AKM

AKM Industrial Company Limited

安 捷 利 實 業 有 限 公 司

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

Stock Code: 8298

2012
ANNUAL REPORT

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

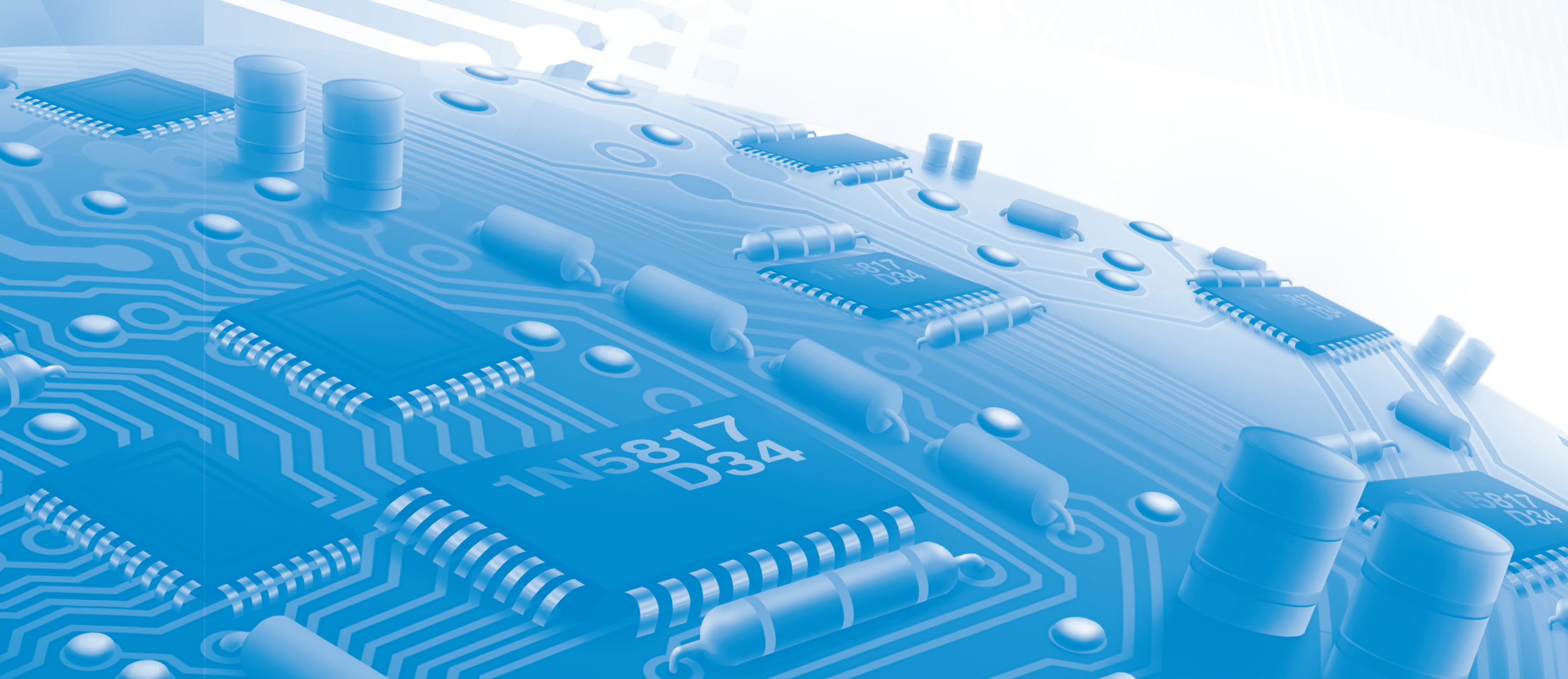
GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest 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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

CONTENTS



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

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

Non-executive director

MENG Weiwei (appointed on 2 November 2012)
HAN Li Gang (resigned on 2 November 2012)

Independent non-executive directors

HUNG Chi Yuen Andrew
LIANG Zhi Li
BI Keyun (appointed on 4 February 2013)
WANG Heng Yi (resigned on 4 February 2013)

COMPLIANCE OFFICER

LI Ying Hong

COMPANY SECRETARY

HUNG Ching Yuen

AUTHORISED REPRESENTATIVES

XIONG Zheng Feng
LI Ying Hong

AUDIT COMMITTEE

HUNG Chi Yuen Andrew *(Committee Chairman)*
LIANG Zhi Li
BI Keyun (appointed on 4 February 2013)
WANG Heng Yi (resigned on 4 February 2013)

REMUNERATION COMMITTEE

LIANG Zhi Li *(Committee Chairman)*
LI Ying Hong
BI Keyun (appointed on 4 February 2013)
WANG Heng Yi (resigned on 4 February 2013)

NOMINATION COMMITTEE

XIONG Zheng Feng *(Committee Chairman)*
HUNG Chi Yuen Andrew
LIANG Zhi Li

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISOR

Tracy Ong & Co.

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 (Nansha 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 2012.

RESULT ANALYSIS AND BUSINESS REVIEW

The Group went through rapid development in 2012. During the year, the Group made good progress in its core business, the flexible printed circuits (FPC) business, as the sales volume increased by approximately 76.74% as compared to the corresponding period of last year. As the business, asset and organization structure had been further optimized, our operation has been substantially improved and the core competitiveness has been remarkably enhanced. The Group's management believes that, with the stable growth of FPC business and the continuous improvement in the cooperative relationship with major international customers, the Group will create better returns for shareholders.

The Group's turnover for the year 2012 was approximately HK$600.69 million, representing an increase of approximately 44.61% as compared to the turnover from continuing and discontinued operations of 2011, while the profit attributable to the owners of the Company was approximately HK$32.45 million, representing an increase of approximately 610.2% as compared to the profit from continuing and discontinued operations of 2011.

In 2013, given the increasing uncertainties in the industry and economic environment and the pressure from the rising labor costs, the Group will mainly focus on the following aspects: identifying and developing major international customers, securing more sales orders, developing the encapsulation of high-value-added FPC and Chip on Film ("COF") modules, further elevating the production capacity of the Nansha Factory and Suzhou Factory and improving automation, enhancing the stability of production technology for high-end FPC and further optimizing the corporate value chain. Internal management and competitiveness will be continually strengthened and our profitability is expected to be gradually uplifted.

The Group is committed to construct its core competence and achieve the Group's profit target, thereby creating greater value for its shareholders, employees and the community. The Group is devoted to becoming an major international supplier of FPC and electronic modules, and becoming an industry leader in the PRC. Therefore, the Group will continue to expand the electronic components business and improve its capability to meet the customers' demands for "one-stop service". It will also expand the encapsulation of high-value-added FPC and COF modules and improve its core competitiveness, so as to provide better services to the fast-developing electronic industry.

CHAIRMAN'S STATEMENT

APPRECIATION

On 2 November 2012, Mr. Han Li Gang resigned as non-executive director of the Company and on the same day, Mr. Meng Weiwei was appointed as non-executive director of the Company. On 4 February 2013, Mr. Wang Heng Yi resigned as independent non-executive director of the Company and on the same day, Mr. Bi Keyun was appointed as independent non-executive director of the Company. For and on behalf of the Board, I would like to take this opportunity to thank Mr. Han and Mr. Wang for their valuable contributions to the Company and warmly welcome Mr. Meng and Mr. Bi in joining our company.

In addition, for and on behalf of the Board, I would like to take this opportunity to thank the management and all staff members of the Group for their dedication and invaluable contributions to the Group in the past year. I would also like to thank our clients, suppliers, business partners and shareholders for their continuous support to the Group. The Group will do its best to achieve good results and secure ideal returns for our shareholders.

AKM Industrial Company Limited
XIONG Zheng Feng
Chairman

Hong Kong, 23 March 2013

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 43, 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 Electronic Technology (Suzhou) Company Limited and Giant Rise Technology Ltd. Mr. Xiong joined the Company in March 2001 and is responsible for the Group's corporate policy formulation, business strategies planning, business development and management of the Group. Save as disclosed above, Mr. Xiong does not hold any directorship in other listed companies in the past three years, and does not have any other relationship with any directors, senior management, substantial shareholders, or controlling shareholders of the Company.

Mr. Chai Zhi Qiang (柴志強), aged 52, is an executive Director and the chief executive officer 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 20 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 Electronic Technology (Suzhou) Company Limited, Giant Rise Technology Limited and New Career Guangzhou Electronics Company Limited. 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 49, 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 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. and AKM Electronic Technology (Suzhou) Company 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. Meng Weiwei (孟衛偉), aged 44, obtained his bachelor degree in economics and master degree in economics in July 1991 and July 1994 respectively from 中國人民大學 (Renmin University of China). He obtained the qualification of senior economist in December 2002. Mr. Meng joined 中國北方工業公司 (China North Industries Corporation) in January 1996 and is the vice supervisor of the strategic management department and strategic operation department since June 2004. Mr. Meng is a director of 北方工業科技有限公司，北方裝備有限責任公司 and 北方萬坤置業有限公司，all of which are subsidiaries of 中國北方工業公司 (China North Industries Corporation). Mr. Meng is also a director of 北方凌雲工業集團有限公司，which shares are owned as to approximately 38.78% by 中國北方工業公司 (China North Industries Corporation). Mr. Meng was appointed as a non-executive Director of the Company on 2 November 2012. Save as disclosed above, Mr. Meng 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. Han Li Gang (韓立剛), aged 51, 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 general manager of the investment department and since April 2012 the supervisor of the information resources department. He was a director of AKM Electronics Industrial (Panyu) Ltd., a subsidiary of the Group, and had resigned since February 2013. 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. Mr. Han was appointed as a non-executive Director of the Company in March 2004, and had resigned from his directorship in the Company with effect from 2 November 2012 (Relevant disclosure in relation to Mr. Han's resignation had been made in the announcement of the Company dated 2 November 2012).

Independent non-executive Directors

Mr. Hung Chi Yuen Andrew (洪志遠), aged 44, is currently the director of Norton Rowland CPA Limited. He received his professional training in Deloitte Touche Tohmatsu and had worked for UBS Investment Bank as business unit controller for seven years. Mr. Hung was awarded the degree of Bachelor of Arts in Accountancy by The Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) and the degree of Master of Applied Finance by the University of Western Sydney. Mr. Hung is a practicing Certified Public Accountant, an associate member of The Hong Kong Institute of Certified Public Accountants, and a fellow member of The Chartered Association of Certified Accountants. Mr. Hung is also an independent non-executive director of CIAM Group Limited (a subsidiary of CITIC International Assets Management Limited), a company listed on the Main Board of the Stock Exchange, since 1 July 2008. Mr. Hung was appointed as an independent non-executive Director in 17 October 2011. Save as disclosed above, Mr. Hung 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 69, is currently a fellow of 中國電子學會 (CIE) and 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. Bi Keyun (畢克允), aged 74, is currently a fellow of 中國電子學會 (Chinese Institute of Electronics) and president of 中國電子學會電子制造與封裝技術分會 (Electronic Manufacturing & Packaging Technology Society of the Chinese Institute of Electronics). He is also the vice president of 中國半導體行業協會 (China Semiconductor Industry Association). Mr. Bi graduated from 中國科學技術大學 (University of Science and Technology of China) in 1963 and obtained the qualification of senior engineer (researcher level) from the former 中華人民共和國電子工業部 (Ministry of Electronic Industry). Mr. Bi has accumulated substantial experience in the research and development of semiconductor technology and has been chairman of the International Conference on Electronic Packaging Technology & High Density Package since 1994. Mr. Bi is an independent director of 寧波康強電子股份有限公司 (Ningbo Kangqiang Electronics Co., Ltd.), a company listed on the Shenzhen Stock Exchange, since October 2008. He was also an independent director of 天水華天科技股份有限公司 (Tianshui Huatian Technology Co., Ltd.), another company listed on the Shenzhen Stock Exchange, during the period from 2003 to 2010. Mr. Bi was appointed as an independent non-executive Director on 4 February 2013. Save as disclosed above, Mr. Bi 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.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

Mr. Wang Heng Yi (王恒義), aged 72, 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. 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. Mr. Wang was appointed as an independent non-executive Director in June 2004, and had resigned from his directorship in the Company with effect from 4 February 2013 (Relevant disclosure in relation to Mr. Wang's resignation had been made in the announcement of the Company dated 4 February 2013).

COMPANY SECRETARY

Ms. Hung Ching Yuen (洪靜遠), aged 33, is the company secretary of the Company. Ms. Hung graduated from the University of Hong Kong and obtained her Bachelor of Laws degree and Postgraduate Certificate in Laws in 2001 and 2002 respectively. She obtained her Master of Laws degree from University College London, University of London in September 2003. Ms Hung is a solicitor practicing in Hong Kong since 2006 and was appointed as the company secretary on 13 June 2011.

