Global Flex Holdings Limited
佳邦環球控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 471)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

SUMMARY OF RESULTS

The board (the "Board") of directors (the "Directors") of Global Flex Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2005.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES	**2005** *US$*	**2004** *US$*
Revenue	4	176,900,271	165,732,442
Cost of sales		(149,442,812)	(126,452,796)
Gross profit		27,457,459	39,279,646
Other income	5	2,481,529	91,086
Distribution costs		(3,444,525)	(4,083,617)
Administrative expenses		(7,051,578)	(4,559,374)
Finance costs	6	(3,019,681)	(1,684,479)
Profit before taxation		16,423,204	29,043,262
Income tax expense	7	(2,233,892)	(3,936,830)
Profit for the year	8	14,189,312	25,106,432
Dividends	9	4,355,000	3,000,000
Basic earnings per share	10	0.0134	0.0251

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2005

	NOTES	**2005**	**2004**
		US$	*US$*
Non-current assets			
Property, plant and equipment		65,967,552	55,468,890
Prepaid lease payments		1,233,441	1,230,413
Deposits paid for acquisition of property, plant and equipment		1,309,292	645,657
Available-for-sale investment		22,008	22,008
		68,532,293	57,366,968
Current assets			
Inventories		32,686,107	30,094,162
Trade and other receivables	11	72,728,968	66,200,013
Prepaid lease payments		21,678	8,998
Amount due from ultimate holding company		—	67,015
Amounts due from related companies		—	144,954
Pledged bank deposits		28,645,619	8,174,302
Bank balances and cash		46,318,124	6,964,986
		180,400,496	111,654,430
Current liabilities			
Trade and other payables	12	54,910,302	55,388,862
Amount due to a related company		—	4,270,681
Dividend payable		—	626,600
Tax liabilities		774,937	2,325,556
Bank and other borrowings — due within one year		83,578,112	48,767,015
		139,263,351	111,378,714
Net current assets		41,137,145	275,716
Total assets less current liabilities		109,669,438	57,642,684
Non-current liability			
Bank and other borrowings — due after one year		4,932,182	—
		104,737,256	57,642,684
Capital and reserves			
Share capital		16,129,032	32,000,000
Reserves		88,608,224	25,642,684
		104,737,256	57,642,684

Notes:

1. REVIEW OF ANNUAL RESULTS

The annual results have been reviewed by the Audit Committee of the Company.

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2005 as set out in this preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

2. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 22 July 2004 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's ultimate holding company is Vertex Precision Electronics Inc. ("Vertex"), a company incorporated in Taiwan with limited liability on 6 January 1990, the shares of which are traded on Gretai Securities Market of the Republic of China ("ROC").

Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Group Reorganisation"), the Company became the holding company of its then subsidiaries on 5 July 2005. The shares of the Company were listed on the Stock Exchange on 10 October 2005 (the "Listing Date"). Details of the Group Reorganisation were set out in the prospectus dated 28 September 2005 ("Prospectus") issued by the Company.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared using the principles of merger accounting basis in accordance with Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions".

The Company acts as an investment holding company. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate information" section of the annual report.

The financial statements are presented in the United States dollars, which is also the functional currency of the Company.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In 2005, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has early adopted all these new HKFRSs for the two years ended 31 December 2005, except for the following:

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standards, amendments or interpretations will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) - INT 5	Rights to interests arising from Decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economics[4]

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2006.

[3] Effective for annual periods beginning on or after 1 December 2005.

[4] Effective for annual periods beginning on or after 1 March 2006.

4. REVENUE AND SEGMENTAL INFORMATION

Business segments

For management purposes, the Group's business is currently organised into four operating divisions - flexible printed circuit boards ("FPC"), rigid printed circuit boards ("PCB"), flexible printed circuit boards assembly ("FPCA") and rigid printed circuit board assembly ("PCBA"). These divisions are the basis on which the Group reports its primary segment information.

The Group's principal activities are the manufacturing and trading of FPC, PCB, FPCA and PCBA:

	FPC		PCB		FPCA		PCBA		Consolidated	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
	US$	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*
REVENUE										
External sales	17,053,763	10,341,640	50,522,526	34,241,148	99,081,343	118,271,937	10,242,639	2,877,717	176,900,271	165,732,442
RESULTS										
Segment results	1,171,323	850,876	1,360,877	50,807	20,781,036	34,132,739	699,698	161,607	24,012,934	35,196,029
Unallocated corporate income									2,481,529	91,086
Unallocated corporate expenses									(7,051,578)	(4,559,374)
Finance costs									(3,019,681)	(1,684,479)
Profit before taxation									16,423,204	29,043,262
Income tax expense									(2,233,892)	(3,936,830)
Profit for the year									14,189,312	25,106,432
ASSETS										
Segment assets	57,956,860	45,014,741	72,149,572	43,827,115	36,503,237	63,216,744	4,959,784	1,719,024	171,569,453	153,777,624
Unallocated corporate assets									77,363,336	15,243,774
Consolidated total assets									248,932,789	169,021,398
LIABILITIES										
Segment liabilities	18,378,971	21,675,073	10,454,291	18,402,679	14,977,514	17,224,450	11,099,526	806,189	54,910,302	58,108,391
Unallocated corporate liabilities									89,285,231	53,270,323
Consolidated total liabilities									144,195,533	111,378,714
OTHER INFORMATION										
Impairment of bad and doubtful debts	220,435	40,848	328,280	136,159	179,050	458,450	13,937	13,615	741,702	649,072
Write-down for inventories	381,104	43,951	256,028	33,941	77,838	1,030,353	99	32	715,069	1,108,277
Capital additions	4,058,592	8,076,445	1,819,319	11,935,035	1,085,162	3,238,043	8,526,292	79,318	15,489,365	23,328,841
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	2,080,190	1,344,652	3,020,837	1,987,071	872,008	539,104	199,044	13,206	6,172,079	3,884,033

Geographical segments

The Group's operations are located in the People's Republic of China ("PRC") and the ROC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	2005	2004
	US$	*US$*
The PRC	104,525,891	118,786,565
Hong Kong	30,839,311	789,790
United States of America	11,106,477	9,813,147
South East Asia	23,332,176	32,361,101
Europe	2,072,802	390,401
The ROC	1,502,234	2,138,395
Others	3,521,380	1,453,043
	176,900,271	165,732,442

As at 31 December 2005 and 2004, over 90% of the identifiable assets of the Group were located in the PRC. Accordingly, no analysis on carrying amount of segment assets or additions to property, plant and equipment is presented.

5. OTHER INCOME

	2005	2004
	US$	*US$*
Interest income	242,603	32,824
Rental income	7,398	23,938
Sales of scrap materials	660,244	—
Tax incentive payment received	1,201,399	—
Net exchange gain	74,698	—
Write-back of other payables	177,705	—
Others	117,482	34,324
	2,481,529	91,086

6. FINANCE COSTS

	2005	2004
	US$	*US$*
Interest on:		
- bank borrowings wholly repayable within five years	3,001,601	1,656,084
- other borrowings	18,080	28,395
	3,019,681	1,684,479

7. INCOME TAX EXPENSE

No provision of Hong Kong Profits Tax has been made as the Group's profit neither arised in, nor derived from Hong Kong. The tax charge for the year is arising from the taxation on its subsidiaries located in the PRC.

Pursuant to the relevant laws and regulations in the PRC, Global Flex (Suzhou) Co., Ltd. ("Global Flex (Suzhou)"), a PRC subsidiary of the Company, is entitled to the exemptions from the PRC Foreign Enterprise Income Tax ("FEIT") for two years starting from its first profit-making year and to a 50% relief from the FEIT for the following three years. Global Flex (Suzhou)'s first profit-making year is the year ended 31 December 2002. Global Flex (Suzhou) has its operations located in Suzhou, the PRC which is the coastal economic open zones and is subject to a preferential tax rate of 27%.

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

	2005	**2004**
	US$	*US$*
Profit before taxation	16,423,204	29,043,262
Tax at the domestic income tax rate of 27%	4,434,265	7,841,708
Tax effect of income not taxable for tax purpose	(437,843)	(242,798)
Tax effect of expenses not deductible for tax purpose	899,264	1,258,957
Effect of tax exemptions granted to PRC subsidiaries	(2,661,794)	(4,921,037)
Tax charge for the year	2,233,892	3,936,830

The domestic income tax rate in the jurisdiction where the major operations of the Group is substantially based is used.

No provision for deferred taxation has been recognised in the consolidated financial statements as the amount involved is insignificant.

