INDUSTRY REVIEW

Printed circuit boards, including flexible printed circuit boards ("FPC") and rigid printed circuit boards ("PCB"), are one of the fundamental components found in most electronic products such as mobile phones, digital cameras, computer products and consumer electronics products. To accommodate miniaturisation and increasing number of components of electronic devices, the FPC and PCB require finer circuitry and more layer count. The industry continued to grow in 2005 but competition has also intensified and competitors have expanded their production capacity. More and more FPC and PCB facilities are being established in China and FPC and PCB solution providers in China are becoming more competitive in the world.

BUSINESS/OPERATION REVIEW

The Group is principally engaged in the provision of FPC solutions and PCB solutions. The FPC solutions of the Group are targeted at the medium-end of the market and its PCB solutions currently rank towards the low-end of the products in 2005. Despite the delay in receiving new orders from a major customer and certain other customers, the Group's turnover was still able to gain an increase as a result of the business relationship established with certain new customers and the receipt of increased orders from existing customers. In addition, the Group has improved its production technology, such as capability to produce FPC for liquid crystal display ("LCD") and camera module and high density interconnect ("HDI") PCB. It is expected that the higher value-added products will bring significant contribution to the Group's turnover in near future.

Expansion of customer base

In 2005, the Group not only has maintained its existing customer base but also has expanded its customer base. The Group made significant inroads into some key targeted accounts of some major handset customers including obtaining official vendor status of one famous Korea customer during 2005. The Directors estimated that contribution from new customers would become more significant in the coming year and the Group's reliance on its major customers would reduce in the future.

Improvement of production technology for different products

1) High speed automated line for FPC

The Group has improved the production technology for air gap FPC. The capacity standard has been improved to produce FPC with fine line. To further enhance the Group's production facilities, the Group will acquire Roll to Roll machineries in coming year. These machineries automate various manufacting processes of FPC production which can increase the quality and output of production. The Group expects the market demand for fine line and spacing of FPC to increase in the coming years.

2) HDI PCB

HDI PCB products offer significant development potential in the PCB market. The Group began the trial production of HDI PCB in 2005 and has successfully mastered the technological know-how required for a stabilised production of HDI products. To meet the demand for mass production and higher layer count HDI PCB, the Group plans to purchase more high speed and automated equipment such as laser drill machines and wet process equipment.

3) Surface Mount Technology ("SMT") solution

The Group has expanded its SMT manufacturing facilities during 2005. In the past, the Group's assembled products are mainly flexible printed circuit boards assembly ("FPCA") and rigid printed circuit boards assembly ("PCBA"). Since the third quarter of 2005, the Group has begun to assemble finished electronic products such as mobile phones and digital cameras.

Growth in capacity and high utilization

The Group has increased the number of surface mounting machinery from 45 to 59 during the second half of 2005. Except for the SMT, the production capacity of FPC and PCB are maintained at the same level since the Listing Date. The Group's production for FPC has not reached its full capacity while the Group's average production capacity for PCB and SMT has almost reached its full capacity in 2005.

FINANCIAL REVIEW

For the financial year ended 31 December 2005, the Group recorded a turnover of approximately US$176.9 million and profit for the year of approximately US$14.2 million as compared to turnover of approximately US$165.7 million and profit of approximately US$25.1 million for the year ended 31 December 2004, representing an increase of approximately 6.7% and a decrease of approximately 43.5% respectively. Earning per share was approximately US1.3 cents (2004: approximately US2.5 cents) and net assets per share of the Company was approximately US8.4 cents (2004: approximately US5.8 cents).

Turnover

The turnover of the Group for the year ended 31 December 2005 and the comparative figures of 2004 classified by categories of the major products are set out below:

Turnover by operations

	2005		2004		**Change**
	US$'000	**%**	US$'000	%	**%**
FPC solutions					
FPCA	**99,081**	**56.0**	118,272	71.4	(16.2)
FPC	**17,054**	**9.6**	10,341	6.2	64.9
Total FPC solutions	**116,135**	**65.6**	128,613	77.6	(9.7)
PCB solutions					
PCBA	**10,243**	**5.8**	2,878	1.7	256.0
PCB	**50,522**	**28.6**	34,241	20.7	47.5
Total PCB solutions	**60,765**	**34.4**	37,119	22.4	63.7
Total	**176,900**	**100.0**	165,732	100.0	6.7

The Group's turnover was mainly derived from sales of FPCA and PCB. With reference to the above table, turnover from sales of FPCA and sales of PCB for the year ended 31 December 2005 were approximately US$99.1 million and US$50.5 million (2004: US$118.3 million and US$34.2 million) respectively, representing approximately 56.0% and approximately 28.6% of the total sales of the Group (2004: 71.4% and 20.7%) respectively.

