease payments	15	**57,438,003**	56,515,544
Interest in a jointly controlled entity	17	**21,471,188**	20,753,851
Deposits for acquisition of property, plant and equipment		**2,553,652**	–
		271,997,908	223,878,975
Current assets			
Inventories	18	**26,024,069**	21,497,537
Trade and other receivables	19	**152,793,085**	104,147,024
Bills receivables	19	**3,203,677**	2,228,356
Prepaid lease payments	15	**1,251,986**	1,205,600
Pledged bank deposits	20	**2,353,628**	2,353,143
Bank balances and cash	21	**11,244,030**	15,360,090
		196,870,475	146,791,750
Current liabilities			
Trade and other payables	22	**63,745,970**	46,108,516
Bills payables	22	**11,069,388**	3,895,085
Deferred income	23	**355,156**	3,305,974
Amount due to an intermediate holding company	24	**48,000**	–
Amount due to a fellow subsidiary	24	**731,419**	2,056,405
Amount due to a jointly controlled entity	25	**1,884,891**	2,534,651
Taxation payable		**4,625,423**	3,380,164
Bank borrowings	26	**96,643,630**	48,740,227
Loan from a non-controlling shareholder of a subsidiary	27	**2,247,500**	2,247,500
Loan from ultimate holding company	28	**3,788,327**	4,559,964
Bank overdrafts	21	**8,194,807**	1,666,676
		193,334,511	118,495,162
Net current assets		**3,535,964**	28,296,588
Total assets less current liabilities		**275,533,872**	252,175,563

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	Notes	**2010 HK$**	2009 HK$
Capital and reserves			
Share capital	30	**54,000,000**	54,000,000
Reserves		**136,069,159**	125,284,018
Equity attributable to owners of the Company		**190,069,159**	179,284,018
Non-controlling interests		**4,439,543**	3,327,001
Total equity		**194,508,702**	182,611,019
Non-current liabilities			
Deferred income	23	**31,668,048**	30,494,756
Loans from an intermediate holding company	24	**44,915,000**	38,775,000
Bank borrowings	26	**3,783,788**	–
Deferred taxation	29	**658,334**	294,788
		81,025,170	69,564,544
		275,533,872	252,175,563

The consolidated financial statements on pages 30 to 93 were approved and authorised for issue by the Board of Directors on 24 March 2011 and are signed on its behalf by:

Li Ying Hong
DIRECTOR

Xiong Zheng Feng
DIRECTOR

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Notes	2010 HK$	2009 HK$
Non-current assets			
Property, plant and equipment	14	**98,355**	59,326
Interests in subsidiaries	16	**201,679,233**	201,209,867
		201,777,588	201,269,193
Current assets			
Trade and other receivables	19	**28,374,654**	22,690,662
Amounts due from subsidiaries	16	**7,784,520**	5,286,025
Pledged bank deposits	20	**2,353,628**	2,353,143
Bank balances and cash	21	**64,797**	73,769
		38,577,599	30,403,599
Current liabilities			
Trade and other payables	22	**2,125,154**	2,188,673
Amounts due to subsidiaries	16	**6,080,102**	27,472,383
Amount due to an intermediate holding company	24	**48,000**	–
Bank borrowings	26	**13,773,972**	3,140,592
Bank overdrafts	21	**8,194,807**	1,666,676
		30,222,035	34,468,324
Net current assets (liabilities)		**8,355,564**	(4,064,725)
Total assets less current liabilities		**210,133,152**	197,204,468
Capital and reserves			
Share capital	30	**54,000,000**	54,000,000
Reserves	32	**107,434,364**	104,429,468
Total equity		**161,434,364**	158,429,468
Non-current liabilities			
Loans from an intermediate holding company	24	**44,915,000**	38,775,000
Bank borrowings	26	**3,783,788**	–
		48,698,788	38,775,000
		210,133,152	197,204,468

Li Ying Hong
DIRECTOR

Xiong Zheng Feng
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Attributable to owners of the Company							
	Share capital HK$	Share premium HK$	Translation reserve HK$	Share options reserve HK$	Retained profits HK$	Total HK$	Non-controlling interests HK$	Total HK$
At 1 January 2009	54,000,000	53,868,328	39,691,732	3,817,770	8,504,800	159,882,630	3,928,205	163,810,835
Exchange differences arising on translation of foreign operations	–	–	1,061,952	–	–	1,061,952	30,351	1,092,303
Profit for the year	–	–	–	–	18,339,436	18,339,436	(631,555)	17,707,881
Total comprehensive income (expenses) for the year	–	–	1,061,952	–	18,339,436	19,401,388	(601,204)	18,800,184
Lapse of share options	–	–	–	(808,661)	808,661	–	–	–
At 31 December 2009	54,000,000	53,868,328	40,753,684	3,009,109	27,652,897	179,284,018	3,327,001	182,611,019
Exchange differences arising on translation of foreign operations	–	–	8,614,299	–	–	8,614,299	199,866	8,814,165
Profit for the year	–	–	–	–	2,170,842	2,170,842	912,676	3,083,518
Total comprehensive income for the year	–	–	8,614,299	–	2,170,842	10,785,141	1,112,542	11,897,683
Lapse of share options	–	–	–	(89,005)	89,005	–	–	–
At 31 December 2010	**54,000,000**	**53,868,328**	**49,367,983**	**2,920,104**	**29,912,744**	**190,069,159**	**4,439,543**	**194,508,702**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 HK$	2009 HK$
OPERATING ACTIVITIES		
Profit before taxation	**5,184,961**	17,548,295
Adjustments for:		
Interest expense	**3,914,101**	933,218
Interest income	**(138,211)**	(93,670)
Share of result of a jointly controlled entity	**82,129**	3,040,780
Allowance for (reversal of allowance for) doubtful debts	**76,655**	(687,504)
Allowance for obsolete inventories	**1,746,916**	4,388,789
Amortisation of prepaid lease payments	**1,228,285**	1,202,585
Bad debt directly written off	**–**	68,168
Depreciation of property, plant and equipment	**16,398,240**	12,282,018
Write-off of property, plant and equipment	**–**	7,096,445
Impairment loss recognised in respect of property, plant and equipment	**–**	3,873,316
Gain on disposal of property, plant and equipment	**(102,859)**	(1,276)
Deferred income recognised	**(4,186,701)**	–
Operating cash flows before movements in working capital	**24,203,516**	49,651,164
(Increase) decrease in inventories	**(5,401,260)**	1,551,963
Increase in trade and other receivables	**(45,279,141)**	(61,636,343)
(Increase) decrease in bills receivables	**(856,626)**	3,106,080
Decrease in amount due from a jointly controlled entity	**–**	3,013,321
(Decrease) increase in amount due to a jointly controlled entity	**(649,760)**	2,534,651
Increase (decrease) in trade and other payables	**20,186,021**	(7,491,186)
Increase (decrease) in bills payables	**6,764,185**	(1,975,406)
Decrease in amount due to a fellow subsidiary	**(1,352,085)**	(872,736)
Government grant received	**1,166,956**	2,956,562
Cash used in operations	**(1,218,194)**	(9,161,930)
Interest paid	**(4,076,101)**	(1,296,905)
Profits tax (paid) refunded	**(67,847)**	183,516
Income tax paid	**(577,681)**	(542,415)
NET CASH USED IN OPERATING ACTIVITIES	**(5,939,823)**	(10,817,734)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 HK$	2009 HK$
INVESTING ACTIVITIES		
Dividend received from a jointly controlled entity	–	5,424,153
Interest received	138,211	93,670
Increase in deposits for acquisition of property, plant and equipment	(2,553,652)	–
Proceeds from disposal of property, plant and equipment	5,173,797	26,154
Additions of property, plant and equipment	(63,200,694)	(26,464,137)
Increase in pledged bank deposits	(485)	(3,436)
NET CASH USED IN INVESTING ACTIVITIES	(60,442,823)	(20,923,596)
FINANCING ACTIVITIES		
New borrowings raised	110,231,692	77,054,624
Repayment of bank borrowings	(60,971,318)	(63,472,154)
Increase in amount due to an intermediate holding company	48,000	–
Loans raised from an intermediate holding company	6,000,000	17,057,084
Repayment of loan from a jointly controlled entity	–	(4,086,894)
Repayment of loans from an intermediate holding company	–	(17,057,084)
Repayment of loans from ultimate holding company	(929,152)	–
NET CASH FROM FINANCING ACTIVITIES	54,379,222	9,495,576
DECREASE IN CASH AND CASH EQUIVALENTS	(12,003,424)	(22,245,754)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	13,693,414	35,777,730
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,359,233	161,438
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3,049,223	13,693,414
REPRESENTING		
Bank balances and cash	11,244,030	15,360,090
Bank overdrafts	(8,194,807)	(1,666,676)
	3,049,223	13,693,414

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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 ("Alpha Luck") (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 registered office of the Company is situated at Rooms 2708-11, 27th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, and the principal place of business of the Company is situated at 63 Huan Shi Road South, Information Technology Park, Nansha District, Guangzhou City, the PRC.