FINANCIAL REVIEW

For the year ended 31 December 2012, the turnover of the Group amounted to approximately HK$600.69 million, representing an increase of approximately 44.61% as compared to the turnover from continuing and discontinued operations of last year. The increase in turnover was mainly attributed to the significant increase in the sales of FPC. The gross profit margin for the year increased to approximately 15.51% (2011: 13.17%) due to the improvement in gross profit margin of sourcing and sale of electronic components and the substantial decrease of gross loss margin for the encapsulation of COF modules.

The profit attributable to the owners of the Company for 2012 was approximately HK$32.45 million, while the profit from continuing and discontinued operations was approximately HK$4.57 million for 2011, representing an increase of approximately 610.2%. The increase in profit for the year was attributed to the significant increase in sales of FPC.

The other income of the Group for the year ended 31 December 2012 amounted to approximately HK$3.84 million, representing a decrease of approximately HK$1.09 million as compared to that of last year. The decrease in other income was mainly due to the release of long-term unpaid account payables and the decrease in rental income for the year as compared to that of last year.

The distribution costs of the Group for the year ended 31 December 2012 amounted to approximately HK$12.27 million, representing an increase of approximately 37.62% as compared to the distribution costs from continuing operations of last year. The increase in distribution costs was mainly due to the increase in wages, transportation and miscellaneous costs and expenses and postage expenses in line with the expansion of the scale of operation of the principal activities for the year.

The administrative expenses of the Group for the year ended 31 December 2012 amounted to approximately HK$27.64 million, representing an increase of approximately 16.6% as compared to the administrative expenses from continuing operations of last year. The increase in administrative expenses was mainly due to the increase in salary and related expenses, and the increase in tax payable arising from the expansion of operations.

The research and development expenses of the Group for the year ended 31 December 2012 amounted to approximately HK$12.65 million, representing an increase of approximately 14.41% 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 2012 amounted to approximately HK$6.46 million, representing an increase of approximately 10.51% as compared to that of last year. The increase in finance costs was due to the increase in interest-bearing borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Review

The Group is principally engaged in the manufacture and sale of FPC, which are used in communication, LCD and consumer electronic products such as mobile phones, LCD module, car electronics and cameras. The Group is also engaged in sourcing and sale of electronic components and the encapsulation of COF modules.

For the year ended 31 December 2012, the turnover of the Group amounted to approximately HK$600.69 million, representing an increase of approximately 44.61% as compared to the turnover from continuing and discontinued operations of 2011. During the year under review, the turnover for sales of FPC, sourcing of electronic components and the encapsulation of COF modules were approximately HK$514.72 million, HK$82.92 million and HK$3.05 million respectively. The turnover for sales of FPC, sourcing of electronic components and the encapsulation of COF modules during the year ended 31 December 2011 were approximately HK$291.23 million, HK$119.77 million and HK$1.46 million respectively. In 2012, the profit attributable to the owners of the Company amounted to approximately HK$32.45 million, representing an increase of approximately 610.2% as compared to the profit from continuing and discontinued operations of 2011. The increase in profit was mainly attributable to the significant increase in sales of FPC.

During the year under review, the turnover for the sales of FPC increased by approximately 76.74% as compared to that of last year. The gross profit margin for the sales of FPC decreased slightly to approximately 16.53% (2011: approximately 17.00%). The turnover for sourcing of electronic components decreased by approximately 30.77% as compared to that of last year, while the gross profit margin increased to approximately 10.22% (2011: approximately 6.11%). The business of encapsulation of COF modules was in the market development stage, and the processing income increased by approximately 109.13% as compared to that of last year, while the gross loss margin was approximately 13.21% (2011: approximately 76.04%).

During the year under review, the sales of FPC, which is the core business of the Group, achieved a better progress, resulting in a surge in the sales volume of FPC. Our Group's FPC production was mainly completed in the Nansha Factory and Suzhou Factory. The Group has commenced to construct the Phase II production plant in Suzhou Factory, in order to meet the future need for capacity expansion of FPC and development of high-end flexible IC carrier.

During the year under review, the gross profit margin of the sourcing and sale of electronic components increased from 6.11% to 10.22%. The Group will focus on the steady development and risk control of this business, and would look for a stable sourcing channel with higher efficiency and lower price mainly through improving the business and optimizing the supply chain management of the Group.

During the year under review, the encapsulation of COF module of the Group was still at the development stage, and the processing income increased by approximately 109.13% as compared to last year, but still recorded a slight loss of approximately HK$0.60 million.

During the year under review, the merger between AKM Electronic Technology (Suzhou) Company Limited and AKM (Suzhou) FPC Company Limited was completed, both of which were wholly-owned subsidiaries of the Group. AKM (Suzhou) FPC Company Limited was deregistered.

During the year under review, as disclosed in the announcement of the Company dated 21 June 2012, since the business of surface mount technology engaged in by Shenzhen Smart Electronics Co. Ltd. ("Shenzhen Smart"), a joint venture of the Group, was in continuous loss, in order to optimize the Group's structure of assets and liabilities, improve the liquidity of assets and focus on the development of its principal businesses, the Company entered into a transfer agreement with an independent third party on 21 June 2012, to transfer the 75% interests in Ever Proven Investments Limited ("Ever Proven") owned by the Company, the 53% interests in Shenzhen Smart indirectly owned by the Company through Ever Proven and a shareholder's loan due from Ever Proven to the Company to the independent third party, and accordingly exited the relevant business. The transfer was completed in December 2012. As at the date of this report, the Company has duly received the full consideration according to the terms of the transfer agreement.

During the year under review, the Group established a branch in Korea to strengthen the development of the Korean market, to provide localised and efficient services to Korean customers, to establish close cooperation relationship with Korean customers at the research and development phase of new projects, and to increase the Group's sales to Korean customers. The establishment of the branch in Korea enhanced the Group's ability to obtain orders from Korean customers.

During the year under review, the Group focused on the following aspects in accordance with its corporate development strategy: identifying and developing major international customers, securing more sales orders, further elevating the production capacity of the Nansha Factory and Suzhou Factory, enhancing the stability of production technology for high-end FPC and optimizing the corporate value chain. Internal management quality was also strengthened. The Group has conducted compliance and internal control effectively, and strengthened the control in receivables and inventories application, in order to minimize the risks in corporate operation. The Group's business has been consistently improving and demonstrating a healthy development trend, which shall enhance our profitability.

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook

The Group is dedicated to strengthen its core competence and achieve the Group's profit goal, thereby creating greater value for its shareholders, its 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.

In light of changes in the market competition 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. At present, the Group has become a qualified supplier of a number of globally renowned electronic manufacturers, which demand more complicated techniques to produce their products. With the improvement of processing techniques and the continuous promotion of total quality management improvement activities, the Group has already made positive progress in developing more large international clients and obtaining more orders from existing customers. The Group has established two production bases, situated at Southern China and Eastern China respectively. As a result, the Group's production capacity improved significantly while the scale effect started to take shape, and the Group's concept of offering "one-stop service" to customers can be effectively implemented.

In 2013, the Group will continue to focus on the following aspects: identifying and developing major international customers, securing more sales orders, developing the encapsulation of high-value-added FPC and COF modules, further elevating the production capacity of the Nansha Factory and Suzhou Factory and improving automation, enhancing the stability of production technology for high-end FPC and further optimizing the corporate value chain. Internal management and competitiveness will be continually strengthened and our profitability is expected to be gradually uplifted. The Group is confident that its scale of operation will be further expanded and the benefits of economy of scale will also be achieved.

The Board of Directors is of the opinion that, with the production plants in Nansha and Suzhou being put into operation, the Group has established strong production bases in the FPC industry, and structural adjustment to other business units has been basically completed. The Group is capable of providing services to large international clients and fulfill their personalized needs. Despite the drastic changes of the economic environment in China and the World, the intense competition in the industry and the continuous increase in labor costs, finance costs and other operating costs in the PRC, the Group is confident that it will be able to achieve scale operation and bring favorable returns to its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its operations primarily with internally generated fund from operating activities and banking facilities currently available. It is anticipated that the Group has sufficient working capital for its present funding requirements. As at 31 December 2012, the Group had outstanding borrowings amounting to approximately HK$72.86 million, all of which were bank borrowings and no bank overdrafts.

EMPLOYEES

As at 31 December 2012, the Group had a total of 1,708 full-time employees (2011: 1,442 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 2012 amounted to approximately HK$78,839,000 (2011: HK$53,384,000). 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 2012.

MATERIAL ACQUISITIONS AND DISPOSALS

As disclosed in the announcement of the Company dated 21 June 2012, since the business of surface mount technology engaged in by Shenzhen Smart, a joint venture of the Group, was in continuous loss, in order to optimize the Group's structure of assets and liabilities, improve the liquidity of assets and focus on the development of its principal businesses, the Company entered into a transfer agreement with an independent third party on 21 June 2012, to transfer the 75% interests owned by the Company in Ever Proven, the 53% interests in Shenzhen Smart indirectly owned by the Company through Ever Proven and a shareholder's loan due from Ever Proven to the Company to the independent third party, and accordingly exited the relevant business. The transfer was completed in December 2012. As at the date of this report, the Company has duly received the full consideration according to the terms of the transfer agreement.

Save as disclosed above, the Group did not have any material acquisitions or disposals during the year ended 31 December 2012.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSETS

The Group had no future plans for material investments or capital assets as at 31 December 2012.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2012, bank deposits of approximately HK$2.354 million (as at 31 December 2011: approximately HK$27.13 million) and bills receivables of approximately HK$8.411 million (as at 31 December 2011: nil) of the Group were pledged as collateral to secure the banking facilities granted to the Group.

As at 31 December 2012, land use rights and buildings with carrying amounts of approximately HK$20.564 million and HK$63.349 million respectively (as at 31 December 2011: approximately HK$54.19 million and HK$64.36 million) were pledged to secure general banking facilities granted to the Group.

As at 31 December 2012, machinery and equipment with carrying amounts of approximately HK$54.786 million (as at 31 December 2011: nil) were pledged to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no significant contingent liabilities.

GEARING RATIO

As at 31 December 2012, the Group had a net cash and cash equivalent position of approximately HK$47.821 million. The Group's gearing ratio as at 31 December 2012 was approximately 56.78% (31 December 2011: 59.01%) which was calculated based on the Group's total liabilities of approximately HK$320,216,000 (31 December 2011: HK$303,009,000) and total assets of approximately HK$563,943,000 (31 December 2011: HK$513,453,000).

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 the PRC. 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 Group's capital commitments are set out in note 38 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 Code 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 2012.

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. Meng Weiwei (appointed on 2 November 2012)
Mr. Han Li Gang (resigned on 2 November 2012)

Independent non-executive Directors:

Mr. Hung Chi Yuen Andrew
Mr. Liang Zhi Li
Mr. Wang Heng Yi (resigned on 4 February 2013)
Mr. Bi Keyun (appointed on 4 February 2013)

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. During the year under review, the Board and its audit committee, remuneration committee and nomination committee have performed corporate governance duties in accordance with the functions set out in the code provision D.3.1.

CORPORATE GOVERNANCE REPORT

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out on pages 5 to 8 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. According to code provision A.1.8, the Company is required to make appropriate insurance coverage for certain legal liabilities which may arise in the course of performing their duties. The Company is actively selecting suitable insurance institutions in this regard and is expected to complete within the next month.

During the year under review and as at the date of this report, 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. Mr. Hung Chi Yuen Andrew, Mr. Liang Zhi Li and Mr. Wang Heng Yi were the independent non-executive Directors. Mr. Han Li Gang resigned as a non-executive Director with effect from 2 November 2012, and Mr. Meng Weiwei was appointed as a non-executive Director with effect from 2 November 2012. Mr. Hung Chi Yuen Andrew was appointed for a term of three years commenced from 17 October 2011. Mr. Liang Zhi Li was 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 2007,19 March 2010 and 19 March 2013 respectively. 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 and 18 June 2010 respectively. Mr. Wang Heng Yi resigned as an independent non-executive Director with effect from 4 February 2013, and Mr. Bi Keyun was appointed as an independent non-executive Director with effect from 4 February 2013. 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.