The decrease in sales of FPCA by 16.2% in 2005 was primarily due to delay in the launch of new products by certain key customers and a lower than expected volume for new products launched owing to market factors and shortage of key component supplies. This reflected the sensitivity of the Group's turnover relating to the sales to some major customers. The Directors believe that the expansion of customers base can mitigate this risk of the Group. The delayed orders of new products have gradually been received by the Group during the first quarter of 2006.

On the other hand, the sales of PCB and PCBA increased by about 47.5% and 256.0% respectively in 2005. These increases were primarily due to the growing market demand and increase in unit price for new products of PCB solution. The growth in market demand was represented by increased demand from some existing customers for products such as cable modem products.

Gross profits by operations

	2005	2004
	%	%
FPC solutions		
FPCA	**22.9**	31.3
FPC	**8.8**	10.7
PCB solutions		
PCBA	**8.8**	8.1
PCB	**4.6**	2.6
Overall	**15.5**	23.7

The Group's gross profit decreased from approximately US$39.3 million for the year ended 31 December 2004 to approximately US$27.5 million for the year ended 31 December 2005. The decrease in gross profit was primarily due to an unexpected delay of sales of FPC solution with higher profit margin. The lower than expected utilization rate of the manufacturing equipment also resulted in increase in average unit costs.

The gross profit ratio of PCBA and PCB increased due to the increase in the demand for higher margin products and improved product mix of the Group with new products of higher unit price and margin during the year.

Operating expenses

As the Group's sales only slightly increased during the year, distribution costs for the year ended 31 December 2005 decreased by approximately 15.7% to approximately US$3.4 million, as compared to that of approximately US$4.1 million for the year ended 31 December 2004. The decrease in distribution costs was primarily due to better consolidation of sales forces and better sales and marketing management. In addition, the decrease was attributable to a decrease in sales commission paid by the Group during the year. The other items comprising the distribution costs were in line with the level of turnover.

The administrative expenses for the year ended 31 December 2005 increased by approximately 54.7% to approximately US$7.1 million as compared to that of approximately US$4.6 million for the year ended 31 December 2004. The significant increase was mainly due to listing expenses incurred and increase in staff costs during the year.

Liquidity and financial resources

On 10 October 2005, the Company successfully listed its shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") through a placing of 218,750,000 new shares and a public offer of 31,250,000 new shares at an issue price of HK$1.02 per share. The net proceeds amounted to approximately US$30.6 million.

As at 31 December 2005, the Group had shareholders' funds of approximately US$104.7 million. The increase from approximately US$57.6 million as at 31 December 2004 was mainly attributable to profit for the year and issue of new shares through listing. Current assets amounted to approximately US$180.4 million mainly comprises bank balances and cash of approximately US$46.3 million, pledged bank deposits of approximately US$28.6 million, inventories of approximately US$32.7 million and trade receivables of approximately US$67.5 million. Current liabilities amounted to approximately US$139.3 million mainly comprises bank loans of approximately US$83.6 million and trade payables of approximately US$41.7 million. Non-current liability only includes long term bank loan amounted to approximately US$4.9 million.

During the year, the Group's cash and bank balances increased partly from net proceeds from the new issue in connection with the listing which were earmarked for the purchase of machinery and equipment for the Group's Suzhou plant and the development of the Northern China plant as disclosed in the Company's prospectus dated 28 September 2005 (the "Prospectus"). The Group has increased total borrowing by US$39.7 million for business expansion and investment in the Group's production capacity as described under the section headed "Prospects and future plans for material investments or capital assets" in this annual report.

As at 31 December 2005, the Group's current ratio was 1.30 (2004: 1.00) and the gearing ratio (a ratio of total loans to total assets) was 35.6% (2004: 28.9%).

Foreign currency exchange risk

The Group's sales and purchases were denominated in US dollar and RMB. The sales in US dollar and RMB represented approximately 68% and 32% respectively for the year ended 31 December 2005 (2004: 65% and 35%). The purchases in US dollar and RMB represented approximately 59% and 41% respectively for the year ended 31 December 2005 (2004: 61% and 39%). The sales and purchases in US dollar substantially hedged the risks of transactions in foreign currency and the Group did not make any other hedging arrangement in the two years ended 31 December 2005.

SEGMENTAL INFORMATION

As at 31 December 2005, detail segmental information of the Group is set out in note 7 to the financial statements.

EMPLOYEE BENEFITS

For the year ended 31 December 2005, average number of employees was approximately 5,700 (2004: approximately 5,000). For the year ended 31 December 2005, the Group's staff costs (excluding Directors' fees and emoluments) amounted to approximately US$18.7 million (2004: US$14.0 million). The remuneration policy of the Company is reviewed annually and is in line with the prevailing market practice. During the year under review, the Company has not granted any share options to its employees or Directors under the share option scheme of the Company adopted on 5 July 2005.