8. PROFIT FOR THE YEAR

	2005	2004
	US$	*US$*
Profit for the year has been arrived at after charging and crediting:		
Staff costs, including directors' remuneration		
- salaries and allowances	17,317,129	13,509,935
- retirement benefits scheme contributions	1,881,049	914,813
Total staff costs	19,198,178	14,424,748
Auditors' remuneration	111,918	29,999
Impairment of bad and doubtful debts (included in administrative expense)	741,702	649,072
Write-down of inventories (included in administrative expense)	715,069	1,108,277
Amortisation of prepaid lease payments	9,811	6,091
Cost of inventories recognised as an expense	102,506,757	91,737,441
Depreciation of property, plant and equipment	6,162,268	3,877,942
Listing expenses charged to the income statement	1,192,831	—
Loans handling fee paid	82,550	108,290
Net exchange (gain) loss	(63,774)	79,426
Write-back of allowance for bad debts	(129,354)	—

9. DIVIDENDS

The final dividend of HK 2.7 cents per share was proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting ("Annual General Meeting") of the Company. During the year ended 31 December 2004, Global Technology International Limited, a wholly-owned subsidiary of the Company, had paid dividends of US$3,000,000 to its then shareholders prior to the Group Reorganisation. The dividend payable was settled during the year ended 31 December 2005.

10. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2005	2004
	US$	*US$*
Earnings for the purposes of basic earnings per share	14,189,312	25,106,432
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,056,849,315	1,000,000,000

The calculation of basic earnings per share for the year ended 31 December 2004 was based on the Company's 1,000,000,000 shares deemed to be issued throughout the year assuming the Group Reorganisation and the subsequent capitalization issue had been completed on 1 January 2004.

11. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period ranged from 30 days to 150 days to its trade customers.

The aged analysis of the Group's trade receivables as at each of the balance sheet dates are as follows:

	2005	2004
	US$	*US$*
Trade receivables:		
0 - 30 days	23,166,763	22,748,341
31 - 60 days	19,932,283	22,299,225
61 - 90 days	12,206,124	11,454,752
91 - 120 days	7,795,895	2,905,888
121 - 150 days	2,856,401	1,872,544
Over 150 days	1,516,026	1,596,385
	67,473,492	62,877,135
Other receivables	5,255,476	3,322,878
	72,728,968	66,200,013

The fair value of the Group's trade and other receivables as at 31 December 2005 was approximate to the corresponding carrying amount.

The Group has pledged trade receivables of approximately US$7,243,000 (2004: US$6,078,000) to secure general banking facilities granted to the Group.

12. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables as at each of the balance sheet dates are as follows:

	2005	2004
	US$	*US$*
Trade payables:		
0 - 90 days	34,793,841	35,056,516
91 - 120 days	4,146,871	2,429,352
121 - 180 days	1,880,511	1,839,906
181 - 365 days	729,910	1,515,688
Over 365 days	147,149	377,342
	41,698,282	41,218,804
Other payables	13,212,020	14,170,058
	54,910,302	55,388,862

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 120 days.

The fair value of the Group's trade and other payables as at 31 December 2005 approximates to the corresponding carrying amounts.

FINAL DIVIDEND

The Board recommended the declaration of a final dividend of HK 2.7 cents per share, subject to shareholders' approval at the Annual General Meeting.

The final dividend will be payable on or about 30 June 2006 to shareholders whose names appear on the register of members of the Company on 23 May 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 18 May 2006 to Tuesday, 23 May 2006, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars 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 4:00 p.m. on Wednesday 17 May 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

Turnover

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

Turnover by operations

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

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

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

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

Gross profits by operations

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

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

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

Operating expenses

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

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

Liquidity and financial resources

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

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

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

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

Foreign currency exchange risk

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the largest and the five largest customers of the Group accounted for approximately 22% and 55% of the Group's turnover respectively. Aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

At no time during the year did a Director, an associate of a Director or any shareholder (whom to the knowledge of the Directors owned more than 5% of the Company's share capital) of the Company have an interest in any of the Group's five largest customers or suppliers.

EMPLOYEE BENEFITS

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

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

BUSINESS/OPERATION REVIEW

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

Expansion of customer base

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

Improvement of production technology for different products

1) **High speed automated line for FPC**

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

2) **HDI PCB**

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

3) **Surface Mount Technology ("SMT") solution**

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

Growth in capacity and high utilization

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

PROSPECTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

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

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

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

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

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

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

3. **Investment plan in Northern China**

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

USE OF PROCEEDS RAISED BY ISSUE OF SHARES

The Company has issued an aggregate of 250,000,000 new shares by way of placing and public offer for subscription at a price of HK$1.02 per share in October 2005 in connection with its listing on the Stock Exchange on 10 October 2005. The net proceeds from such new issue ("Net Proceeds"), after deducting related expenses, amounted to approximately US$30.6 million (equivalent to approximately HK$236.8 million).

The Net Proceeds have been used in accordance with the section headed "Future plans and prospects and use of proceeds" set out in the Prospectus. It was stated that about US$10.0 million out of the Net Proceeds will be used for the purchase of machinery and equipment for the Group's Suzhou plant in expanding the Group's manufacturing facilities and about US$20.2 million out of the Net Proceeds will be used for the establishment of a new manufacturing plant for the production of FPC, FPCA, PCB, and PCBA in Northern China. The Directors believe that the establishment of a new manufacturing plant would increase the number of manufacturing facilities and capacity of the Group in order to meet the increase in its customers' demand and its plan to expand its customer base.