Under the code provision A.4.3, any further appointment of independent non-executive director serving more than nine years should be subject to a separate resolution to be approved by shareholders. Mr. Liang Zhi Li, being an independent non-executive Director eligible for re-election at the annual general meeting, is an independent non-executive Director serving the Company since March 2004. He has provided his annual confirmation of independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. Mr. Liang Zhi Li has not been involved in the daily management of the Company and he has no relationship with any of the Directors, senior management, substantial or controlling shareholders of the Company. The Board considers that Mr. Liang Zhi Li continues to be independent and should be re-elected as he has met all the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules. The Board is of the opinion that he will continue to bring independent and objective perspectives to the Company's affairs given his valuable knowledge, extensive experience and familiarity with the Company's affairs. A separate resolution will be proposed for Mr. Liang Zhi Li's re-election at the annual general meeting.

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. Meng Weiwei (appointed on 2 November 2012)	1/1
Mr. Han Li Gang (resigned on 2 November 2012)	3/3
Mr. Hung Chi Yuen Andrew	4/4
Mr. Liang Zhi Li	4/4
Mr. Wang Heng Yi (resigned on 4 February 2013)	4/4
Mr. Bi Keyun (appointed on 4 February 2013)	0/0

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.

CONTINUOUS TRAINING AND DEVELOPMENT OF DIRECTORS

During the year under review, the Company engaged a professional training institution to provide all directors with relevant training on Hong Kong Financial Reporting Standards, Corporate Governance Code and Corporate Valuation. Other than Mr. Han Li Gang who resigned on 2 November 2012 and Mr. Bi Keyun who was appointed on 4 February 2013, all Directors had complied with the requirements set out in the code provision A.6.5, participated in the continuous professional development, developed and refreshed their knowledge and skills, to ensure that their contribution to the Board remains informed and relevant.

REMUNERATION COMMITTEE

The remuneration committee was established in August 2005 with written terms of reference. In order to comply with the amendments to the GEM Listing Rules and the Corporate Governance Code which had been effective from 1 April 2012 onwards, the members of the committee were changed from Mr. Han Li Gang (being a non-executive director), Mr. Hung Chi Yuen Andrew and Mr. Wang Heng Yi (both of them being independent non-executive directors) to Mr. Liang Zhi Li, Ms. Li Ying Hong and Mr. Wang Heng Yi, and Mr. Liang Zhi Li (being an independent non-executive director) has been appointed as the chairman of the committee. Since Mr. Wang Heng Yi resigned on 4 February 2013, Mr. Bi Keyun was appointed as a member of the remuneration committee on the same date. The majority of the committee are 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 remuneration committee meeting are as follows:

Directors	Attendance
Mr. Liang Zhi Li	2/2
Ms. Li Ying Hong	2/2
Mr. Wang Heng Yi (resigned on 4 February 2013)	2/2
Mr. Bi Keyun (appointed on 4 February 2013)	0/0

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

NOMINATION COMMITTEE

The nomination committee was established on 22 March 2012 with written terms of reference. The chairman of the committee is Mr. Xiong Zheng Feng who acts as the chairman of the Board with the other members including Mr. Hung Chi Yuen Andrew and Mr. Liang Zhi Li, thus the majority of the committee are independent non-executive directors.

The nomination committee shall review the structure, size and composition of the Board (including skills, knowledge, experience, past performance and qualification, etc.) and assess the independence of independent non-executive directors and the adequacy of Corporate Governance Code. The committee is responsible for formulating nomination policy, identifying candidates for Directors and making recommendations to the Board in respect of the nomination, appointment or reappointment of Directors and succession plan of Directors.

During the year under review, one meeting of the nomination committee was held. Details of the attendance of the nomination committee meeting are as follows:

Directors	Attendance
Mr. Xiong Zheng Feng	1/1
Mr. Hung Chi Yuen Andrew	1/1
Mr. Liang Zhi Li	1/1

The nomination committee considered and resolved that all the existing Directors shall be recommended to be retained by the Company.

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$710,000 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. During the year under review, the audit committee comprised of three members, Mr. Hung Chi Yuen Andrew, Mr. Liang Zhi Li and Mr. Wang Heng Yi. All of them were independent non-executive Directors. The chairman of the audit committee is Mr. Hung Chi Yuen Andrew. Since Mr. Wang Heng Yi resigned on 4 February 2013, Mr. Bi Keyun was appointed as a member of the audit committee on the same date.

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

Directors	Attendance
Mr. Hung Chi Yuen Andrew	4/4
Mr. Liang Zhi Li	4/4
Mr. Wang Heng Yi (resigned on 4 February 2013)	4/4
Mr. Bi Keyun (appointed on 4 February 2013)	0/0

The Group's unaudited quarterly and interim results and audited annual results for the year ended 31 December 2012 had been reviewed by the audit committee during the year under review, 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' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of accounts, and confirm that the financial statements of the Company are prepared in accordance with statutory requirements and applicable accounting standards. The Directors confirm that, to the best of their knowledge, information and belief having made all reasonable enquiries, they are not aware of any undisclosed material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

COMPANY SECRETARY

Ms. Hung Ching Yuen was appointed as the company secretary on 13 June 2011. Ms. Hung Ching Yuen is an external service provider to the Company and a solicitor practicing in Hong Kong. She has taken no less than 15 hours of relevant professional training as required by the GEM Listing Rules. The primary contact person between the Company and Ms. Hung Ching Yuen is Mr. Jiang Maoping, officer responsible for compliance and legal matters.

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, compliance and risk management control.

AUDITOR

During the year under review, 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.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. The Company welcomes suggestions from investors, stakeholders and the public. The Company has disclosed all necessary information to the shareholders and investors in compliance with GEM Listing Rules and uses a number of formal communications channels to account to shareholders and investors for the Company. These include (i) the publication of announcements and notices, financial information and corporate governance information available on the websites of the Hong Kong Stock Exchange and the Company; (ii) the annual general meeting or extraordinary general meeting provide a forum for shareholders of the Company to raise comments and exchange views with the Board; (iii) information@akmcompany.com, an email specifically set up by the Company for communications with investors and provide timely replies to the enquires from investors; (iv) the provision of services for shareholders through the Company's registered office and share registrar in Hong Kong.

There was no significant change in the Memorandum and Articles of Association of the Company during the year ended 31 December 2012.

SHAREHOLDERS' RIGHTS

Pursuant to Articles 65 of the Company's Articles of Association, the Directors may, whenever they think fit, convene an extraordinary general meeting, and extraordinary general meeting shall also be convened on requisition as provided by the Hong Kong Companies Ordinance, or, in default, may be convened by the requisitionists.

Pursuant to section 113 of the Hong Kong Companies Ordinance, the directors of a company shall, on the requisition of shareholders of the company, forthwith proceed duly to convene an extraordinary general meeting of the company. Shareholders of the company may deposit at the registered office of the company a written requisition specifying the objects of the meeting and signed by the relevant shareholders, provided that such shareholders shall hold at the date of deposit of the requisition not less than one-twentieth of the paid up capital of the Company as at the date of deposit which carries the right of voting at general meetings of the Company. If the Directors do not within twenty one days from the date of deposit of the requisition proceed duly to convene an extraordinary general meeting for a day not more than 28 days after the date on which the notice convening the meeting is given, the requisitionists may themselves convene an extraordinary general meeting in the same manner, as nearly as possible, as that in which extraordinary general meetings may be convened by the directors of the company, and all reasonable expenses incurred by the requisitionists as a result of the failure of the directors duly to convene an extraordinary general meeting shall be repaid to them by the Company.

There is no provision allowing shareholders to move new resolutions at general meetings under the Articles of Association of the Company or the Hong Kong Companies Ordinance. Shareholders who wish to move a resolution may request the Company to convene an extraordinary general meeting following the procedures set out in the preceding paragraph.

In relation to proposing a person for election as a director, please refer to the procedures available on the website of the Company.

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's registered office in Hong Kong at Rooms 2708-11, 27th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. Shareholders may also send such enquiries and concerns to information@akmcompany.com, email specifically set up by the Company for communications with investors.

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 2012.

SEGMENT INFORMATION

The Group's principal activities are the manufacture and sale of flexible printed circuit, sourcing and sale of electronic components and the encapsulation of COF modules. An analysis of the Group's turnover by geographical market of its customers and operating segments for the year ended 31 December 2012 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 15 and 16 respectively to the consolidated financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 39.

The Directors recommend a payment of final dividend of HK1 cent per share for the year ended 31 December 2012 (2011: nil). The total amount of dividend appropriated, based on the number of shares in issue, is HK$5.4 million (the total amount of dividend paid in 2011 was HK$0).

The register of members of the Company will be closed from 27 May 2013 to 30 May 2013 (both days inclusive) during which period no transfer of shares will be effected. Subject to the approval of the shareholders of the Company at the annual general meeting, the proposed final dividend is expected to be payable on 11 June 2013 to the shareholders of the Company whose names appear on the register of members of the Company at close of business on 30 May 2013. In order to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 24 May 2013.

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year under review in the property, plant and equipment of the Group and the Company are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

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

DIRECTORS

The Directors during the year under review and up to the date of this report were as follows:

Executive Directors:

Mr. Xiong Zheng Feng *(Chairman)*
Mr. Chai Zhi Qiang *(Chief Executive Officer)*
Ms. Li Ying Hong

Non-executive Directors:

Mr. Meng Weiwei (appointed on 2 November 2012)
Mr. Han Li Gang (resigned on 2 November 2012)

Independent non-executive Directors:

Mr. Hung Chi Yuen Andrew
Mr. Liang Zhi Li
Mr. Wang Heng Yi (resigned on 4 February 2013)
Mr. Bi Keyun (appointed on 4 February 2013)

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 shall retire by rotation at the annual general meeting in accordance with the Articles of Association. Mr. Chai Zhi Qiang and Ms. Li Ying Hong will retire and being eligible, offer themselves for re-election at the annual general meeting.

DIRECTORS *(Continued)*

Pursuant to Article 92 of the Articles of Association, the Board shall have power from time to time, and at any time to appoint any person as a Director either to fill a vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Mr. Meng Weiwei, a non-executive Director appointed by the Board on 2 November 2012, and Mr. Bi Keyun, an independent non-executive Director appointed by the Board on 4 February 2013 will also retire and being eligible, offer themselves for re-election at the annual general meeting.

Pursuant to code provision A.4.3 of the Corporate Governance Code set out the Appendix 15 to the GEM Listing Rules, any further appointment of independent non-executive director serving more than nine years should be subject to a separate resolution to be approved by shareholders. Mr. Liang Zhi Li, being an independent non-executive Director eligible for re-election at the annual general meeting, is an independent non-executive Director serving the Company since March 2004. He has provided his annual confirmation of independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules. Mr. Liang Zhi Li has not been involved in the daily management of the Company and he has no relationship with any of the Directors, senior management, substantial or controlling shareholders of the Company. The Board considers that Mr. Liang Zhi Li continues to be independent and should be re-elected as he has met all the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules. The Board is of the opinion that he will continue to bring independent and objective perspectives to the Company's affairs given his valuable knowledge, extensive experience and familiarity with the Company's affairs. A separate resolution will be proposed for Mr. Liang Zhi Li's re-election at the annual general meeting.

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 and chief executives' remuneration are set out in note 10 to the consolidated financial statements.

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 Scheme are set out in note 30 to the consolidated financial statements. During the year ended 31 December 2012, 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 1.1.2012**	**Lapsed during the year**	**Outstanding at 31.12.2012**
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	3,000,000	–	3,000,000
Total				8,400,000	–	8,400,000

Notes:

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

2. These share options are exercisable, starting from the first anniversary of the listing date at stepped annual increments of 25% of the total options granted, for a period of not later than 10 years from the date of grant.

SHARE OPTION SCHEMES *(Continued)*

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

Name or category of participant	Date of grant (Note 1)	Exercisable period (Notes 1 & 2)	Exercise price per share HK$	Number of share options: Outstanding at 1.1.2012	Lapsed during the year	Outstanding at 31.12.2012
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 (resigned on 2 November 2012)	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 (Note 3)	9.7.2007	10.7.2007 to 9.7.2017	0.36	800,000	–	800,000
				9,200,000	(1,600,000)	7,600,000
Employees	9.7.2007	10.7.2007 to 9.7.2017	0.36	9,200,000	–	9,200,000
Total				18,400,000	(1,600,000)	16,800,000

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.

3. Mr. Wang Heng Yi resigned as an independent non-executive Director on 4 February 2013 and on the same day, 800,000 share options of the Company held by him also lapsed.