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 limited company in Hong Kong with its shares listed on the GEM of the Stock Exchange.

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 circuit ("FPC"). Its subsidiaries are principally engaged in manufacture and sale of FPC, sourcing and sale of electronic components and manufacture and sale of electronic modules for Liquid Crystal Display Module ("LCM").

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

In the current year, the Group and the Company have applied the following new and revised Standards and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners
HK – INT 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

New and revised HKFRSs affecting presentation and disclosure only

Amendments to HKAS 17 "Leases"

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. After reassessment, the directors of the Company concluded that no reclassification was necessary.

Hong Kong Interpretation 5 "Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause"

Hong Kong Interpretation 5 "Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause" ("HK INT 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK INT 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK INT 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK INT 5, term loans with a repayment on demand clause are classified as current liabilities. After reviewing the terms of the Group's term loans, the directors of the Company concluded that no reclassification was necessary.

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

New and revised Standards and Interpretations issued but not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 32 (Amendments)	Classification of rights issues[7]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 Financial instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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

New and revised Standards and Interpretations issued but not yet effective *(Continued)*

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Groups' financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES

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.

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). 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 statement of comprehensive income 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 intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Joint ventures

Jointly controlled entities

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 referred 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 initially recognised in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the jointly controlled entities. 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 interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures *(Continued)*

Jointly controlled entities (Continued)

From 1 January 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position 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.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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 on initial recognition.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes other than properties under construction as described below are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those asset until such time as 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 in the consolidated statement of financial position 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. Subsequent to initial recognition, loans and receivables including trade and other receivables, bills receivables, amounts due from subsidiaries, 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).

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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. 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 affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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 an intermediate holding company, amount due to a fellow subsidiary, loans from an intermediate holding company, amount due to a jointly controlled entity, loan from a non-controlling 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 in its entirety, 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 in other comprehensive income accumulated 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 and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment loss on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. 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.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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 consolidated statement of comprehensive income 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 by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary difference 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 associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates 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 are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

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 profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

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 end of the reporting period, 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 amounts 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 2010 are HK$190,535,065 and HK$98,355 (2009: HK$146,609,580 and HK$59,326) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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

Allowance for doubtful debts

The management regularly reviews the recoverability and aging of the trade and bills receivables. Allowances are applied to trade and bills 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 carrying amounts of trade and bills receivables and doubtful debts expenses in the year in which such estimate is changed.

The carrying amount of trade and bills receivables at 31 December 2010 for the Group and the Company are HK$94,610,468 (2009: HK$53,389,833), net of allowance for doubtful debts of HK$4,602,333 (2009: HK$11,590,338) and HK$27,866,137 (2009: HK$19,434,123), net of allowance for doubtful debts of HK$508,488 (2009: HK$508,488) respectively.

Allowance for obsolete inventories

The management of the Group reviews an aged analysis at the end of the reporting period, 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 2010 is HK$26,024,069 (2009: HK$21,497,537).

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for the sales of FPC, electronic components for surface mount technology and electronic modules for LCM to external customers, net of discounts and sales related taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information

Information reported to the Executive Directors of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on type of goods delivered.

The Group is currently organised into three operating divisions namely manufacture and sale of FPC, sourcing and sale of electronic components and manufacture and sale of electronic modules for LCM. These divisions are the basis on which the Group reports its segment information.

Principal activities are as follows:

FPC business	–	the manufacture and sale of FPC
Sourcing and sale of electronic components	–	the sourcing and sale of electronic components for surface mount technology and electronic modules
LCM business	–	the manufacture and sale of electronic modules for LCM

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

	Segment revenue		Inter-segment sales		Eliminations		Segment profit (loss)	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
FPC business	**212,758,855**	142,388,666	**26,749,310**	7,435,109	**(26,749,310)**	(7,435,109)	**19,798,399**	33,320,863
Sourcing and sale of electronic components	**98,864,909**	123,977,735	**29,683,357**	177,410	**(29,683,357)**	(177,410)	**5,312,680**	436,570
LCM business	**34,321,473**	1,164,111	**1,701,215**	–	**(1,701,215)**	–	**(2,309,143)**	(382,084)
Total	**345,945,237**	267,530,512	**58,133,882**	7,612,519	**(58,133,882)**	(7,612,519)	**22,801,936**	33,375,349
Interest income							**138,211**	93,670
Share of result of a jointly controlled entity							**(82,129)**	(3,040,780)
Central administration costs							**(13,758,956)**	(11,946,726)
Finance costs							**(3,914,101)**	(933,218)
Profit before taxation							**5,184,961**	17,548,295

Revenue reported above represents revenue generated from external customers.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit (loss) earned by each segment without allocation of central administration costs, share of result of a jointly controlled entity, interest income and finance costs. This is the measure reported to the Executive Directors, the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

Segment assets

	2010	2009
	HK$	HK$
FPC business	**382,904,007**	314,628,161
Sourcing and sale of electronic components	**34,396,021**	8,438,756
LCM business	**16,499,509**	9,136,724
Total segment assets	**433,799,537**	332,203,641
Interest in a jointly controlled entity	**21,471,188**	20,753,851
Unallocated assets	**13,597,658**	17,713,233
Consolidated assets	**468,868,383**	370,670,725

Segment liabilities

	2010	2009
	HK$	HK$
FPC business	**91,940,286**	86,899,474
Sourcing and sale of electronic components	**16,278,176**	422,437
LCM business	**1,284,410**	1,073,476
Total segment liabilities	**109,502,872**	88,395,387
Unallocated liabilities	**164,856,809**	99,664,319
Consolidated liabilities	**274,359,681**	188,059,706

For the purposes of monitoring segment performances and allocating resources between segments:

– all assets are allocated to reportable segments other than pledged bank deposits, bank balances and cash and interest in a jointly controlled entity.

– all liabilities are allocated to reportable segments other than amount due to an intermediate holding company, loans from a non-controlling shareholder of a subsidiary, loan from an intermediate holding company, loans from ultimate holding company, borrowings, bank overdrafts and current and deferred tax liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

2010

Amounts included in the measure of segment profit or loss or segment assets:

	FPC business HK$	Sourcing and sale of electronic components HK$	LCM business HK$	Eliminations HK$	Total HK$
Allowance for doubtful debts	46,640	30,015	–	–	76,655
Allowance for obsolete inventories	1,740,423	6,493	–	–	1,746,916
Addition to non-current assets (Note)	52,940,616	397,152	5,655,242	–	58,993,010
Amortisation of prepaid lease payments	1,228,285	–	–	–	1,228,285
Depreciation	15,128,914	13,363	1,255,963	–	16,398,240
Government grant for research and development projects	(4,186,701)	–	–	–	(4,186,701)
Research and development expenses	9,733,038	–	–	–	9,733,038
Operating lease in rentals in respect of land and buildings	–	–	169,279	(169,279)	–

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

	FPC business HK$	Sourcing and sale of electronic components HK$	LCM business HK$	Total HK$
Interest in a joint controlled entity	–	21,471,188	–	21,471,188
Share of loss of a jointly controlled entity	–	82,129	–	82,129
Interest income	(132,665)	(3,008)	(2,538)	(138,211)
Interest expenses	3,914,083	18	–	3,914,101
Income tax expenses	1,015,369	737,648	–	1,753,017
Net foreign exchange gains	(133,490)	(301,707)	–	(435,197)