The employees of the Company's subsidiaries in the PRC are members of a state-managed social welfare scheme operated by the local government of the PRC. Under the scheme, the Group provides retirement, medical, employment injury, unemployment and maternity benefits to its employees in the PRC in accordance with the relevant PRC rules and regulations. The Group is required to contribute a specified percentage of their payroll costs to the social welfare scheme to fund the benefits. The only obligation of the Group with respect to the social welfare scheme is to make the specified contributions. During the year under review, the Group contributed approximately US$1.9 million (2004: US$0.9 million) to the scheme.

MATERIAL ACQUISITIONS AND DISPOSALS AND FUTURE PLANS FOR MATERIAL INVESTMENT

For year ended 31 December 2005, the Group did not have any material acquisition and sale of subsidiaries and associated companies save for the corporate reorganisation undertaken in preparation for the listing of the shares of the Company on the Stock Exchange as more particularly described in the Prospectus.

CHARGE ON ASSETS

As at 31 December 2005, pledges of the Group's properties, trade receivable, bank deposits and prepaid lease payment amounted to approximately US$31.7 million, US$7.2 million, US$28.6 million and US$0.3 million respectively (2004: US$32.6 million, US$6.1 million, US$8.2 million and US$ Nil) to secure bank borrowings.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected and continuing connected transactions:

Lease of apartments by Mr. Hsu Chung to the Group

佳通科技（蘇州）有限公司 (Global Flex (Suzhou) Co., Ltd.) ("Global Flex (Suzhou)"), an indirect wholly-owned subsidiary of the Company, entered into two tenancy agreements with Mr. Hsu Chung, an executive Director, on 13 September 2004 pursuant to which Mr. Hsu Chung leased to Global Flex (Suzhou) two apartments situated in Suzhou. These apartments are used as staff quarters of the Group in Suzhou. During the year, the total rental paid to Mr. Hsu Chung for these two apartments amounted to US$18,089. (2004: US$15,622).

Purchase of materials from Beshine Technologies Inc. ("Beshine")

The amount of the Group's purchases of raw materials from Beshine, a wholly-owned subsidiary of Burda Enterprise Inc., which is in turn a company controlled by a Director, being Mr. Lin Cheng Hung, and his associates, was approximately US$0.6 million (2004:US$11 million) for the year ended 31 December 2005. These transactions with Beshine has been discontinued since April 2005 as disclosed in the Prospectus.

Except for the above, no other continuing connected transactions occurred during the year under review.

The independent non-executive Directors confirm that the transactions have been entered into by the Group in the ordinary course of its business on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group or the Company did not have any significant contingent liabilities. (2004: Nil)

PROSPECTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

1. **Exploring potential customers and diversification of operations**

   In the coming years, the Group's operating target is to effectively reduce reliance on any single customer. The Company has secured various large international customers and will continue to explore new potential customers in 2006. The Directors expect that these new customers will provide the Group with significant growth opportunities in the future. The Directors believe that the Group's quality products and efficient production provide the platform to build a more extensive customer base and to expand the scale of operation of the Group.

2. **The introduction of new technologies, the acquisition of new equipment and the upgrading of production capacity**

In order to offer higher quality products, increase production capacity and quality, and increase the production scale, the Group will acquire new FPC solution equipment for the production of compact printed circuit board products for LCD and camera modules. Currently, the FPC products manufactured by the Group are mainly used in handsets components such as hinge flex, keyboards and side-key boards. It is expected that the Group's competitiveness in securing orders will be enhanced following the introduction of these products to expand the Group's product offerings.

The Directors anticipate that the more advanced and contemporary handsets will use more and more HDI PCB and rigid-flex and the demand of the Group's major customers for these products will also increase. Accordingly, in order to fulfill such expected demand and provide increasing value-added services to its customers, the Group will increase the acquisition of the HDI and rigid-flex production technology and equipment.

To expand its one-stop services ranging from components to assembly and manufacturing to strive for more businesses from its existing customers and to secure new customers, the Group intends to expand the scale of production and scope of operations to the assembly of electronic component modules or supporting finished products.

In realising the aforementioned strategies, the Group has established Suzhou Intellicircuit Solution Technology Co., Ltd (蘇州佳茂科技有限公司) in late 2005 and Forever Jade Electronics (Suzhou) Co., Ltd (佳永電子(蘇州)有限公司) in early 2006 for the production and assembly of high quality FPC, HDI PCB and rigid-flex.

3. **Investment plan in Northern China**

To better serve its customers in Northern China and Korea, previously the Group has decided to construct a factory in Northern China. The Group has previously identified a suitable piece of land and has been evaluating operational considerations such as labour costs and climate (which impacts transportation and operation costs). The evaluation indicated that labour and transportation costs are higher than those expected. Accordingly, this plan has been postponed for further evaluation. On the other hand, the Group's major competitor is increasing its production capacity in Suzhou. Therefore, the Group is considering whether to first apply the planned funds for the Northern China investment plan to expand its operations in Suzhou so as to strengthen its competitiveness, to retain existing customers and to secure new customers. Relevant announcement will be made once decision has been finalised.