Save as disclosed above, none of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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

Save as disclosed below, as at 31 December 2012, 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 (Note 1)	the Company	14,190,000 ordinary shares	Beneficial owner	Long	2.63
Mr. Chai Zhi Qiang (Note 2)	the Company	11,500,000 ordinary shares	Beneficial owner	Long	2.13
Ms. Li Ying Hong (Note 3)	the Company	2,700,000 ordinary shares	Beneficial owner	Long	0.5

Notes:

1. On 5 April 2012, Mr. Xiong Zheng Feng acquired an aggregate of 12,000,000 ordinary shares of the Company at HK$0.20 per share. Since 5 April 2012, Mr. Xiong Zheng Feng was the beneficial owner of an aggregate of 14,190,000 ordinary shares of the Company, representing approximately 2.63% of the total issued shares of the Company.

2. On 5 April 2012, Mr. Chai Zhi Qiang acquired an aggregate of 11,500,000 ordinary shares of the Company at HK$0.20 per share. Since 5 April 2012, Mr. Chai Zhi Qiang was the beneficial owner of an aggregate of 11,500,000 ordinary shares of the Company, representing approximately 2.13% of the total issued shares of the Company.

3. On 5 April 2012, Ms. Li Ying Hong acquired an aggregate of 2,700,000 ordinary shares of the Company at HK$0.20 per share. Since 5 April 2012, Ms. Li Ying Hong was the beneficial owner of an aggregate of 2,700,000 ordinary shares of the Company, representing 0.5% of the total issued shares of the Company.

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

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 & 3	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 & 4	Beneficial owner	Long	0.37
Ms. Li Ying Hong	the Company	600,000 ordinary shares	1,	Beneficial owner	Long	0.11
		2,000,000 ordinary shares	2 & 5	Beneficial owner	Long	0.37
Mr. Liang Zhi Li	the Company	800,000 ordinary shares	2 & 6	Beneficial owner	Long	0.15
Mr. Wang Heng Yi	the Company	800,000 ordinary shares	2, 6 & 7	Beneficial owner	Long	0.15

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

(a) The Company *(Continued)*

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

Notes:

1. The interest of each of Mr. Xiong Zheng Feng, Ms. Li Ying Hong and Mr. Chai Zhi Qiang in the underlying ordinary shares of the Company reflects the share options 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. 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 3.37% of the total issued share capital in the Company, such interest comprises his interests in 14,190,000 issued shares of the Company and 4,000,000 underlying shares held under equity derivatives.

4. Mr. Chai Zhi Qiang is, in aggregate, interested in approximately 3.02% of the total issued share capital in the Company since 5 April 2012, such interest comprises his interests in 11,500,000 issued shares of the Company and 4,800,000 underlying shares held under equity derivatives.

5. Ms. Li Ying Hong is, in aggregate, interested in approximately 0.98% of the total issued share capital in the Company since 5 April 2012, such interest comprises his interests in 2,700,000 issued shares of the Company and 2,600,000 underlying shares held under equity derivatives.

6. Neither Mr. Liang Zhi Li nor Mr. Wang Heng Yi is interested in any securities of the Company other than underlying shares held under equity derivatives.

7. Mr. Wang Heng Yi resigned as an independent non-executive Director on 4 February 2013 and on the same day, 800,000 share options of the Company held by him also lapsed.

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

(b) The associated corporation

As at 31 December 2012, 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 10 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2012, 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 3)	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 ("CNIC") (Note 2)	Interest in controlled corporation	360,000,000 ordinary shares	Long	66.67

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. None of Alpha Luck, Silver City nor CNIC is interested in any securities of the Company under equity derivatives.

RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2012 comprised the retained profits of HK$74,389,000.

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 44 and note 31 to the consolidated financial statements.

CONFIRMATIONS OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. Based on such confirmation, the Company considers that all of its independent non-executive Directors are independent.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes for the year ended 31 December 2012 are set out in note 39 to the consolidated financial statements.

EMOLUMENT POLICY

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

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

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes are set out in note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 56% of the Group's turnover and the turnover attributable to the Group's largest customer accounted for approximately 21% of the Group's turnover.

For the year ended 31 December 2012, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 44% of the Group's purchases and the purchases attributable to the Group's largest supplier accounted for approximately 14% of the Group's purchases.

None of the Directors, their respective associates nor any shareholder (who or which to the best knowledge of the Directors owns more than 5% of the issued share capital of the Company) has any interest in the top five customers and top five suppliers of the Group during the year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2012.

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.

CONNECTED TRANSACTIONS

During the year ended 31 December 2012, there was no connected transaction or continuing connected transaction entered into by the Company as defined under Chapter 20 of the GEM Listing Rules which were subject to the reporting, announcement or independent shareholders' approval requirements under the GEM Listing Rules. The related party transactions set out in note 40 to the consolidated financial statements of the Company that constituted connected transactions are exempted from the reporting, announcement or independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2012.

AUDITOR

The consolidated 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 the auditor of the Company.

On behalf of the Board

AKM Industrial Company Limited
Xiong Zheng Feng
CHAIRMAN

Hong Kong, 23 March 2013

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 39 to 109, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 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 2012 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
23 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	2012 HK$'000	2011 HK$'000
Continuing operations			
Revenue	5	**600,686**	412,461
Cost of sales		**(507,521)**	(356,747)
Gross profit		**93,165**	55,714
Other income	6	**3,838**	4,929
Distribution costs		**(12,270)**	(8,916)
Administrative expenses		**(27,643)**	(23,714)
Research and development expenses		**(12,648)**	(11,055)
Share of result of a jointly controlled entity		**(3,301)**	(3,887)
Finance costs	7	**(6,458)**	(5,844)
Profit before taxation	8	**34,683**	7,227
Taxation	9	**(2,146)**	(391)
Profit for the year from continuing operations		**32,537**	6,836
Discontinued operation			
Loss for the year from discontinued operation	36	**–**	(2,864)
Profit for the year		**32,537**	3,972
Other comprehensive income:			
Exchange differences arising on translation		**1,768**	11,963
Total comprehensive income for the year		**34,305**	15,935
Profit (loss) for the year attributable to:			
Owners of the Company			
– from continuing operations		**32,449**	7,433
– from discontinued operation		**–**	(2,864)
		32,449	4,569
Non-controlling interests		**88**	(597)
		32,537	3,972

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	2012 HK$'000	2011 HK$'000
Total comprehensive income (expense) attributable to:			
Owners of the Company		**34,384**	17,049
Non-controlling interests		**(79)**	(1,114)
		34,305	15,935
Earnings per share	12		
From continuing and discontinued operations			
– basic and diluted		**HK6.01 cents**	HK0.85 cent
From continuing operations			
– basic and diluted		**HK6.01 cents**	HK1.38 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	13	**218,118**	209,429
Prepaid lease payments	14	**57,708**	58,564
Interest in a jointly controlled entity	16	**–**	18,858
Deposits for acquisition of property, plant and equipment		**2,687**	2,236
		278,513	289,087
Current assets			
Inventories	17	**69,239**	42,886
Trade and other receivables	18	**164,400**	139,106
Prepaid lease payments	14	**1,316**	1,305
Amount due from an intermediate holding company	23	**300**	–
Pledged bank deposits	19	**2,354**	27,126
Bank balances and cash	20	**47,821**	13,943
		285,430	224,366
Current liabilities			
Trade and other payables	21	**158,639**	107,013
Deferred income	22	**4,413**	1,195
Amount due to ultimate holding company	23	**995**	–
Amount due to an intermediate holding company	23	**–**	48
Amount due to a fellow subsidiary	23	**121**	119
Amount due to a jointly controlled entity	24	**–**	1,648
Taxation payable		**4,461**	3,333
Bank borrowings	25	**72,863**	102,960
Loan from a non-controlling shareholder of a subsidiary	26	**–**	2,248
Loan from ultimate holding company	27	**995**	987
Bank overdrafts	20	**–**	4,067
		242,487	223,618
Net current assets		**42,943**	748
Total assets less current liabilities		**321,456**	289,835

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	NOTES	2012 HK$'000	2011 HK$'000
Capital and reserves			
Share capital	29	**54,000**	54,000
Reserves		**187,502**	153,118
Equity attributable to owners of the Company		**241,502**	207,118
Non-controlling interests		**2,225**	3,326
Total equity		**243,727**	210,444
Non-current liabilities			
Deferred income	22	**31,188**	31,771
Loans from an intermediate holding company	23	**44,760**	44,835
Loan from ultimate holding company	27	**995**	1,974
Bank borrowings	25	**–**	298
Deferred taxation	28	**786**	513
		77,729	79,391
		321,456	289,835

The consolidated financial statements on pages 39 to 109 were approved and authorised for issue by the Board of Directors on 23 March 2013 and are signed on its behalf by:

Li Ying Hong
DIRECTOR

Xiong Zheng Feng
DIRECTOR

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	13	**29**	64
Interests in subsidiaries	15	**268,772**	256,131
		268,801	256,195
Current assets			
Trade and other receivables	18	**49,934**	47,183
Amounts due from subsidiaries	15	**15,827**	12,155
Amount due from intermediate holding company	23	**300**	–
Taxation receivable		**–**	147
Pledged bank deposits	19	**2,354**	2,354
Bank balances and cash	20	**6,075**	752
		74,490	62,591
Current liabilities			
Trade and other payables	21	**2,553**	15,183
Amounts due to subsidiaries	15	**110,917**	44,393
Amount due to an intermediate holding company	23	**–**	48
Bank borrowings	25	**298**	31,618
Taxation payables		**188**	–
Bank overdrafts	20	**–**	4,067
		113,956	95,309
Net current liabilities		**(39,466)**	(32,718)
Total assets less current liabilities		**229,335**	223,477
Capital and reserves			
Share capital	29	**54,000**	54,000
Reserves	31	**130,575**	124,344
Total equity		**184,575**	178,344
Non-current liabilities			
Loans from an intermediate holding company	23	**44,760**	44,835
Bank borrowings	25	**–**	298
		44,760	45,133
		229,335	223,477

Li Ying Hong
DIRECTOR

Xiong Zheng Feng
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to owners of the Company							
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2011	54,000	53,868	49,368	2,920	29,913	190,069	4,440	194,509
Exchange differences arising on translation	–	–	12,480	–	–	12,480	(517)	11,963
Profit for the year	–	–	–	–	4,569	4,569	(597)	3,972
Total comprehensive income for the year	–	–	12,480	–	4,569	17,049	(1,114)	15,935
Lapse of share options	–	–	–	(445)	445	–	–	–
At 31 December 2011	54,000	53,868	61,848	2,475	34,927	207,118	3,326	210,444
Exchange differences arising on translation	–	–	1,935	–	–	1,935	(167)	1,768
Disposal of a subsidiary (note 34)	–	–	(3,848)	–	3,848	–	(1,022)	(1,022)
Profit for the year	–	–	–	–	32,449	32,449	88	32,537
Total comprehensive income for the year	–	–	(1,913)	–	36,297	34,384	(1,101)	33,283
Lapse of share options	–	–	–	(157)	157	–	–	–
At 31 December 2012	**54,000**	**53,868**	**59,935**	**2,318**	**71,381**	**241,502**	**2,225**	**243,727**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**34,683**	4,363
Adjustments for:			
Interest expense		**6,458**	5,844
Interest income		**(310)**	(264)
Share of result of a jointly controlled entity		**3,301**	3,887
Allowance for doubtful debts		**1,138**	4,345
Allowance for obsolete inventories		**2,935**	3,540
Amortisation of prepaid lease payments		**1,310**	1,277
Bad debts directly written off		**–**	5
Bad debts recovered		**(311)**	(375)
Depreciation of property, plant and equipment		**24,727**	20,362
Foreign exchange difference on inter-company balances		**389**	1,402
Loss (gain) on disposal of property, plant and equipment		**111**	(37)
Gain on disposal of a subsidiary		**(203)**	–
Deferred income recognised		**(1,460)**	(1,454)
Operating cash flows before movements in working capital		**72,768**	42,895
Increase in inventories		**(28,891)**	(19,136)
(Increase) decrease in trade and other receivables		**(22,338)**	16,386
Increase in amount due to ultimate holding company		**991**	–
Decrease in amount due to a jointly controlled entity		**(2,491)**	(182)
Increase in trade and other payables		**50,587**	31,489
Government grant received		**3,828**	1,050
Cash generated from operations		**74,454**	72,502
Interest paid		**(6,458)**	(5,844)
Profits tax refunded (paid)		**123**	(1,593)
PRC Enterprise Income Tax paid		**(903)**	(423)
NET CASH FROM OPERATING ACTIVITIES		**67,216**	64,642

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	**2012 HK$'000**	2011 HK$'000
INVESTING ACTIVITIES			
Interest received		**310**	264
Deposits paid for acquisition of property, plant and equipment		**(2,678)**	(2,701)
Proceeds from disposal of property, plant and equipment		**679**	189
Purchase of property, plant and equipment		**(30,076)**	(30,324)
Release (placement) of pledged bank deposits		**24,870**	(24,258)
Net proceeds from disposal of a subsidiary	34	**9,565**	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**2,670**	(56,830)
FINANCING ACTIVITIES			
New borrowings raised		**203,032**	157,960
Repayment of bank borrowings		**(233,649)**	(157,754)
Increase in amount due to an intermediate holding company		**(348)**	–
Decrease in amount due to a related company		**–**	(629)
Repayment of loan from ultimate holding company		**(991)**	(966)
NET CASH USED IN FINANCING ACTIVITIES		**(31,956)**	(1,389)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**37,930**	6,423
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**9,876**	3,049
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**15**	404
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**47,821**	9,876
REPRESENTING			
Bank balances and cash		**47,821**	13,943
Bank overdrafts		**–**	(4,067)
		47,821	9,876

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.