Note: Non-current assets represent property, plant and equipment and prepaid lease payments.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

2009

Amounts included in the measure of segment profit or loss or segment assets:

	FPC business HK$	Sourcing and sale of electronic components HK$	LCM business HK$	Eliminations HK$	Total HK$
Bad debt directly written off	68,168	–	–	–	68,168
Reversal of allowance for doubtful debts	(687,504)	–	–	–	(687,504)
Allowance for obsolete inventories	4,388,789	–	–	–	4,388,789
Addition to non-current assets (Note)	32,283,769	–	2,892,029	–	35,175,798
Amortisation of prepaid lease payments	1,202,585	–	–	–	1,202,585
Depreciation	11,879,714	–	402,304	–	12,282,018
Government compensation for factory relocation	(58,018,544)	–	–	–	(58,018,544)
Factory relocation costs	21,411,502	–	–	–	21,411,502
Research and development expenses	7,578,434	–	56,866	–	7,635,300
Operating lease in rentals in respect of land and buildings	–	–	65,385	(65,385)	–

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

	FPC business HK$	Sourcing and sale of electronic components HK$	LCM business HK$	Total HK$
Interest in a joint controlled entity	–	20,753,851	–	20,753,851
Share of loss of a jointly controlled entity	–	3,040,780	–	3,040,780
Interest income	(92,408)	(27)	(1,235)	(93,670)
Interest expenses	933,218	–	–	933,218
Income tax expenses	–	598,370	–	598,370
Net foreign exchange losses	557,885	–	4,394	562,279

Note: Non-current assets represent property, plant and equipment and prepaid lease payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

The Group operates in two principal geographical areas – the People's Republic of China (excluding Hong Kong) (the "PRC") and Hong Kong (country of domicile). The following table provides an analysis of the Group's revenue from external customers by geographical location:

	Revenue from external customers	
	2010	2009
	HK$	HK$
PRC other than Hong Kong	**212,156,447**	96,922,538
Hong Kong	**106,567,206**	145,839,756
Others	**27,221,584**	24,768,218
	345,945,237	267,530,512

Substantially all of the Group's non-current assets, including property, plant and equipment, prepaid lease payments and interest in a jointly controlled entity, are located in the PRC. Accordingly, no non-current assets by geographical location is presented.

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2010	2009
	HK$	HK$
Customer A[1]	**47,152,842**	–[3]
Customer B[2]	**–[3]**	56,039,175
Customer C[2]	**–[3]**	45,716,447

1 Revenue from manufacture and sale of FPC.

2 Revenue from sourcing and sale of electronic components.

3 The corresponding revenue did not contribute over 10% of the total sales of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

6. OTHER INCOME

	2010	2009
	HK$	HK$
Government compensation for factory relocation (Note)	**–**	58,018,544
Government grant for research and development projects	**4,186,701**	–
Income from leasing equipment to a jointly controlled entity	**282,230**	614,055
Commission income	**–**	185,125
Interest income	**138,211**	93,670
Gain on disposal of property, plant and equipment	**102,859**	1,276
Rental income	**281,840**	–
Write-back of long outstanding payables	**727,720**	–
Net foreign exchange gains	**435,197**	–
Others	**313,496**	44,006
	6,468,254	58,956,676

Note: The amount represented compensation received/receivable pursuant to a notice dated 6 May 2009 issued by the relevant PRC government authority as a result of the requisition (the "Requisition") 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 the Requisition had been disclosed in the Company's Annual Report 2007 and details of the compensation had been disclosed in the Company's announcement dated 7 May 2009). The amount of compensation is determined with reference to the relevant PRC laws and regulations and the valuation prepared by an independent valuer mutually appointed by the PRC government and the Group. The compensation is mainly attributable to the Group's direct factory relocation costs as well as the operating loss incurred during the relocation period. There are no unfulfilled conditions and other contingencies attaching to such compensation. The relocation was completed in 2009. No such cost incurred in current year.

7. FACTORY RELOCATION COSTS

In January 2009, the Group commenced the relocation of one of the Group's production plant in Panyu, PRC to a new production site in Nansha, PRC as a result of the Requisition. The relocation was completed in 2009. No additional cost was incurred in current year.

Relocation costs incurred in 2009 are as follows:

	2009 HK$
Removal and transportation expenses (Note a)	6,689,984
Write-off of property, plant and equipment (Note b)	7,096,445
Impairment loss in respect of property, plant and equipment (Note c)	3,873,316
Other expenses incurred (Note d)	3,751,757
	21,411,502

Notes:

(a) The amount included transportation costs for cars and lorries, installation of existing plant and machinery in the new production plant and consumables and other administrative expenses incurred specifically for the relocation.

(b) The amount represented the write-off of net book value of property, plant and equipment which have been assessed as immovable to the new production plant.

(c) In 2009, the directors conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired due to physical damage after the relocation. Accordingly, an impairment loss of HK$3,873,316 has been recognised in respect of plant and machinery which were used in the "FPC business" operating segment.

(d) The amount included expenses for test run of production lines in the new production plant.

8. FINANCE COSTS

	2010 **HK$**	2009 HK$
Interests on:		
Bank borrowings wholly repayable within five years	**3,866,101**	1,104,370
Other borrowings wholly repayable within five years	**210,000**	192,535
Total borrowing costs	**4,076,101**	1,296,905
Less: Amounts capitalised	**(162,000)**	(363,687)
	3,914,101	933,218

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 0.78% (2009: 1.07%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

9. PROFIT BEFORE TAXATION

	2010 HK$	2009 HK$
Profit before taxation has been arrived at after charging (crediting):		
Research and development expenses		
Staff costs	730,983	635,693
Other research and development expenses	9,002,055	6,999,607
	9,733,038	7,635,300
Directors' remuneration (Note 11)	680,831	644,385
Other staff costs	41,286,668	28,606,374
Other staff's retirement benefits costs	1,599,772	1,106,124
Total staff costs	43,567,271	30,356,883
Less: Other staff costs included in research and development expenses shown above	(730,983)	(635,693)
	42,836,288	29,721,190
Allowance for (reversal of allowance for) doubtful debts	76,655	(687,504)
Amortisation of prepaid lease payments	1,228,285	1,202,585
Auditor's remuneration	700,000	700,000
Bad debt directly written off	–	68,168
Cost of inventories recognised as an expense (Note)	284,943,998	226,071,077
Depreciation of property, plant and equipment	16,398,240	12,282,018
Impairment loss in respect of property, plant and equipment (included in factory relocation costs)	–	3,873,316
Minimum lease payments under operating leases in respect of land and buildings	894,312	482,062
Net foreign exchange losses	–	562,279
Shipping and handling expenses (included in distribution costs)	668,478	575,225

Note: The amount includes allowance for obsolete inventories of HK$1,746,916 (2009: HK$4,388,789).

10. TAXATION (CHARGE) CREDIT

	2010 HK$	2009 HK$
Current tax:		
Hong Kong Profits Tax	**(737,544)**	(48,713)
PRC Enterprise Income Tax	**(1,015,369)**	–
PRC withholding tax	**–**	(542,415)
	(1,752,913)	(591,128)
Underprovision in prior years:		
Hong Kong Profits Tax	**(104)**	(7,242)
Deferred tax:		
Current year (Note 29)	**(348,426)**	757,956
	(2,101,443)	159,586

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. 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. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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.