With a view to expand the Group's manufacturing facilities, the Company decided to increase the amount of Net Proceeds to be used for the purchase of machinery and equipment for the Group's Suzhou plant from US$10 million to US$13.6 million while the amount of Net Proceeds to be applied in the development of the Northern China plant will be about US$16.6 million. The Directors take the view that such revision to the use of the Net Proceeds is in the interest of the Company and its shareholders as a whole.

	Use of proceeds (as set out in Prospectus)	**Changes**	**Use of proceeds (revised)**	**Use of proceeds up to 31st December 2005 (actual)**	**Balance**
	US$ ('million)	*US$ ('million)*	*US$ ('million)*	*US$ ('million)*	*US$*
Purchase of machinery and equipment for the Group's Suzhou Plant	10.0	3.6	13.6	(3.5)	10.1
Construction of a manufacturing plant for the production of FPC, FPCA, PCB and PCBA in Northern China	20.2	(3.6)	16.6	—	16.6
	30.2	—	30.2	(3.5)	26.7

For the year ended 31 December 2005, an amount of approximately US$13.6 million of the Net Proceeds was used as an additional capital contribution to Global Flex (Suzhou) in cash to be used in purchase of machines. Out of the above US$13.6 million, an amount of approximately US$3.5 million has been used to pay for the acquisition of machinery and equipment for the Group's Suzhou plant. The total remaining balance of the Net Proceeds of approximately US$27.1 million had been placed as short term deposits with licensed bank in Hong Kong and the PRC and is expected to be applied as disclosed in the Prospectus.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected and continuing connected transactions, certain details of which are disclosed as follows.

Lease of apartments by Mr. Hsu Chung to the Group

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

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

The amount of the Group's purchases of raw materials from Beshine, a wholly-owned subsidiary of Burda Enterprise Inc., which is in turn a company controlled by a Director and his associates, was approximately US$0.7 million (2004:US$11 million) for the year ended 31 December 2005. These transactions with Beshine has been discontinued since April 2005 as disclosed in the Prospectus.

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

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding the Directors' securities tranasactions on terms not less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issues ("Model Code") as set out in Appendix 10 to the Listing Rules on 5 July 2005. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code throughout the period from the Listing Date to 31 December 2005 and all the Directors confirmed that they have fully complied with the required standard set out in the Model Code.

CORPORATE GOVERNANCE

After the Listing Date, the Company has fully complied with the requirements under the Code Provisions in the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Listing Rules. Code Provision A.4.2 provides that all directors appointed to fill a casual vacancy shall hold office until the first general meeting after their appointment while the articles of association of the Company provides that any Director so appointed shall hold office until the next annual general meeting. Amendments to the relevant provision of the articles of association of the Company will be proposed at the Annual General Meeting to be held on Tuesday, 23 May 2006 so that the provisions of the articles of association of the Company will be consistent with Code Provision A.4.2.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, namely Messrs. Wang Wei-Lin, Lee Ka Leung, Daniel and Tung Tat Chiu, Michael, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Board considers all of the independent non-executive Directors are independent.

AUDIT COMMITTEE

An Audit Committee was established by the Company on 5 July 2005 with written terms of reference to review and supervise the Company's financial reporting process and internal controls. The Audit Committee comprises Mr. Lee Ka Leung, Daniel and Mr. Tung Tat Chiu, Michael, being independent non-executive Directors and Mr. Chou Tsan Hsiung, a non-executive Director. Currently, Mr. Lee Ka Leung, Daniel is the Chairman of the Audit Committee.

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company on 5 July 2005 and re-constituted pursuant to a written resolution passed by the Board on 23 September 2005 to formulate and make recommendation to the Board on the Group's policy and structure for all remuneration of the Directors and senior management of the Group.

The Remuneration Committee, comprises the three independent non-executive Directors, namely Mr. Wang Wei-Lin, Mr. Lee Ka Leung, Daniel and Mr. Tung Tat Chiu, Michael and Mr. Chou Tsan Hsiung, a non-executive Director. Mr. Wang Wei-Lin is the Chairman of the Remuneration Committee.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting will be held on 23 May 2006. The notice convening the Annual General Meeting will be published in the newspapers and sent to the shareholders of the Company in due course.

By Order of the Board
Lin Cheng Hung
Chairman

Hong Kong, 25 April 2006