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 encapsulation of Chip On Film modules ("COF"). The business of manufacture and sale of electronic modules for liquid crystal display module ("LCM") has been discontinued during the first quarter of 2011 (see note 36).

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

In the current year, the Group has applied the following amended and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred tax: Recovery of underlying asset; and
Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[2]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

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

HKFRS 9 Financial instruments *(Continued)*

Key requirements of HKFRS 9 are described as follows:

All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. 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 recognition 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.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

Based on the consolidated statement of financial position of the Group as at 31 December 2012, the directors anticipate that the application of HKFRS 9 is not expected to have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

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

New and revised standards on consolidation, joint arrangements, associates and disclosures *(Continued)*

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements. HK(SIC) – INT 12 "Consolidation – Special purpose entities" will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in joint ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC) – INT 13 "Jointly controlled entities – Non-monetary contributions by venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application is permitted provided that all of these standards are applied at the same time.

The directors anticipate that the application of these five standards effective for annual period beginning 1 January 2013 will not have significant impact on the results and financial position of the Group. Also, the Group does not have any associates or jointly controlled entities at 31 December 2012.

The directors of the Group anticipate that the application of the other and new revised HKFRSs will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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.

Income and expenses 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of a jointly controlled entity.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures *(Continued)*

Jointly controlled entities (Continued)

The financial statements of jointly controlled entities used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 and services provided 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.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including building 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 in the consolidated statement of financial position 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 construction in progress, less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 or buildings 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).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in 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.

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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. 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.

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 on a systematic and rationale basis 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 exchange 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 under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's and the Company's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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, amounts due from subsidiaries, amount due from an intermediate holding company, 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 of 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 for debt instruments.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to subsidiaries, amount due to ultimate holding company, 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, bank borrowings and bank overdrafts are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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 and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises a financial liability when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment loss on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment loss on tangible assets *(Continued)*

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 immediately in profit or loss.

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.

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 for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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.

Current and 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 current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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 original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

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.

Retirement benefits contributions

Payments to defined contribution retirement benefits schemes and state-managed retirement benefit schemes are recognised 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 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 and residual values of property, plant and equipment

Management estimates the useful lives and residual values of property, plant and equipment. The estimated useful lives and residual values are based on the expected lifespan of those property, plant and equipment. The useful lives and residual values of property, plant and equipment could change significantly as a result of technical obsolescence. When the actual useful lives and residual values of property, plant and equipment are different from their estimated useful lives and residual values 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 2012 are HK$218,118,000 and HK$29,000 (2011: HK$209,429,000 and HK$64,000), respectively.

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

Estimated impairment loss recognised in respect of property, plant and equipment

Determining whether property, plant and equipment is impaired requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of property, plant and equipment at 31 December 2012 is HK$218,118,000 (2011: HK$209,429,000), net of accumulated impairment loss recognised in respect of property, plant and equipment of HK$3,873,000 (2011: HK$3,873,000).

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 2012 for the Group and the Company are HK$153,709,000 (2011:HK$131,270,000), net of allowance for doubtful debts of HK$7,050,000 (2011: HK$6,965,000) and HK$45,423,000 (2011: HK$46,648,000), net of allowance for doubtful debts of HK$508,000 (2011: HK$508,000), 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 2012 is HK$69,239,000 (2011: HK$42,886,000), net of allowance for obsolete inventories of HK$8,382,000 (2011: HK$6,819,000).

5. REVENUE AND SEGMENT INFORMATION

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

Segment information

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

Prior to 2011, the Group was organised into four operating divisions namely manufacture and sale of FPC, sourcing and sale of electronic components, encapsulation of COF modules and manufacture and sale of electronic modules for LCM. The business of manufacture and sale of electronic modules for LCM has been discontinued during the first quarter of 2011. Also, the Group commenced the business of encapsulation of COF module from the second quarter of 2011 which was a new reportable segment in that year. 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
COF modules business	–	encapsulation of COF modules
LCM business	–	the manufacture and sale of electronic modules for LCM (discontinued during first quarter of 2011)

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results

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

	Segment revenue		Inter-segment sales		Eliminations		Segment profit (loss)	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Continuing operations								
FPC business	**514,722**	291,232	**273,130**	22,967	**(273,130)**	(22,967)	**60,691**	29,036
Sourcing and sale of electronic components	**82,917**	119,772	**69,933**	29,736	**(69,933)**	(29,736)	**5,573**	3,848
COF modules business	**3,047**	1,457	**53**	–	**(53)**	–	**(603)**	(1,473)
Total from continuing operations	**600,686**	412,461	**343,116**	52,703	**(343,116)**	(52,703)	**65,661**	31,411
Interest income							**310**	264
Share of result of a jointly controlled entity							**(3,301)**	(3,887)
Gain on disposal of a subsidiary							**203**	–
Central administration costs							**(21,732)**	(14,717)
Finance costs							**(6,458)**	(5,844)
Profit before taxation (continuing operations)							**34,683**	7,227

Revenue reported above represents revenue generated from external customers.

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, gain on disposal of a subsidiary, interest income and finance costs. This is the measure reported to the Executive Directors, the Group's chief operating decision makers, for the purposes of resource allocation and performance assessment.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

Segment assets

	2012 HK$'000	2011 HK$'000
Continuing operations		
FPC business	**470,691**	418,206
Sourcing and sale of electronic components	**35,692**	29,091
COF modules business	**7,085**	5,962
Total segment assets	**513,468**	453,259
Assets relating to discontinued operation	**–**	267
Interest in a jointly controlled entity	**–**	18,858
Unallocated assets	**50,475**	41,069
Consolidated assets	**563,943**	513,453

Segment liabilities

	2012 HK$'000	2011 HK$'000
Continued operations		
FPC business	**169,207**	132,400
Sourcing and sale of electronic components	**25,248**	9,095
COF modules business	**780**	132
Total segment liabilities	**195,235**	141,627
Unallocated liabilities	**124,981**	161,382
Consolidated liabilities	**320,216**	303,009

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

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

2012

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

	FPC business HK$'000	Sourcing and sale of electronic components HK$'000	COF modules business HK$'000	Segment total HK$'000
Continuing operations				
Allowance for doubtful debts	869	269	–	1,138
Allowance for obsolete inventories	2,719	115	101	2,935
Addition to non-current assets (Note)	32,251	–	279	32,530
Amortisation of prepaid lease payments	1,310	–	–	1,310
Bad debts recovered	(311)	–	–	(311)
Depreciation of property, plant and equipment	23,095	74	1,558	24,727
Government grant for research and development projects	(1,460)	–	–	(1,460)
Loss on disposal of property, plant and equipment	111	–	–	111
Research and development expenses	12,648	–	–	12,648

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

	FPC business HK$'000	Sourcing and sale of electronic components HK$'000	COF modules business HK$'000	Segment total HK$'000
Continuing operations				
Share of loss of a jointly controlled entity	–	3,301	–	3,301
Interest income	(301)	(5)	(4)	(310)
Interest expenses	6,458	–	–	6,458
Income tax expense	905	973	–	1,878
Net foreign exchange loss	837	(228)	131	740

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

2011

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

	FPC business HK$'000	Sourcing and sale of electronic components HK$'000	COF modules business HK$'000	Segment total HK$'000
Continuing operations				
Allowance for doubtful debts	186	2,292	–	2,478
Allowance for obsolete inventories	3,077	258	–	3,335
Addition to non-current assets (Note)	31,063	12	8	31,083
Amortisation of prepaid lease payments	1,277	–	–	1,277
Bad debts recovered	(375)	–	–	(375)
Depreciation of property, plant and equipment	18,755	72	1,535	20,362
Gain on disposal of property, plant and equipment	(37)	–	–	(37)
Government grant for research and development projects	(1,454)	–	–	(1,454)
Research and development expenses	11,055	–	–	11,055

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

	FPC business HK$'000	Sourcing and sale of electronic components HK$'000	COF modules business HK$'000	Segment total HK$'000
Continuing operations				
Interest in a joint controlled entity	–	18,858	–	18,858
Share of loss of a jointly controlled entity	–	3,887	–	3,887
Interest income	(257)	(3)	(4)	(264)
Interest expenses	5,844	–	–	5,844
Income tax expense	264	296	–	560
Net foreign exchange loss (gain)	860	(164)	154	850

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

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

	Revenue from external customers	
	2012	2011
	HK$'000	HK$'000
Continuing operations		
PRC other than Hong Kong	**319,911**	255,140
Hong Kong	**237,198**	132,816
Others	**43,577**	24,505
	600,686	412,461

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:

	2012	2011
	HK$'000	HK$'000
Customer A[1]	**131,809**	42,107
Customer B[1]	**92,406**	–[2]

[1] Revenue from manufacture and sale of FPC.

[2] The corresponding customer did not contribute over 10% of the total revenue of the Group in 2011.

6. OTHER INCOME

	2012 HK$'000	2011 HK$'000
Continuing operations		
Bad debts recovered	**311**	375
Release of government grant for construction of factory on existing land	**828**	404
Government grant for research and development projects	**632**	1,050
Interest income	**310**	264
Gain on disposal of property, plant and equipment	**–**	37
Gain on disposal of a subsidiary (note 34)	**203**	–
Rental income	**349**	786
Write-back of long outstanding payables	**125**	1,912
Scrap income	**527**	–
Sourcing income	**257**	–
Others	**296**	101
	3,838	4,929

7. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Continuing operations		
Interests on:		
Bank borrowings wholly repayable within five years	**5,194**	5,628
Other borrowings wholly repayable within five years	**1,264**	216
Total borrowing costs	**6,458**	5,844

8. PROFIT BEFORE TAXATION

	2012	2011
	HK$'000	HK$'000
Continuing operations		
Profit before taxation has been arrived at after charging (crediting):		
Research and development expenses		
Staff costs	**1,609**	991
Other research and development expenses	**11,039**	10,064
	12,648	11,055
Directors' and chief executive's remuneration (Note 10)	**902**	735
Other staff costs	**74,118**	50,161
Other staff's retirement benefits costs	**3,819**	2,488
Total staff costs	**78,839**	53,384
Less: Other staff costs included in research and development expenses shown above	**(1,609)**	(991)
	77,230	52,393
Allowance for doubtful debts	**1,138**	2,478
Amortisation of prepaid lease payments	**1,310**	1,277
Auditor's remuneration	**710**	740
Bad debts directly written off	**–**	5
Cost of inventories recognised as an expense (Note)	**507,521**	327,352
Depreciation of property, plant and equipment	**24,727**	20,362
Loss on disposal of property, plant and equipment	**111**	–
Minimum lease payments under operating leases in respect of land and buildings	**614**	917
Net foreign exchange losses	**740**	850
Shipping and handling expenses (included in distribution costs)	**1,315**	701

Note: The amount includes allowance for obsolete inventories of HK$2,935,000 (2011: HK$3,335,000).

9. TAXATION

	2012 HK$'000	2011 HK$'000
Continuing operations		
Current tax:		
Hong Kong Profits Tax	**915**	324
PRC Enterprise Income Tax	**1,034**	268
	1,949	592
Under(over)provision in prior years:		
Hong Kong Profits Tax	**12**	(32)
PRC Enterprise Income Tax	**(83)**	–
	(71)	(32)
	1,878	560
Deferred tax:		
Current year (Note 28)	**268**	(169)
	2,146	391

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. The income of the 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 Electronic Technology (Suzhou) 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.