Pursuant to the relevant laws and regulations in the PRC, the applicable PRC Enterprise Income Tax rate for AKM Electronics Industrial (Panyu) Ltd. ("AKM Panyu") is 25%. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

10. TAXATION (CHARGE) CREDIT *(Continued)*

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

	2010	2009
	HK$	HK$
Profit before taxation	**5,184,961**	17,548,295
Tax at the applicable income tax rate (Note)	**(777,744)**	(2,632,244)
Tax effect of share of result of a jointly controlled entity	**(12,319)**	(456,117)
Tax effect of income that are not taxable in determining taxable profit	**10,293**	27,240
Tax effect of expenses that are not deductible in determining taxable profit	**(900,513)**	(126,486)
Tax effect of deductible temporary differences not recognised	**33,571**	1,058,128
Tax effect of tax loss not recognised	**(734,851)**	(457,678)
Underprovision in prior years	**(104)**	(7,242)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(853,662)**	(4,429)
Utilisation of tax losses previously not recognised	**461,338**	1,291,671
Effect of tax concession granted to a PRC subsidiary	**1,015,369**	1,251,202
Deferred taxation arising from withholding tax on undistributed profits	**(348,426)**	757,956
Withholding tax on undistributed profits	**–**	(542,415)
Others	**5,605**	–
Taxation (charge) credit for the year	**(2,101,443)**	159,586

Note: AKM Panyu is the Group's major operating subsidiary and, accordingly, its applicable income tax rate is 15% (2009: 15%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

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

		Other emoluments		
	Fees HK$	Salaries and other benefits HK$	Pension costs HK$	Total emoluments HK$
Xiong Zheng Feng	**–**	**–**	**–**	**–**
Li Ying Hong	**–**	**–**	**–**	**–**
Chai Zhi Qiang	**–**	**487,805**	**20,080**	**507,885**
Han Li Gang	**–**	**–**	**–**	**–**
Liang Zhi Li	**57,473**	**–**	**–**	**57,473**
Wang Heng Yi	**57,473**	**–**	**–**	**57,473**
Wu Tak Lung (Note a)	**58,000**	**–**	**–**	**58,000**
Total for 2010	**172,946**	**487,805**	**20,080**	**680,831**

		Other emoluments		
	Fees HK$	Salaries and other benefits HK$	Pension costs HK$	Total emoluments HK$
Xiong Zheng Feng	–	–	–	–
Li Ying Hong	–	–	–	–
Chai Zhi Qiang	–	470,826	12,781	483,607
Han Li Gang	–	–	–	–
Liang Zhi Li	56,639	–	–	56,639
Li Kung Man (Note b)	47,500	–	–	47,500
Wang Heng Yi	56,639	–	–	56,639
Total for 2009	160,778	470,826	12,781	644,385

Notes:

(a) Appointed on 13 January 2010

(b) Resigned on 15 October 2009

For the year ended 31 December 2010, Mr. Xiong Zheng Feng and Ms. Li Ying Hong waived their nominal salary of HK$10 (2009: HK$10) and HK$10 (2009: HK$10) respectively. There are no other directors who had waived their remuneration during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(Continued)

(ii) Employees' remuneration:

Of the five individuals with the highest emoluments in the Group, one (2009: one) was director of the Company whose emoluments are included in the disclosures in Note 11(i) above. The emoluments of remaining four (2009: four) individuals were as follows:

	2010 **HK$**	2009 HK$
Salaries, allowances and other benefits	**1,278,754**	1,452,556
Pension costs	**12,000**	85,522
Performance related incentive payments	**736,864**	500,341
	2,027,618	2,038,419

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.

12. DIVIDENDS

No dividend was paid or proposed during 2010, nor has any dividend been proposed since the end of the reporting period (2009: nil).

13. EARNINGS PER SHARE

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

	2010 **HK$**	2009 HK$
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**2,170,842**	18,339,436

	Number of shares **2010**	2009
Number of shares		
Number of ordinary shares for the purpose of basic and diluted earnings per share	**540,000,000**	540,000,000

The calculation of diluted earnings per share for both years does not assume the exercise of share options because their respective exercise prices were higher than the average market price of shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings HK$	Plant and machinery HK$	Leasehold improvements HK$	Office equipment HK$	Motor vehicles HK$	Construction in progress HK$	Total HK$
COST							
At 1 January 2009	1,167,877	139,540,619	8,460,122	10,000,879	2,717,811	65,376,684	227,263,992
Additions	–	11,007,326	2,275,967	6,799,170	89,878	15,003,457	35,175,798
Transfer from construction in progress	63,075,668	17,288,285	–	–	–	(80,363,953)	–
Write-off	–	(37,954,384)	(7,148,602)	(1,799,006)	–	–	(46,901,992)
Disposals	–	–	–	(10,121)	(182,170)	–	(192,291)
Currency realignment	163,918	637,331	28,691	61,966	10,687	156,552	1,059,145
At 31 December 2009	64,407,463	130,519,177	3,616,178	15,052,888	2,636,206	172,740	216,404,652
Additions	–	25,210,814	1,281,273	1,704,493	529,202	30,267,228	58,993,010
Transfer from construction in progress	–	9,896,416	36,095	–	–	(9,932,511)	–
Disposals	–	(6,047,799)	–	(3,373,113)	(451,890)	–	(9,872,802)
Currency realignment	2,478,090	5,415,480	160,162	551,627	76,587	399,041	9,080,987
At 31 December 2010	66,885,553	164,994,088	5,093,708	13,935,895	2,790,105	20,906,498	274,605,847
DEPRECIATION AND IMPAIRMENT							
At 1 January 2009	38,540	78,353,263	7,870,353	5,009,499	1,973,495	–	93,245,150
Provided for the year	871,891	8,962,473	320,703	1,931,505	195,446	–	12,282,018
Impairment loss recognised in profit or loss	–	3,873,316	–	–	–	–	3,873,316
Eliminated on write-off	–	(31,104,089)	(7,148,602)	(1,552,856)	–	–	(39,805,547)
Eliminated on disposals	–	–	–	(3,460)	(163,953)	–	(167,413)
Currency realignment	2,377	310,885	21,570	25,367	7,349	–	367,548
At 31 December 2009	912,808	60,395,848	1,064,024	5,410,055	2,012,337	–	69,795,072
Provided for the year	1,513,888	11,064,012	1,153,620	2,487,724	178,996	–	16,398,240
Eliminated on disposals	–	(2,160,035)	–	(2,212,534)	(429,295)	–	(4,801,864)
Currency realignment	64,333	2,285,975	64,100	211,349	53,577	–	2,679,334
At 31 December 2010	2,491,029	71,585,800	2,281,744	5,896,594	1,815,615	–	84,070,782
CARRYING VALUES							
At 31 December 2010	64,394,524	93,408,288	2,811,964	8,039,301	974,490	20,906,498	190,535,065
At 31 December 2009	63,494,655	70,123,329	2,552,154	9,642,833	623,869	172,740	146,609,580

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis after taking into account of the estimated residual values at the following rates per annum:

Buildings	Over the shorter of the term of the lease, and 40 – 50 years
Plant and machinery	5 – 15 years
Leasehold improvements	Over the remaining term of the lease or 4 years, whichever is shorter
Office equipment	5 years
Motor vehicles	4 – 5 years

The Group has pledged buildings with carrying amount of approximately HK$63,261,676 (2009: HK$62,381,421) to secure general banking facilities granted to the Group.

The buildings are located on land under medium-term lease in the PRC.

THE COMPANY

	Office equipment HK$	**Motor vehicles** HK$	**Total** HK$
COST			
At 1 January 2009 and at 31 December 2009	161,580	490,680	652,260
Addition	8,469	53,088	61,557
At 31 December 2010	**170,049**	**543,768**	**713,817**
DEPRECIATION			
At 1 January 2009	73,568	490,680	564,248
Provided for the year	28,686	–	28,686
At 31 December 2009	102,254	490,680	592,934
Provided for the year	20,316	2,212	22,528
At 31 December 2010	**122,570**	**492,892**	**615,462**
CARRYING VALUES			
At 31 December 2010	**47,479**	**50,876**	**98,355**
At 31 December 2009	59,326	–	59,326

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

15. PREPAID LEASE PAYMENTS

	2010 **HK$**	2009 HK$
The Group's prepaid lease payments comprise:		
Land in PRC:		
Medium term lease	**58,689,989**	57,721,144
Analysed for reporting purposes as:		
Current assets	**1,251,986**	1,205,600
Non-current assets	**57,438,003**	56,515,544
	58,689,989	57,721,144

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 use rights in PRC having a net book value of approximately HK$51,479,280 (2009: HK$20,126,190) to secure general banking facilities granted to the Group.