9. TAXATION *(Continued)*

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

	2012	2011
	HK$'000	HK$'000
Profit before taxation	**34,683**	7,227
Tax at the applicable income tax rate (Note)	**8,671**	1,807
Tax effect of share of result of a jointly controlled entity	**825**	971
Tax effect of income that are not taxable in determining taxable profit	**(140)**	(7)
Tax effect of expenses that are not deductible in determining taxable profit	**282**	56
Tax effect of deductible temporary differences not recognised	**829**	686
Tax effect of tax loss not recognised	**228**	600
Overprovision in prior years	**(71)**	(32)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(471)**	(165)
Utilisation of tax losses previously not recognised	**(7,560)**	(3,301)
Effect of tax concession granted to a PRC subsidiary	**(651)**	(40)
Deferred taxation arising from withholding tax on undistributed profits	**268**	(169)
Others	**(64)**	(15)
Taxation for the year	**2,146**	391

Note: AKM Electronics Industrial (Panyu) Ltd. ("AKM Panyu") is the Group's major operating subsidiary and its applicable income tax rate is 25% for both years.

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(i) Details of directors' and chief executive's remuneration are as follows:

		Other emoluments			
	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Performance related incentive payments (Note e)	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Xiong Zheng Feng	–	–	–	–	–
Li Ying Hong	–	–	–	–	–
Hung Chi Yuen Andrew	60	–	–	–	60
Meng Wei Wei (Note a)	–	–	–	–	–
Chai Zhi Qiang	–	521	26	173	720
Han Li Gang (Note b)	–	–	–	–	–
Liang Zhi Li	61	–	–	–	61
Wang Heng Yi	61	–	–	–	61
Total for 2012	182	521	26	173	902

		Other emoluments			
	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Performance related incentive payments (Note e)	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Xiong Zheng Feng	–	–	–	–	–
Li Ying Hong	–	–	–	–	–
Hung Chi Yuen Andrew (Note c)	12	–	–	–	12
Chai Zhi Qiang	–	508	23	24	555
Han Li Gang	–	–	–	–	–
Liang Zhi Li	60	–	–	–	60
Wang Heng Yi	60	–	–	–	60
Wu Tak Lung (Note d)	48	–	–	–	48
Total for 2011	180	508	23	24	735

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(i) Details of directors' and chief executive's remuneration are as follows: *(Continued)*

Notes:

(a) Appointed on 2 November 2012.

(b) Resigned on 2 November 2012.

(c) Appointed on 17 October 2011.

(d) Resigned on 17 October 2011.

(e) The performance related incentive payments are determined with reference to the Group's operating results and individual performances.

Mr. Chai Zhi Qiang is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

Mr. Xiong Zheng Feng and Ms. Li Ying Hong have been employed by the intermediate holding company and the payment of their emoluments were borne by the intermediate holding company for both years, in which the amounts are considered as insignificant. For the year ended 31 December 2012, Mr. Xiong Zheng Feng and Ms. Li Ying Hong waived their nominal salary of HK$10 (2011: HK$10) and HK$10 (2011: HK$10), respectively. There are no other directors who had waived their remuneration during the years. Mr. Meng Wei Wei and Mr. Han Li Gang have been employed by the ultimate holding company and the payment of their emoluments were borne by the ultimate holding company for both years, in which the amounts are considered as insignificant.

(ii) Employees' remuneration:

Of the five individuals with the highest emoluments in the Group, one (2011: one) was director of the Company whose emoluments are included in the disclosures in Note 10(i) above. The emoluments of remaining four (2011: four) individuals were as follows:

	2012 **HK$'000**	2011 HK$'000
Salaries and other benefits	**1,614**	1,246
Performance related incentive payments	**743**	725
Retirement benefit scheme contributions costs	**108**	102
	2,465	2,073

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 and the Chief Executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. DIVIDEND

Subsequent to the end of the reporting period, a final dividend of HK1 cent in respect of the year ended 31 December 2012 (2011: nil) per share has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

For continuing and discontinued operations

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

	2012	2011
	HK$'000	HK$'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**32,449**	4,569

	Number of shares	
	2012	2011
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.

12. EARNINGS PER SHARE *(Continued)*

For continuing operations

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

	2012	2011
	HK$'000	HK$'000
Earnings		
Profit for the year attributable to owners of the Company	**32,449**	4,569
Adjustment for:		
Loss for the year from discontinued operation	**–**	2,864
Profit for the purpose of basic and diluted earnings per share from continuing operations	**32,449**	7,433

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

For discontinued operation

Basic and diluted loss per share for the discontinued operation is HK0.53 cent per share for the year ended 31 December 2011, based on the loss for the year from the discontinued operation of HK$2,864,000 and the denominators detailed above for both basic and diluted earnings (loss) per share.

13. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings	Plant and machinery	Leasehold improvements	Office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	66,886	164,994	5,094	13,936	2,790	20,906	274,606
Additions	372	22,641	1,256	323	399	6,092	31,083
Transfers	20,567	6,065	800	–	–	(27,432)	–
Disposals	–	(331)	–	(200)	(590)	–	(1,121)
Currency realignment	3,291	7,392	237	595	77	434	12,026
At 31 December 2011	91,116	200,761	7,387	14,654	2,676	–	316,594
Additions	–	23,957	2,284	1,341	442	4,506	32,530
Disposals	–	(3,374)	–	(21)	(306)	–	(3,701)
Currency realignment	714	1,615	66	121	15	17	2,548
At 31 December 2012	91,830	222,959	9,737	16,095	2,827	4,523	347,971
DEPRECIATION AND IMPAIRMENT							
At 1 January 2011	2,491	71,586	2,282	5,896	1,816	–	84,071
Provided for the year	1,870	14,520	1,510	2,186	276	–	20,362
Eliminated on disposals	–	(259)	–	(179)	(531)	–	(969)
Currency realignment	145	3,088	129	290	49	–	3,701
At 31 December 2011	4,506	88,935	3,921	8,193	1,610	–	107,165
Provided for the year	2,151	17,854	2,124	2,263	335	–	24,727
Eliminated on disposals	–	(2,623)	–	(21)	(267)	–	(2,911)
Currency realignment	44	709	39	72	8	–	872
At 31 December 2012	6,701	104,875	6,084	10,507	1,686	–	129,853
CARRYING VALUES							
At 31 December 2012	85,129	118,084	3,653	5,588	1,141	4,523	218,118
At 31 December 2011	86,610	111,826	3,466	6,461	1,066	–	209,429

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

THE GROUP *(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 of relevant land, or 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

As at 31 December 2012, the Group has pledged buildings and plant and machinery with carrying amount of approximately HK$63,349,000 (2011: HK$64,355,000) and HK$54,786,000 (2011: nil), respectively 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$'000	Motor vehicles HK$'000	Total HK$'000
COST			
At 1 January 2011, 31 December 2011 and 31 December 2012	170	544	714
DEPRECIATION			
At 1 January 2011	123	493	616
Provided for the year	21	13	34
At 31 December 2011	144	506	650
Provided for the year	22	13	35
At 31 December 2012	166	519	685
CARRYING VALUES			
At 31 December 2012	4	25	29
At 31 December 2011	26	38	64

14. PREPAID LEASE PAYMENTS

	2012 HK$'000	2011 HK$'000
The Group's prepaid lease payments comprise:		
Land in PRC:		
Medium term lease	**59,024**	59,869
Analysed for reporting purposes as:		
Current assets	**1,316**	1,305
Non-current assets	**57,708**	58,564
	59,024	59,869

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

As at 31 December 2012, the Group has pledged land use rights in PRC with carrying amount of approximately HK$20,564,000 (2011: HK$54,185,000) to secure general banking facilities granted to the Group.

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

	2012 HK$'000	2011 HK$'000
THE COMPANY		
Capital contribution, at cost	**280,217**	267,186
Impairment losses recognised	**(11,445)**	(11,055)
	268,772	256,131

The Company also has amounts due from subsidiaries of HK$15,827,000 (2011: HK$12,155,000) included in current assets and amounts due to subsidiaries of HK$110,917,000 (2011: HK$44,393,000) included in current liabilities. Impairment losses recognised in respect of interests in subsidiaries as at 31 December 2012 amount to HK$11,445,000 (2011: HK$11,055,000). No impairment loss has been recognised in respect of amounts due from subsidiaries as at 31 December 2012 and 2011.

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

Amounts due to subsidiaries are trade payables of HK$110,917,000 (2011: HK$44,393,000) and all aged within 90 days.

15. 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 their 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 interests in subsidiaries. The discount rate used in estimating the present value of the future cash flows from the interests in subsidiaries was 7.5% (2011: 7.5%).

Details of the Company's subsidiaries as at 31 December 2012 and 2011 is as follows:

Name of subsidiary	Place of establishment	Form of business structure	Paid-up capital	Attributable equity interest held by the Company: Directly	Indirectly	Principal activities
安捷利(番禺)電子實業有限公司 AKM Panyu	The PRC	Wholly owned-foreign enterprise	US$21,700,000 (2011: US$21,700,000)	100% (2011: 100%)	–	Manufacture and sale of FPC
安捷利(蘇州)柔性電路板有限公司 AKM (Suzhou) FPC Company Limited (Note a)	The PRC	Wholly owned-foreign enterprise	– (2011: US$2,642,460)	– (2011: 100%)	–	Manufacture and sale of FPC
Ever Proven Investments Limited ("Ever Proven") (Note b)	British Virgin Islands/ Hong Kong	International business company	US$100 (2011: US$100)	– (2011: 75%)	–	Investment holding
廣州安旭特電子有限公司 New Career Guangzhou Electronics Company Limited	The PRC	Wholly owned-foreign enterprise	US$2,229,000 (2011: US$549,000)	100% (2011: 100%)	–	Encapsulation of COF modules
安捷利電子科技(蘇州)有限公司 AKM (Suzhou)	The PRC	Wholly owned-foreign enterprise	US$12,642,460 (2011: US$10,000,000)	100% (2011: 100%)	–	Manufacture and sale of FPC
嘉升科技有限公司 Giant Rise Technology Limited	Hong Kong	Limited company	HK$1,000,000 (2011: HK$1,000,000)	75% (2011: 75%)	–	Trading of raw materials and FPC, sourcing and sale of electronic components
深圳嘉升宏力偉電子有限公司 Shenzhen Giant Rise Electronics Company Limited	The PRC	Wholly owned-foreign enterprise	RMB1,800,000 (2011: RMB1,800,000)	–	100% (2011: 100%)	Trading of raw materials and FPC, sourcing and sale of electronic components

Note a: The Company is merged with AKM (Suzhou) during the year ended 31 December 2012.

Note b: The Company is disposed to an independent third party on 21 June 2012 as detailed in note 34.

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

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

As at 31 December 2012 and 2011, 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
深圳思瑪特電子有限公司 Shenzhen Smart Electronics Co. Ltd. ("Shenzhen Smart")	The PRC	Sino-foreign equity joint venture	HK$30,000,000 (2011: HK$30,000,000)	HK$30,000,000 (2011: HK$30,000,000)	– (2011: 53%)	Provision of surface mount technology service

	2012 HK$'000	2011 HK$'000
Cost of unlisted investment in a jointly controlled entity	**15,900**	15,900
Share of post-acquisition loss and other comprehensive income, net of dividend received	**(4,886)**	(1,585)
Exchange differences	**3,848**	4,543
Disposal (note 34)	**(14,862)**	–
	–	18,858

As at 31 December 2011, the Group, through subsidiary Ever Proven, holds 53% of the registered capital of Shenzhen Smart. The board of directors of Shenzhen Smart comprises two directors appointed by the Group and one 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. However, under the supplementary shareholders' agreement signed in 2010, all the major operating and financial decision 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 as at 31 December 2011.

On 21 June 2012, the Group wholly disposed of the 75% interest in Ever Proven to the independent third party as fully detailed in note 34.

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

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

	2012 HK$'000	2011 HK$'000
Current assets	–	11,006
Non-current assets	–	27,218
Current liabilities	–	6,287
Non-current liabilities	–	13,080
Income	–	33,937
Expenses	**3,301**	37,824

17. INVENTORIES

	THE GROUP	
	2012 **HK$'000**	2011 HK$'000
Raw materials	**34,660**	19,402
Work in progress	**17,926**	9,679
Finished goods	**16,653**	13,805
	69,239	42,886

18. TRADE AND OTHER RECEIVABLES

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

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills receivables	**160,759**	138,235	**45,931**	47,156
Less: Allowance for doubtful debts	**(7,050)**	(6,965)	**(508)**	(508)
	153,709	131,270	**45,423**	46,648
Other tax recoverable	**1,077**	2,324	**–**	–
Other receivables (Note a)	**9,614**	5,512	**4,511**	535
	164,400	139,106	**49,934**	47,183

Note:

(a) 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, after assessing credit quality of particular customers, several major customers were allowed to settle their balances beyond the credit terms up to 120 days.

Before accepting any new customer, the management delegates 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 77% (2011: 78%) and 71% (2011: 86%) 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.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**66,458**	41,719	**19,423**	12,630
31 – 60 days	**31,572**	47,137	**8,536**	24,104
61 – 90 days	**26,867**	17,406	**9,018**	3,716
91 – 120 days	**13,568**	14,171	**5,723**	6,169
121 days – 1 year	**14,732**	10,835	**2,723**	29
Over 1 year	**512**	2	**–**	–
	153,709	131,270	**45,423**	46,648

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$31,278,000 (2011: HK$28,391,000) 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 125 days (2011: 147 days).

Included in the Company's trade receivable balance are debtors with aggregate carrying amount of HK$12,980,000 (2011: HK$6,676,000) 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 122 days (2011: 102 days).

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

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
0 – 30 days	**186**	253	**186**	–
31 – 60 days	**2,420**	2,068	**495**	194
61 – 90 days	**5,175**	4,755	**3,853**	284
91 – 120 days	**8,870**	10,597	**5,723**	6,169
121 days – 1 year	**14,115**	10,716	**2,723**	29
Over 1 year	**512**	2	**–**	–
	31,278	28,391	**12,980**	6,676

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Balance at beginning of the year	**6,965**	4,602	**508**	508
Impairment losses recognised on receivables	**1,138**	4,346	**–**	–
Amount written off as uncollectible	**(1,108)**	(2,181)	**–**	–
Currency realignment	**55**	198	**–**	–
Balance at end of the year	**7,050**	6,965	**508**	508

Included in the Group's and the Company's allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$7,050,000 and HK$508,000 (2011: HK$6,965,000 and HK$508,000), respectively by reference to subsequent settlement and creditability of individual customers.

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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States Dollar ("US$")	**52,342**	52,145	**45,755**	46,648
Euro ("EUR")	**1,601**	–	**1,601**	–
Korea Won ("KRW")	**170**	–	**170**	–

19. PLEDGED BANK DEPOSITS

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

The pledged bank deposits of the Group and the Company carried at interest rate of 0.02% per annum (2011: from 0.02% to 3% per annum). The pledged bank deposits will be released upon settlement of the relevant bank borrowings. The pledged bank deposits are denominated in HK$ and RMB.

20. 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 interest at rates ranging from 0.01% to 2.6% (2011: 0.01% to 0.5%) per annum.

Included in the Group's bank balances are short-term deposits of HK$41,746,000 (2011: HK$12,438,000) kept in banks located in the PRC.

20. BANK BALANCES AND CASH/BANK OVERDRAFTS *(Continued)*

Bank balances and cash *(Continued)*

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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**15,030**	950	**6,030**	26
EUR	**3**	–	**3**	–

Bank overdrafts

Bank overdrafts as at 31 December 2011 are secured by pledged bank deposits and carry interest at market rates of 4% per annum. The balances are denominated in US$.

21. TRADE AND OTHER PAYABLES

Trade and other payables include the following balances:

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payables	**131,088**	82,428	**10**	13,341
Payables for acquisition of property, plant and equipment	**1,927**	1,717	**–**	–
Accrued staff costs	**11,696**	8,951	**265**	–
Construction payables	**4,429**	4,833	**–**	–
Other taxation payables	**263**	1,478	**–**	–
Other payables and accruals	**9,236**	7,606	**2,278**	1,842
	158,639	107,013	**2,553**	15,183

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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**33,421**	32,788	**10**	3,607
31 – 60 days	**25,105**	29,949	**–**	9,212
61 – 90 days	**25,882**	14,645	**–**	512
91 – 120 days	**25,133**	3,962	**–**	–
121 days – 1 year	**16,630**	1,030	**–**	10
Over 1 year	**4,917**	54	**–**	–
	131,088	82,428	**10**	13,341

21. TRADE AND OTHER 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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**48,609**	19,590	**1,772**	13,341

22. DEFERRED INCOME

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Government grants received in respect of:		
Development of new products (Note 1)	**3,582**	370
Construction of factory on existing lands (Note 2)	**32,019**	32,596
	35,601	32,966
Less: Amounts to be recognised in profit or loss in the following year	**(4,413)**	(1,195)
Amount shown under non-current liabilities	**31,188**	31,771

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$632,000 (2011: HK$1,050,000).

(2) The amount of RMB26,750,000 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 would be released over the estimated useful lives of the constructed factory upon the commencement of operation of the new factory. As the construction of the factory was completed and was in use since 2011, HK$828,000 (2011: HK$404,000) was 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.

23. AMOUNT DUE FROM AN INTERMEDIATE HOLDING COMPANY/AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY/A FELLOW SUBSIDIARY/ULTIMATE HOLDING COMPANY/LOANS FROM AN INTERMEDIATE HOLDING COMPANY

THE GROUP

Amount due to a fellow subsidiary/ultimate holding company are unsecured, interest-free and repayable on demand.

THE GROUP AND THE COMPANY

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

Unsecured loans from an intermediate holding company comprise:

	2012 **HK$'000**	2011 HK$'000
Loan of US$2 million (Note a)	**15,504**	15,534
Loan of US$3 million (Note b)	**23,256**	23,301
Loan to HK$6 million (Note c)	**6,000**	6,000
	44,760	44,835

Notes:

(a) As at 31 December 2011, the loan was unsecured, bearing interest at 3.6% per annum and repayable in full in July 2013. During the year ended 31 December 2012, a supplemental agreement was signed to change the terms of the loan to extend the maturity date to July 2014 with other terms and conditions remained unchanged.

(b) As at 31 December 2011, the loan was unsecured, bearing interest at 3.6% per annum and repayable in full in July 2013. During the year ended 31 December 2012, a supplemental agreement was signed to extend the maturity date to July 2014 with other terms and conditions remained unchanged.

(c) As at 31 December 2011, the loan was unsecured, bearing interest at 3.6% per annum and repayable in July 2013. During the year ended 31 December 2012, a supplemental agreement was signed to extend the maturity date to July 2014 with other terms and conditions remained unchanged.

24. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

THE GROUP

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

25. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans (Note)	**72,863**	101,374	**298**	30,032
Trust receipts loans (Note)	**–**	1,884	**–**	1,884
	72,863	103,258	**298**	31,916
Secured	**72,565**	99,474	**298**	28,132
Unsecured	**298**	3,784	**–**	3,784
	72,863	103,258	**298**	31,916
Carrying amount repayable				
Within one year	**72,863**	102,960	**298**	31,618
More than one year, but not exceeding two years	**–**	298	**–**	298
	72,863	103,258	**298**	31,916

Note: Bank loans are secured by charges over land use rights, buildings, trade receivables, machinery and bank deposits (2011: 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 2012, included in the bank loans of the Group are loans of total HK$72,863,000 (2011: HK$99,430,000) which bear interest at fixed rates. The remaining bank loans and the trust receipts loans carry interest at prevailing market rates.

25. BANK BORROWINGS *(Continued)*

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

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
Effective interest rates:				
Fixed-rate borrowings	**2.61% to 6.73%**	2.75% to 8.2%	**2.75% to 5%**	2.75% to 5%
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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**59,644**	59,987	**–**	28,132

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

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

27. LOAN FROM ULTIMATE HOLDING COMPANY

The amount represents an interest-free and unsecured loan obtained by AKM Panyu (a wholly owned subsidiary of the Group) from CNIC for the development of a project. The principal of loan is RMB4,000,000 (equivalent to HK$4,975,000), and it is repayable on five equal instalments of RMB800,000 (equivalent to HK$991,000) per annum with first instalment due in April 2010. The outstanding balance at 31 December 2012 is RMB1,600,000 (equivalent to HK$1,990,000), of which RMB800,000 (equivalent to HK$995,000) is due within one year.

28. DEFERRED TAXATION

The following deferred tax liability mainly arises from withholding tax on the undistributed profits of the PRC subsidiaries for the year ended 31 December 2012 and movement thereon during current and prior year:

	HK$'000
At 1 January 2011	658
Credited to profit or loss (note 9)	(169)
Currency realignment	24
At 31 December 2011	513
Charged to profit or loss (note 9)	268
Currency realignment	5
At 31 December 2012	786

At 31 December 2011, the Group had credited HK$225,000 to profit or loss due to losses incurred for the year which had fully reduced the undistributed profits of the PRC jointly controlled entity. In addition, the Group has recognised a deferred tax expense of HK$268,000 (2011: HK$56,000) which is arisen from the undistributed profits of PRC subsidiaries.

At the end of the reporting period, the Group has the deductible temporary differences in respect of accumulated allowance for doubtful debts, accumulated allowance for obsolete inventories, impairment loss in respect of property, plant and equipment of approximately HK$5,595,000 (2011: HK$4,427,000), HK$8,765,000 (2011: HK$6,345,000), HK$3,873,000 (2011: HK$3,873,000), respectively. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that the deductible temporary differences can be utilised in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of HK$16,542,000 (2011: HK$45,870,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses that will expire by 2014.

29. SHARE CAPITAL

	Number of shares	**Share capital** HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2011, 31 December 2011 and 31 December 2012	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2011, 31 December 2011 and 31 December 2012	540,000,000	54,000

30. SHARE OPTIONS

Pursuant to written resolutions of the then shareholders of the Company on 6 August 2004, the Company adopted both a Pre-IPO share option scheme (the "Pre-IPO Scheme") and a share option scheme (the "Scheme").

(a) Pre-IPO Scheme

The purpose of the Pre-IPO Scheme is to, amongst others, give the participants an opportunity to have a personal stake in the Company and help motivate the participants to optimise their performance and efficiency and retain the participants whose contributions are important to the long-term growth and profitability of the Group.

The HK$0.40 exercise price per share of the above share options granted under the Pre-IPO Scheme is the same as the initial public offering price of the Company's shares. No share options under the Pre-IPO Scheme were exercised since the date of grant.

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 2012, the total number of shares in respect of which share options are issuable under this scheme is 8,400,000 (2011: 8,400,000) representing approximately 1.56% (2011: 1.56%) of the issued share capital of the Company.

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

Type of participants	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1.1.2011	Lapsed during the year	Outstanding at 1.1.2012	Lapsed during the year	Outstanding at 31.12.2012
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	5,500,000	(2,500,000)	3,000,000	–	3,000,000
				10,900,000	(2,500,000)	8,400,000	–	8,400,000

30. SHARE OPTIONS *(Continued)*

(b) Scheme

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

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

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

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

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

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

30. SHARE OPTIONS *(Continued)*

(b) Scheme *(Continued)*

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

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

Share options are vested immediately on the date of grant.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors of the Company to each grantee of the option which period may commence on a day after the date upon which the option is granted but shall and in any event be not later than ten years from the date of grant. Unless otherwise determined by the Directors of the Company at their sole discretion, there is no requirement of a minimum period for which a share option must be held.

During the year ended 31 December 2012, 1,600,000 (2011: 2,500,000) share options lapsed during the year. As at 31 December 2012, the total number of shares in respect of which share options are issuable under this scheme is 16,800,000 (2011: 18,400,000) representing approximately 3.11% (2011: 3.41%) of the issued share capital of the Company.

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

Type of participants	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1.1.2011	Lapsed during the year	Outstanding at 1.1.2012	Lapsed during the year	Outstanding at 31.12.2012
Directors	9 July 2007	10 July 2007 to 9 July 2017	0.36	9,200,000	–	9,200,000	(1,600,000)	7,600,000
Employees and others	9 July 2007	10 July 2007 to 9 July 2017	0.36	11,700,000	(2,500,000)	9,200,000	–	9,200,000
				20,900,000	(2,500,000)	18,400,000	(1,600,000)	16,800,000

The Group recognised total expenses of nil (2011: nil) related to equity-settled share-based payment transactions during the year.