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM (TO) SUBSIDIARIES

	2010 **HK$**	2009 HK$
THE COMPANY		
Capital contribution, at cost	**224,534,653**	223,209,867
Impairment losses recognised	**(22,855,420)**	(22,000,000)
	201,679,233	201,209,867

The Company also has amounts due from subsidiaries of HK$7,784,520 (2009: HK$5,286,025) included in current assets and amounts due to subsidiaries of HK$6,080,102 (2009: HK$27,472,383) included in current liabilities. Impairment losses recognised in respect of interests in subsidiaries and amounts due from subsidiaries as at 31 December 2010 amount to HK$22,855,420 (2009: HK$22,000,000) and HK$4,000,000 (2009: HK$4,000,000) respectively.

Included in the amounts due from subsidiaries are trade receivables net of allowance for doubtful debts with balance of HK$nil (2009: HK$108,750) which was trade in nature and all aged within 90 days. The Company allows a credit period of 90 days to its subsidiaries. The remaining amounts are unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, the amount will be recoverable within 12 months from the reporting date. As a result, they are classified as current assets.

Amounts due to subsidiaries are trade payables of HK$6,080,102 (2009: HK$27,472,383) and all aged within 90 days.

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM (TO) SUBSIDIARIES *(Continued)*

At the end of the reporting period, impairment losses recognised in respect of interests in subsidiaries was 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% (2009: 7.5%). Due to the continuance of operating losses of the subsidiaries, impairment losses in respect of interests in subsidiaries and amounts due from subsidiaries were made.

Details of the Company's subsidiaries as at 31 December 2010 and 2009 is as follows:

Name of subsidiary	Place of establishment and operation	Form of business structure	Paid-up capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
AKM Electronics Industrial (Panyu) Limited 安捷利(番禺)電子實業有限公司	The PRC	Wholly owned-foreign enterprise	US$21,700,000 (2009: US$21,700,000)	100% (2009: 100%)	–	Manufacture and sale of FPC
AKM (Suzhou) FPC Company Limited 安捷利(蘇州)柔性電路板有限公司	The PRC	Wholly owned-foreign enterprise	US$2,642,460 (2009: US$2,642,460)	100% (2009: 100%)	–	Manufacture and sale of FPC
Ever Proven Investments Limited	British Virgin Islands/ Hong Kong	International business company	US$100 (2009: US$100)	75% (2009: 75%)	–	Investment holding
New Career Guangzhou Electronics Company Limited 廣州安旭特電子有限公司 (Formerly known as "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	US$549,000 (2009: US$549,000)	100% (2009: 100%)	–	Manufacture and sale of electronic modules for LCM
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 (2009: US$4,520,000)	100% (2009: 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 (2009: HK$1,000,000)	75% (2009: 75%)	–	Trading of raw materials and FPC, sourcing and sale of electronic components

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

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

As at 31 December 2009 and 2010, 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 (2009: HK$30,000,000)	HK$30,000,000 (2009: HK$30,000,000)	53% (2009: 53%)	Provision of surface mount technology service

	2010 HK$	2009 HK$
Cost of unlisted investment in a jointly controlled entity	**15,900,000**	15,900,000
Share of post-acquisition profit and other comprehensive income, net of dividend received	**2,301,704**	2,383,833
Exchange differences	**3,269,484**	2,470,018
	21,471,188	20,753,851

The Group holds 53% (2009: 53%) of the registered capital of Shenzhen Smart. The board of directors of Shenzhen Smart comprises two (2009: four) directors appointed by the Group and one (2009: three) director appointed by the other shareholders. Under the shareholders' agreement, all the resolutions have to be passed with approval by two-third directors of the board of directors. Pursuant to the supplementary shareholders' agreement signed in 2010, all the major operating and financial decisions have to be approved by all directors in consensus. Accordingly, Shenzhen Smart is jointly controlled by the Group and the other significant shareholder. Therefore, Shenzhen Smart is classified as a jointly controlled entity of the Group.

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

	2010 HK$	2009 HK$
Current assets	**17,089,988**	14,936,498
Non-current assets	**33,377,815**	17,623,736
Current liabilities	**28,996,615**	11,806,383
Income	**105,314,837**	22,850,797
Expenses	**105,396,966**	25,891,577

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18. INVENTORIES

	THE GROUP	
	2010	2009
	HK$	HK$
Raw materials	**15,847,993**	13,646,994
Work in progress	**4,139,393**	5,373,169
Finished goods	**6,036,683**	2,477,374
	26,024,069	21,497,537

19. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

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

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Trade and bills receivables	**99,212,801**	64,980,171	**28,374,624**	19,942,611
Less: Allowance for doubtful debts	**(4,602,333)**	(11,590,338)	**(508,488)**	(508,488)
	94,610,468	53,389,833	**27,866,137**	19,434,123
Government compensation receivable (Note a)	**48,321,542**	46,531,243	**–**	–
Other tax recoverable	**7,752,295**	869,496	**–**	–
Other receivables (Note b)	**5,312,457**	5,584,808	**508,517**	3,256,539
	155,996,762	106,375,380	**28,374,654**	22,690,662

Notes:

(a) The amount represents government compensation receivable as a result of Requisition of the land leased by the Group as disclosed in notes 6 and 7. The amount is fully settled subsequent to the end of the reporting period.

(b) The amount mainly represents the advances to suppliers. In the opinion of the directors, the amount is expected to be utilised within next 12 months.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES *(Continued)*

The following is an aged analysis of trade and bills receivables presented based on the invoice date (other than bills receivables which are presented based on the issuance date of relevant bills) at the end of the reporting period:

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Within 30 days	**33,086,990**	20,247,966	**4,348,932**	5,577,997
31 – 60 days	**25,824,755**	14,429,708	**9,135,241**	4,810,155
61 – 90 days	**19,557,283**	9,650,595	**9,668,353**	5,141,839
91 – 120 days	**9,823,407**	6,710,397	**3,614,680**	3,185,328
121 days – 1 year	**6,074,202**	2,351,167	**1,093,962**	718,804
Over 1 year	**243,831**	–	**4,969**	–
	94,610,468	53,389,833	**27,866,137**	19,434,123

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 70% (2009: 84%) and 80% (2009: 72%) of the Group's and the Company's trade receivables respectively that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring used by the Group and the Company.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$30,366,768 (2009: HK$10,114,756) which are past due at the reporting date for which the Group has not provided for impairment loss in view of the satisfactory subsequent settlement. The Group does not hold any collateral over these balances. The average age of these receivables is 104 days (2009: 114 days).

Included in the Company's trade receivable balance are debtors with aggregate carrying amount of HK$5,578,310 (2009: HK$5,617,203) which are past due at the reporting date for which the Company has not provided for impairment loss in view of the satisfactory subsequent settlement. The Company does not hold any collateral over these balances. The average age of these receivables is 128 days (2009: 99 days).

19. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES *(Continued)*

Ageing of trade receivables presented based on the invoice date which are past due but not impaired

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
0 – 30 days	**5,170,288**	545,999	**–**	545,999
31 – 60 days	**4,962,682**	1,397,949	**101,806**	1,283,065
61 – 90 days	**4,493,166**	990,313	**762,893**	194,340
91 – 120 days	**9,422,599**	5,397,273	**3,614,680**	2,874,995
121 days – 1 year	**6,074,202**	1,783,222	**1,093,962**	718,804
Over 1 year	**243,831**	–	**4,969**	–
	30,366,768	10,114,756	**5,578,310**	5,617,203

Movement in the allowance for doubtful debts

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Balance at beginning of the year	**11,590,338**	12,222,532	**508,488**	166,061
Impairment losses recognised on receivables	**85,615**	2,427,592	**–**	342,320
Amounts written off as uncollectible	**(7,350,105)**	–	**–**	–
Amounts recovered during the year	**(8,960)**	(3,115,096)	**–**	–
Currency realignment	**285,445**	55,310	**–**	107
Balance at end of the year	**4,602,333**	11,590,338	**508,488**	508,488

Included in the Group's and the Company's allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$4,602,333 and HK$508,488 (2009: HK$11,590,338 and HK$508,488) respectively which have either been placed under liquidation or in severe financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES *(Continued)*

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

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
United States Dollar ("USD")	**40,720,000**	29,175,854	**27,866,137**	19,434,123

20. 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 at 0.02% per annum (2009: 0.02% to 0.6% per annum). The pledged bank deposits will be released upon settlement of the relevant bank borrowings. The pledged bank deposits are denominated in HKD.