31. RESERVES

	Share premium HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000
THE COMPANY				
At 1 January 2011	53,868	2,920	50,646	107,434
Profit for the year and total comprehensive income for the year	–	–	16,910	16,910
Lapse of share options	–	(445)	445	–
At 31 December 2011	53,868	2,475	68,001	124,344
Profit for the year and total comprehensive income for the year	–	–	6,231	6,231
Lapse of share options	–	(157)	157	–
At 31 December 2012	53,868	2,318	74,389	130,575

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	**205,660**	174,204	**69,979**	57,969
Financial liabilities				
Amortised cost	**260,308**	252,191	**156,272**	139,755

32. FINANCIAL INSTRUMENTS *(Continued)*

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

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**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**147,013**	122,479	**67,372**	53,095

	THE COMPANY			
	Liabilities		**Assets**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**40,532**	84,375	**51,785**	46,674

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives *(Continued)*

Market risk *(Continued)*

Foreign currency sensitivity

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in RMB against US$. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis represents the trade and other receivables, trade and other payables, loans from an intermediate holding company, borrowings, bank overdrafts and bank balances and cash where the denomination are in US$, the major foreign currency risk. A positive number indicates an increase in post-tax profit for the year where RMB strengthens against US$. For a 5% weakening of RMB against US$, 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**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Increase/decrease in post-tax profit for the year	**2,987**	2,602	**(422)**	1,414

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, 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 and the Company are also exposed to fair value interest rate risk in relation to the fixed-rate bank borrowings and loans from an intermediate holding company. However, the management considers the fair value interest rate risk on the fixed-rate bank borrowings and loans from an intermediate holding company are insignificant as the bank borrowings are relatively short-term and the interest rate of loans from an intermediate holding company is low. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives *(Continued)*

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 2012 and 2011 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 6% (2011: 11%) and 35% (2011: 49%) 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 pledged bank deposits and bank balances and cash is limited because the majority of the counterparties are state-owned banks with good reputation in the PRC.

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. The management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group and the Company rely on borrowings as one of the source of liquidity. As at 31 December 2012, the Group and the Company had available unutilised short-term loan facilities of approximately HK$188 million (2011: HK$47 million) and HK$31 million (2011: HK$13.5 million), respectively.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives *(Continued)*

Liquidity risk *(Continued)*

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.

THE GROUP

	Weighted average interest rate %	On demand HK$'000	1-3 months HK$'000	4-6 months HK$'000	7-12 months HK$'000	1-2 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
At 31 December 2012								
Non-derivative financial liabilities								
Trade and other payables	–	(52,424)	(74,933)	(12,222)	–	–	(139,579)	(139,579)
Amount due to a fellow subsidiary	–	(121)	–	–	–	–	(121)	(121)
Amount due to ultimate holding company	–	(995)	–	–	–	–	(995)	(995)
Loans from an intermediate holding company	3.60	–	–	–	–	(47,381)	(47,381)	(44,760)
Loan from ultimate holding company	–	–	–	–	(995)	(995)	(1,990)	(1,990)
Borrowings:								
– fixed rate bank borrowings	4.02	(35,398)	(37,726)	–	–	–	(73,124)	(72,863)
		(88,938)	(112,659)	(12,222)	(995)	(48,376)	(263,190)	(260,308)
At 31 December 2011								
Non-derivative financial liabilities								
Trade and other payables	–	(14,945)	(74,386)	(3,676)	–	–	(93,007)	(93,007)
Amount due to an intermediate holding company	–	(48)	–	–	–	–	(48)	(48)
Amount due to a fellow subsidiary	–	(119)	–	–	–	–	(119)	(119)
Amount due to a jointly controlled entity	–	(1,648)	–	–	–	–	(1,648)	(1,648)
Loans from an intermediate holding company	0.48	–	–	–	–	(45,187)	(45,187)	(44,835)
Loan from a non-controlling shareholder of a subsidiary	–	(2,248)	–	–	–	–	(2,248)	(2,248)
Loan from ultimate holding company	–	–	–	–	(987)	(1,974)	(2,961)	(2,961)
Bank overdrafts	4.00	(4,067)	–	–	–	–	(4,067)	(4,067)
Borrowings:								
– fixed rate bank borrowings	5.61	(42,284)	(12,155)	(42,977)	(1,798)	(298)	(99,512)	(99,429)
– variable rate bank borrowings	3.25	–	(1,960)	–	–	–	(1,960)	(1,945)
– variable rate trust receipts loans	3.25	–	(1,899)	–	–	–	(1,899)	(1,884)
		(65,359)	(90,400)	(46,653)	(2,785)	(47,459)	(252,656)	(252,191)

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables (Continued)

THE COMPANY

	Weighted average interest rate %	On demand HK$'000	1 – 3 months HK$'000	4 – 6 months HK$'000	7 – 12 months HK$'000	1 – 2 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
At 31 December 2012								
Non-derivative financial liabilities								
Trade and other payables	**–**	**(140)**	**(157)**	**–**	**–**	**–**	**(297)**	**(297)**
Amounts due to subsidiaries	**–**	**(110,917)**	**–**	**–**	**–**	**–**	**(110,917)**	**(110,917)**
Loans from an intermediate holding company	**3.6**	**–**	**–**	**–**	**–**	**(47,381)**	**(47,381)**	**(44,760)**
Borrowings:								
– fixed rate bank borrowings	**5.0**	**(298)**	**–**	**–**	**–**	**–**	**(298)**	**(298)**
		(111,355)	**(157)**	**–**	**–**	**(47,381)**	**(158,893)**	**(156,272)**
At 31 December 2011								
Non-derivative financial liabilities								
Trade and other payables	–	(1,166)	(13,330)	–	–	–	(14,496)	(14,496)
Amounts due to subsidiaries	–	(44,393)	–	–	–	–	(44,393)	(44,393)
Amount due to an intermediate holding company	–	(48)	–	–	–	–	(48)	(48)
Loans from an intermediate holding company	0.48	–	–	–	–	(45,186)	(45,186)	(44,835)
Bank overdrafts	4.00	(4,067)	–	–	–	–	(4,067)	(4,067)
Borrowings:								
– fixed rate bank borrowings	3.30	(24,304)	(900)	(900)	(1,798)	(298)	(28,200)	(28,087)
– variable-rate bank borrowings	3.25	–	(1,960)	–	–	–	(1,960)	(1,945)
– variable-rate trust receipts loans	3.25	–	(1,899)	–	–	–	(1,899)	(1,884)
		(73,978)	(18,089)	(900)	(1,798)	(45,484)	(140,249)	(139,755)

32. 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.

33. 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 25, loans from an intermediate holding company disclosed in note 23, loan from a non-controlling shareholder of a subsidiary disclosed in note 26, loan from ultimate holding company disclosed in note 27, 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.

34. DISPOSAL OF A SUBSIDIARY

On 21 June 2012, the Group disposed 75% equity interest in Ever Proven, which held 53% interests in the PRC jointly controlled entity, Shenzhen Smart, and a shareholder's loan due from Ever Proven to the Company, to an independent third party at a consideration of HK$11,794,000. Details of the disposal were disclosed in the announcement of the Company dated 21 June 2012. The net assets of the subsidiary at the date of disposal were as follows:

	HK$'000
Analysis of assets and liabilities over which control was lost:	
Interest in a jointly controlled entity	14,862
Amount due from a jointly controlled entity	843
Bank balance	15
Amount due to a fellow subsidiary	(860)
Loan from a non-controlling shareholder of a subsidiary	(2,247)
Amount due to immediate holding company	(6,743)
Net assets disposed of	5,870
Gain on disposal of a subsidiary:	
Consideration received and receivable	11,794
Net assets disposed of	(5,870)
Non-controlling interests	1,022
Assignment of amount due to immediate holding company	(6,743)
Gain on disposal	203
Net cash inflow arising on disposal:	
Cash consideration received	9,565
Consideration receivable (note)	2,229
Less: bank balance disposed of	(15)
	11,779

Note: The remaining consideration amounting to HK$2,229,000 has been fully settled by the date of this report.

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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank deposits	**2,354**	27,126	**2,354**	2,354
Buildings	**63,349**	64,355	**–**	–
Plant and machinery	**54,786**	–	**–**	–
Land use rights	**20,564**	54,185	**–**	–
Trade receivables	**8,411**	–	**–**	–
	149,464	145,666	**2,354**	2,354

36. DISCONTINUED OPERATION

In the first quarter of 2011, the Group discontinued the LCM business. The results of discontinued operation for the year ended 31 December 2011 was as follows:

	2011
	HK$'000
Revenue	2,911
Cost of sales	(3,909)
Administrative expenses	(1,866)
Loss for the year attributable to owners of the Company	(2,864)

36. DISCONTINUED OPERATION *(Continued)*

Loss for the year from discontinued operating attributable to owners of the Company include the following:

	2011 HK$'000
Allowance for doubtful debts	1,866
Other staff costs	283
Other staff's retirement benefit costs	25
	308
Minimum lease payments under operating leases in respect of land and buildings	139
Costs of inventories recognised as an expense (includes allowance for obsolete inventories of HK$205,000)	3,909

During the year ended 31 December 2011, the LCM business generated net cash inflows of HK$5,739,000 in respect of the Group's operating activities, net cash outflows of HK$nil in respect of investing activities and net cash outflows of HK$3,464,000 in respect of financing activities.

No provision for taxation is made for the discontinued operation as the LCM business incurred tax losses in both years. At 31 December 2011, deferred taxation assets in respect of unused tax losses of approximately HK$8,187,000 have not been recognised in the consolidated financial statements due to the unpredictability of future profit streams.

37. 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	
	2012 **HK$'000**	2011 HK$'000	**2012** **HK$'000**	2011 HK$'000
Within one year	**188**	287	**20**	120
In the second to fifth years inclusive	**–**	20	**–**	20
	188	307	**20**	140

37. OPERATING LEASE COMMITMENTS *(Continued)*

The Group as lessee *(Continued)*

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 within one to three years.

The Group as lessor

Property rental income earned during the year was HK$349,000 (2011: HK$786,000). All of the properties held have committed tenants for the next two years.

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**129**	746	**–**	27
In the second to fifth years inclusive	**21**	236	**–**	–
	150	982	**–**	27

38. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment: – contracted for but not provided in the consolidated financial statements	**41,152**	3,119	**–**	–

39. 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$19,000 (2011: HK$14,000) 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$3,851,000 (2011: HK$2,522,000). 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.

40. RELATED PARTY TRANSACTIONS

In addition to the balances set out in notes 15, 23, 24, 26 and 27, the Group and the Company entered into the following transactions with related parties during the year:

THE GROUP

	2012 HK$'000	2011 HK$'000
(i) Transactions with fellow subsidiaries:		
Rentals for office charged to the Group	**105**	120
Income from rental of office	**33**	13
Transactions with a jointly controlled entity:		
Subcontracting fee paid by the Group	**–**	29,395
Sales of goods by the Group	**–**	1,437
Purchase of goods by the Group	**–**	1,509
Purchases of property, plant and equipment	**–**	6,793
Transactions with an intermediate holding company:		
Interest paid by the Group	**1,264**	216

(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.

40. 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 10 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

	2012 HK$'000	2011 HK$'000
(iv) Transactions with subsidiaries:		
Sales of goods by the Company	**15,017**	23,395
Sales of equipment by the Company	**5,065**	3,236
Commission income received by the Company	**430**	1,196
Purchases of goods by the Company	**249,146**	98,466
Interest income	**421**	406
Transactions with fellow subsidiaries:		
Rentals for office charged to the Company	**105**	60
Income from rental of office	**33**	13
Transactions with an intermediate holding company:		
Interest paid by the Company	**1,264**	216

FINANCIAL SUMMARY

	Year ended 31 December				
RESULTS	**2012**	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**600,686**	415,372	345,945	267,530	378,194
Cost of sales	**(507,521)**	(360,656)	(308,229)	(256,973)	(377,611)
Gross profit	**93,165**	54,716	37,716	10,557	583
Other income	**3,838**	4,929	6,468	58,957	951
Distribution costs	**(12,270)**	(13,261)	(7,195)	(2,867)	(6,810)
Administrative expenses	**(27,643)**	(21,235)	(18,075)	(16,078)	(17,546)
Factory relocation costs	**–**	–	–	(21,412)	–
Research and development expenses	**(12,648)**	(11,055)	(9,733)	(7,635)	(7,852)
Share of result of a jointly controlled entity	**(3,301)**	(3,887)	(82)	(3,041)	10,201
Finance costs	**(6,458)**	(5,844)	(3,914)	(933)	(1,059)
Profit (loss) before taxation	**34,683**	4,363	5,185	17,548	(21,532)
Taxation (charge) credit	**(2,146)**	(391)	(2,101)	160	(1,047)
Profit (loss) for the year	**32,537**	3,972	3,084	17,708	(22,579)

	At 31 December				
ASSETS AND LIABILITIES	**2012**	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**563,943**	513,453	468,869	370,671	338,088
Total liabilities	**(320,216)**	(303,009)	(274,360)	(188,060)	(174,277)
	243,727	210,444	194,509	182,611	163,811
Equity attributable to owners of the Company	**241,502**	207,118	190,069	179,284	159,883
Non-controlling interests	**2,225**	3,326	4,440	3,327	3,928
Total equity	**243,727**	210,444	194,509	182,611	163,811