21. BANK BALANCES AND CASH/BANK OVERDRAFTS

Bank balances and cash

Bank balances comprise short-term bank deposits with original maturity less than three months which carry at interest rates ranging from 0.01% to 1.17% (2009: 0.01% to 1.5%) per annum.

Included in the Group's bank balances are short-term deposits of HK$11,136,435 (2009: HK$15,184,281) kept in banks located in the PRC.

In addition, included in the bank balances 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	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
USD	**3,584,534**	2,622,818	**2,525**	22,459

Bank overdrafts

Bank overdrafts are secured by pledged bank deposits and carry interest at market rates of 4% per annum (2009: 4% per annum). The balances are denominated in USD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22. TRADE AND OTHER PAYABLES/BILLS PAYABLES

Trade and other payables and bills payables include the following balances:

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Trade and bills payables	**52,969,348**	32,133,048	**307,854**	1,322,707
Payables for acquisition of property, plant and equipment	**3,978,290**	8,347,974	**–**	–
Accrued staff costs	**5,758,412**	5,024,200	**–**	–
Advances from independent third parties (Note)	**6,286,255**	–	**–**	–
Other payables and accruals	**5,823,053**	4,498,379	**1,817,300**	865,966
	74,815,358	50,003,601	**2,125,154**	2,188,673

Note: The amount represents the one-off cash advances from two independent third parties for operating cash flows of AKM Panyu. The amount is unsecured, interest free and repayable on demand.

The following is an aged analysis by invoice date/bills issued date of trade and bills payables at the end of the reporting period:

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Within 30 days	**25,454,463**	11,196,767	**307,854**	584,068
31 – 60 days	**14,725,828**	10,512,421	**–**	226,834
61 – 90 days	**11,210,960**	8,498,384	**–**	39,551
91 – 120 days	**1,434,169**	707,838	**–**	293,874
121 days – 1 year	**99,053**	437,592	**–**	–
Over 1 year	**44,875**	780,046	**–**	178,380
	52,969,348	32,133,048	**307,854**	1,322,707

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

22. TRADE AND OTHER PAYABLES/BILLS PAYABLES *(Continued)*

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

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
USD	**13,684,356**	6,867,325	**323,155**	1,322,707

23. DEFERRED INCOME

	THE GROUP	
	2010	2009
	HK$	HK$
Government grants received in respect of:		
Development of new products (Note 1)	**355,156**	3,305,974
Construction of factory on existing lands (Note 2)	**31,668,048**	30,494,756
	32,023,204	33,800,730
Less: Amounts to be recognised in profit or loss in the following year	**(355,156)**	(3,305,974)
Amount shown under non-current liabilities	**31,668,048**	30,494,756

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. It had resulted in a credit to income of HK$4,186,701 (2009: Nil).

(2) The amount was received in respect of a development support fund for the construction of factory 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 profit or loss. Details in relation to the grant of the fund had been disclosed in the announcement of the Company dated 25 September 2008.

24. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY/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

Amount due to an intermediate holding company is unsecured, interest-free and repayable on demand.

Unsecured loans from an intermediate holding company comprise:

	2010	2009
	HK$	HK$
Loan of USD2 million (Note a)	**15,566,000**	15,510,000
Loan of USD3 million (Note b)	**23,349,000**	23,265,000
Loan of HKD6 million (Note c)	**6,000,000**	–
	44,915,000	38,775,000

Notes:

(a) As at 31 December 2009, the loan was unsecured, interest-free and repayable in full in July 2011. During the year ended 31 December 2010, a supplemental agreement was signed to change the terms of the loan to unsecured, interest-free and repayable in full in July 2012.

(b) As at 31 December 2009, the loan was unsecured, interest-free and repayable in full in July 2011. During the year ended 31 December 2010, a supplemental agreement was signed to change the terms of the loan to unsecured, interest-free and repayable in full in July 2012.

(c) As at 31 December 2010, the loan was unsecured, bearing interest at 3.6% per annum and repayable in July 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

25. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

THE GROUP

Amount due to a jointly controlled entity is trade in nature and is unsecured, interest-free and aged within 60 days.

26. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Bank loan (Note)	**95,104,858**	47,049,386	**12,235,200**	1,449,751
Trust receipts loans (Note)	**5,322,560**	1,690,841	**5,322,560**	1,690,841
	100,427,418	48,740,227	**17,557,760**	3,140,592
Secured	**93,326,727**	48,740,227	**10,457,069**	3,140,592
Unsecured	**7,100,691**	–	**7,100,691**	–
	100,427,418	48,740,227	**17,557,760**	3,140,592
Carrying amount repayable				
Within one year	**96,643,630**	48,740,227	**13,773,972**	3,140,592
More than one year, but not exceeding two years	**3,486,145**	–	**3,486,145**	–
More than two years, but not exceeding five years	**297,643**	–	**297,643**	–
	100,427,418	48,740,227	**17,557,760**	3,140,592

Notes: Bank loans are secured by charges over the land use rights, buildings and bank deposits of the Group while the trust receipts loans are secured by charges over the Group's bank deposits (Note 35).

At 31 December 2010, included in the bank loans of the Group are loans of HK$89,970,349 which bear interest at fixed rates. The remaining bank loans and the trust receipts loans carry prevailing market rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

26. BANK BORROWINGS *(Continued)*

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

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
Effective interest rates:				
Fixed-rate borrowings	**3.65% to 5.25%**	3.65% to 5.22%	**3.65% to 5.25%**	–
Variable-rate borrowings	**3.25%**	3.25%	**3.25%**	3.25%

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

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
USD	**10,457,069**	2,336,263	**10,457,069**	2,336,263

27. LOAN FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

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

28. LOAN FROM ULTIMATE HOLDING COMPANY

The amount represents an interest-free and unsecured loan of RMB3,200,000, which is obtained by AKM Panyu (a wholly owned subsidiary of the Group) from CNIC for the development of a project. The loan is repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

29. DEFERRED TAXATION

The following deferred tax liability mainly arising from withholding tax on the undistributed profits of the PRC subsidiaries and the PRC jointly controlled entity for the year ended 31 December 2010 and movement thereon during current and prior years:

	HK$
At 1 January 2009	1,049,721
Credited to profit or loss	(757,956)
Currency realignment	3,023
At 31 December 2009	294,788
Charged to profit or loss	348,426
Currency realignment	15,120
At 31 December 2010	658,334

At 31 December 2010, the Group has credited HK$nil (2009: HK$542,415) and HK$8,213 (2009: HK$304,078) to profit or loss due to the distribution of dividend and loss incurred for the year which have reduced the undistributed profits of the PRC jointly controlled entity respectively. In addition, the Group has recognised a deferred tax expense of HK$356,639 (2009: HK$88,537) which is arisen from the undistributed profits of a PRC subsidiary.

At 31 December 2009 and 2010, the deductibility of the allowance for doubtful debts, allowance for obsolete inventories and impairment loss in respect of property, plant and equipment 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 doubtful debts, accumulated allowance for obsolete inventories, impairment loss in respect of property, plant and equipment and unused tax loss of approximately HK$4,602,000 (2009: HK$11,590,000), HK$9,681,000 (2009: HK$12,872,000), HK$3,873,000 (2009: HK$3,873,000) and HK$47,388,000 (2009: HK$45,565,000) respectively have not been recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

30. SHARE CAPITAL

	Number of shares	Share capital HK$
Authorised:		
At 31 December 2009 and 31 December 2010	2,000,000,000	200,000,000
Issued and fully paid:		
At 31 December 2009 and 31 December 2010	540,000,000	54,000,000

31. 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 during the year ended 31 December 2010, there were 500,000 (2009: 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 2010, the total number of shares in respect of which share options are issuable under this scheme is 10,900,000 (2009: 11,400,000) representing approximately 2.02% (2009: 2.11%) of the issued share capital of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

31. 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	Outstanding at 1.1.2009	Lapsed during the year	Outstanding at 1.1.2010	Lapsed during the year	Outstanding at 31.12.2010
			HK$					
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	6,800,000	(800,000)	6,000,000	(500,000)	5,500,000
				12,200,000	(800,000)	11,400,000	(500,000)	10,900,000

(b) Scheme

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

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

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

The 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").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

31. SHARE OPTIONS *(Continued)*

(b) Scheme *(Continued)*

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

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

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

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

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 2010, the total number of shares in respect of which share options are issuable under this scheme is 20,900,000 (2009: 21,400,000) representing approximately 3.87% (2009: 3.96%) of the issued share capital of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

31. SHARE OPTIONS *(Continued)*

(b) Scheme *(Continued)*

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 1.1.2009	Lapsed during the year	Outstanding at 1.1.2010	Lapsed during the year	Outstanding at 31.12.2010
Directors	9 July 2007	10 July 2007 to 9 July 2017	0.36	10,000,000	(800,000)	9,200,000	–	9,200,000
Employees and others	9 July 2007	10 July 2007 to 9 July 2017	0.36	19,000,000	(6,800,000)	12,200,000	(500,000)	11,700,000
				29,000,000	(7,600,000)	21,400,000	(500,000)	20,900,000

The Group recognised total expenses of nil (2009: nil) related to equity-settled share-based payment transactions during the year.

32. RESERVES

	Share premium HK$	Share options reserve HK$	Retained profits HK$	Total HK$
THE COMPANY				
At 1 January 2009	53,868,328	3,817,770	47,515,116	105,201,214
Loss for the year and total comprehensive expense for the year	–	–	(771,746)	(771,746)
Lapse of share options	–	(808,661)	808,661	–
At 31 December 2009	53,868,328	3,009,109	47,552,031	104,429,468
Profit for the year and total comprehensive income for the year	–	–	3,004,896	3,004,896
Lapse of share options	–	(89,005)	89,005	–
At 31 December 2010	53,868,328	2,920,104	50,645,932	107,434,364

33. FINANCIAL INSTRUMENTS

Categories of financial instruments

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Financial assets				
Loans and receivables (including cash and cash equivalents)	**159,866,130**	117,634,310	**38,069,097**	27,147,061
Financial liabilities				
Amortised cost	**226,915,943**	141,533,698	**78,259,523**	72,377,356

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 to a jointly controlled entity, pledged bank deposits, bank balances and cash, trade and other payables, bills payables, amount due to a fellow subsidiary, amounts due to an intermediate holding company, loans from an intermediate holding company, loan from a non-controlling shareholder of a subsidiary, loan from ultimate holding company, borrowings and bank overdrafts. The Company's major financial instruments include trade and other receivables, amount due from (to) subsidiaries, pledged bank deposits, bank balances, trade and other payables, loans from and amount due to 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.

Market risk

Foreign currency risk management

Certain trade and other receivables, trade and other payables, loans from an intermediate holding company, borrowings, bank overdrafts and bank balances and cash 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 have 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.

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives *(Continued)*

Market risk *(Continued)*

Foreign currency risk management (Continued)

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**	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
USD	**71,251,232**	49,645,264	**44,304,534**	31,798,671

	THE COMPANY			
	Liabilities		**Assets**	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
USD	**57,890,031**	44,100,646	**27,868,662**	19,456,583

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% 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, loans from an intermediate holding company, borrowings, bank overdrafts and bank balances and cash where the denomination are in USD, the major foreign currency risk. A positive number indicates an increase in post-tax profit 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 post-tax profit for the year, and the balances below would be negative.

	THE GROUP		**THE COMPANY**	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Increase in post-tax profit/ decrease in post-tax loss for the year	**1,145,235**	758,480	**1,275,908**	1,047,373

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives *(Continued)*

Market risk *(Continued)*

Interest rate risk management

The Group's and the Company's cash flow interest rate risk relates primarily to variable-rate bank balances and cash, loans from an intermediate holding company, bank borrowings and bank overdrafts. The Group and the Company currently do 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 management considers the cash flow interest rate risk is insignificant.

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

Credit risk

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 2010 and 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position and statement of financial position. In order to minimise the credit risk, the management 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 on trade receivables as 26% (2009: 19%) and 45% (2009: 36%) of the total trade receivables was due from the Group's largest customer and the five largest customers (including the largest customer) respectively within the "FPC business" and "sourcing and sale of electronic components" operating segment in the PRC. The management considers, based on the strong financial background and good credibility of those debtors, there are no significant credit risk.

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.

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives *(Continued)*

Liquidity risk

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's and the Company's strategy to managing liquidity risk is to ensure that the Group and the Company have sufficient funds to meet all its potential liabilities as they fall due.

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company'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 and the Company. 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 and the Company rely on borrowings as one of the source of liquidity. As at 31 December 2010, the Group and the Company had available unutilised short-term loan facilities of approximately HK$27 million (2009: HK$41.3 million) and HK$5.7 million (2009: HK$18.5 million) respectively.

Liquidity tables

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

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables (Continued)

THE GROUP

	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 2010								
Non-derivative financial liabilities								
Trade and other payables	–	(21,565,284)	(32,043,909)	–	–	–	(53,609,193)	(53,609,193)
Bills payables	–	–	(11,069,388)	–	–	–	(11,069,388)	(11,069,388)
Amount due to an intermediate holding company	–	(48,000)	–	–	–	–	(48,000)	(48,000)
Amount due to a fellow subsidiary	–	(731,419)	–	–	–	–	(731,419)	(731,419)
Amount due to a jointly controlled entity	–	(1,884,891)	–	–	–	–	(1,884,891)	(1,884,891)
Loans from an intermediate holding company	0.48	–	–	–	–	(45,266,393)	(45,266,393)	(44,915,000)
Loan from a non-controlling shareholder of a subsidiary	–	(2,247,500)	–	–	–	–	(2,247,500)	(2,247,500)
Loan from ultimate holding company	–	(3,788,327)	–	–	–	–	(3,788,327)	(3,788,327)
Bank overdrafts	5.25	(8,194,807)	–	–	–	–	(8,194,807)	(8,194,807)
Borrowings:								
– fixed rate bank loans	3.88	–	(63,919,963)	(15,312,765)	(7,906,340)	(3,895,414)	(91,034,482)	(89,970,349)
– variable rate bank borrowings	3.25	–	(5,176,227)	–	–	–	(5,176,227)	(5,134,509)
– variable rate trust receipts loans	3.25	–	(5,365,806)	–	–	–	(5,365,806)	(5,322,560)
		(38,460,228)	(117,575,293)	(15,312,765)	(7,906,340)	(49,161,807)	(228,416,433)	(226,915,943)
At 31 December 2009								
Non-derivative financial liabilities								
Trade and other payables	–	(25,861,423)	(11,196,767)	–	–	–	(37,058,190)	(37,058,190)
Bills payables	–	–	(3,895,085)	–	–	–	(3,895,085)	(3,895,085)
Amount due to a fellow subsidiary	–	(2,056,405)	–	–	–	–	(2,056,405)	(2,056,405)
Amount due to a jointly controlled entity	–	(2,534,651)	–	–	–	–	(2,534,651)	(2,534,651)
Loans from an intermediate holding company	–	–	–	–	–	(38,775,000)	(38,775,000)	(38,775,000)
Loan from a non-controlling shareholder of a subsidiary	–	(2,247,500)	–	–	–	–	(2,247,500)	(2,247,500)
Loan from ultimate holding company	–	(4,559,964)	–	–	–	–	(4,559,964)	(4,559,964)
Bank overdrafts	4.00	(1,666,676)	–	–	–	–	(1,666,676)	(1,666,676)
Borrowings:								
– fixed rate bank loans	3.65	–	(22,938,516)	(23,068,547)	–	–	(46,007,063)	(45,599,635)
– variable rate bank borrowings	3.25	–	(1,461,530)	–	–	–	(1,461,530)	(1,449,751)
– variable rate trust receipts loans	3.25	–	(1,704,579)	–	–	–	(1,704,579)	(1,690,841)
		(38,926,619)	(41,196,477)	(23,068,547)	–	(38,775,000)	(141,966,643)	(141,533,698)

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables (Continued)

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 2010								
Non-derivative financial liabilities								
Trade and other payables	–	(1,156,000)	(307,854)	–	–	–	(1,463,854)	(1,463,854)
Amounts due to subsidiaries	–	(6,080,102)	–	–	–	–	(6,080,102)	(6,080,102)
Amount due to an intermediate holding company	–	(48,000)	–	–	–	–	(48,000)	(48,000)
Loans from an intermediate holding company	0.48	–	–	–	–	(45,266,393)	(45,266,393)	(44,915,000)
Bank overdrafts	5.25	(8,194,807)	–	–	–	–	(8,194,807)	(8,194,807)
Borrowings:								
– fixed rate bank loans	5.00	–	(899,127)	(899,127)	(1,798,254)	(3,895,414)	(7,491,922)	(7,100,691)
– variable-rate bank borrowings	3.25	–	(5,176,227)	–	–	–	(5,176,227)	(5,134,509)
– variable-rate trust receipts loans	3.25	–	(5,365,806)	–	–	–	(5,365,806)	(5,322,560)
		(15,478,909)	(11,749,014)	(899,127)	(1,798,254)	(49,161,807)	(79,087,111)	(78,259,523)
At 31 December 2009								
Non-derivative financial liabilities								
Trade and other payables	–	(738,637)	(584,068)	–	–	–	(1,322,705)	(1,322,705)
Amounts due to subsidiaries	–	(27,472,383)	–	–	–	–	(27,472,383)	(27,472,383)
Loans from an intermediate holding company	–	–	–	–	–	(38,775,000)	(38,775,000)	(38,775,000)
Bank overdrafts	4.00	(1,666,676)	–	–	–	–	(1,666,676)	(1,666,676)
Borrowings:								
– variable-rate bank borrowings	3.25	–	(1,461,530)	–	–	–	(1,461,530)	(1,449,751)
– variable-rate trust receipts loans	3.25	–	(1,704,579)	–	–	–	(1,704,579)	(1,690,841)
		(29,877,696)	(3,750,177)	–	–	(38,775,000)	(72,402,873)	(72,377,356)

33. FINANCIAL INSTRUMENTS *(Continued)*

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.

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 end of the reporting period.

No analysis of fair value measurements is presented as the Group and the Company do not have financial instruments that are measured subsequent to initial recognition at fair value in the consolidated financial statement.

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 liabilities and equity instrument are disclosed in note 3.

34. CAPITAL RISK MANAGEMENT

The Group and the Company manage their 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 bank borrowings disclosed in note 26, loans from an intermediate holding company disclosed in note 24, loan from a non-controlling shareholder of a subsidiary disclosed in note 27, loan from ultimate holding company disclosed in note 28, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

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.

35. PLEDGE OF ASSETS

At the end of the reporting period, certain bank deposits, buildings and land use rights were pledged to secure the banking facilities granted to the Group and the Company as follows:

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Bank deposits	**2,353,628**	2,353,143	**2,353,628**	2,353,143
Buildings	**63,261,676**	62,381,421	**–**	–
Land use rights	**51,479,280**	20,126,190	**–**	–
	117,094,584	84,860,754	**2,353,628**	2,353,143

36. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, 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	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Within one year	**134,435**	174,715	**120,000**	20,000
In the second to fifth years inclusive	**140,000**	–	**240,000**	–
	274,435	174,715	**360,000**	20,000

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

37. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2010	2009	**2010**	2009
	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	**15,756,186**	31,145,385	**7,146,408**	11,420,797

38. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund (the "MPF") for all qualifying employees in Hong Kong. The retirement benefits scheme contributions charged to consolidated statement of comprehensive income of HK$19,232 (2009: HK$18,813) represent contributions payable to the MPF scheme by the Group, which contribution is matched by employees.

The employees employed in the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Group is 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 statement of comprehensive income amounted to HK$1,600,620 (2009: HK$1,100,092). The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

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

39. RELATED PARTY TRANSACTIONS

In addition to the balances set out in notes 16, 24, 25, 27 and 28, the Group and the Company entered into the following transactions with related parties during the year:

THE GROUP

		2010 **HK$**	2009 HK$
(i)	**Transactions with fellow subsidiaries:**		
	Rentals for office charged to the Group	**120,000**	120,000
	Transactions with a jointly controlled entity:		
	Subcontracting fee paid by the Group	**21,538,347**	26,513,210
	Sales proceeds on disposal of property, plant and equipment	**3,525,503**	–
	Sales of goods by the Group	**873,513**	22,935
	Purchases of property, plant and equipment	**984,852**	–
	Commission income received by the Group	**–**	185,125
	Income from leasing equipments	**282,230**	614,055
	Transactions with an intermediate holding company:		
	Interest paid by the Group	**210,000**	192,535

(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.

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks which are stated-controlled entities in its ordinary course of business.

The directors are of the opinion that the transactions with other state-controlled entities are not significant to the Group's operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

39. RELATED PARTY TRANSACTIONS *(Continued)*

THE GROUP *(Continued)*

(iii) Compensation of key management personnel

The remuneration of key management during the year represented remuneration paid to directors as disclosed in note 11 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.

THE COMPANY

		2010	2009
		HK$	HK$
(iv)	**Transactions with subsidiaries:**		
	Sales of goods by the Company	**3,896,824**	4,702,572
	Sales of equipment by the Company	**31,685,210**	3,013,589
	Commission income received by the Company	**1,077,997**	–
	Purchases of goods by the Company	**61,868,935**	46,225,583
	Interest income	**564,003**	–
	Transactions with fellow subsidiaries:		
	Rentals for office charged to the Company	**60,000**	60,000
	Transactions with a jointly controlled entity:		
	Commission income received by the Company	**–**	185,125
	Transactions with an intermediate holding company:		
	Interest paid by the Company	**210,000**	–

FINANCIAL SUMMARY

	Year ended 31 December				
RESULTS	**2010**	2009	2008	2007	2006
	HK$	HK$	HK$	HK$	HK$
Revenue	**345,945,237**	267,530,512	378,194,134	279,333,118	159,870,101
Cost of sales	**(308,229,261)**	(256,973,076)	(377,610,695)	(281,720,697)	(141,321,683)
Gross profit (loss)	**37,715,976**	10,557,436	583,439	(2,387,579)	18,557,418
Other income	**6,468,254**	58,956,676	950,384	1,652,514	6,209,978
Distribution costs	**(7,195,299)**	(2,867,427)	(6,810,113)	(5,964,088)	(3,481,131)
Administrative expenses	**(18,074,702)**	(16,077,590)	(17,545,947)	(22,403,899)	(16,893,026)
Factory relocation costs	**–**	(21,411,502)	–	–	–
Research and development expenses	**9,733,038**	(7,635,300)	(7,852,085)	(7,799,889)	(9,272,433)
Share of result of a jointly controlled entity	**(82,129)**	(3,040,780)	10,200,962	6,141,109	(1,877,373)
Finance costs	**(3,914,101)**	(933,218)	(1,058,753)	(719,636)	(251,819)
Profit (loss) before taxation	**5,184,961**	17,548,295	(21,532,113)	(31,481,468)	(7,008,386)
Taxation (charge) credit	**(2,101,443)**	159,586	(1,047,265)	177,495	(920,019)
Profit (loss) for the year	**3,083,518**	17,707,881	(22,579,378)	(31,303,973)	(7,928,405)

	At 31 December				
ASSETS AND LIABILITIES	**2010**	2009	2008	2007	2006
	HK$	HK$	HK$	HK$	HK$
Total assets	**468,868,383**	370,670,725	338,087,861	284,208,451	258,408,531
Total liabilities	**(274,359,681)**	(188,059,706)	(174,277,026)	(111,074,707)	(72,701,476)
	194,508,702	182,611,019	163,810,835	173,133,744	185,707,055
Equity attributable to owners of the Company	**190,069,159**	179,284,018	159,882,630	172,107,252	185,693,634
Non-controlling interests	**4,439,543**	3,327,001	3,928,205	1,026,492	13,421
Total equity	**194,508,702**	182,611,019	163,810,835	173,133,744	185,707,055