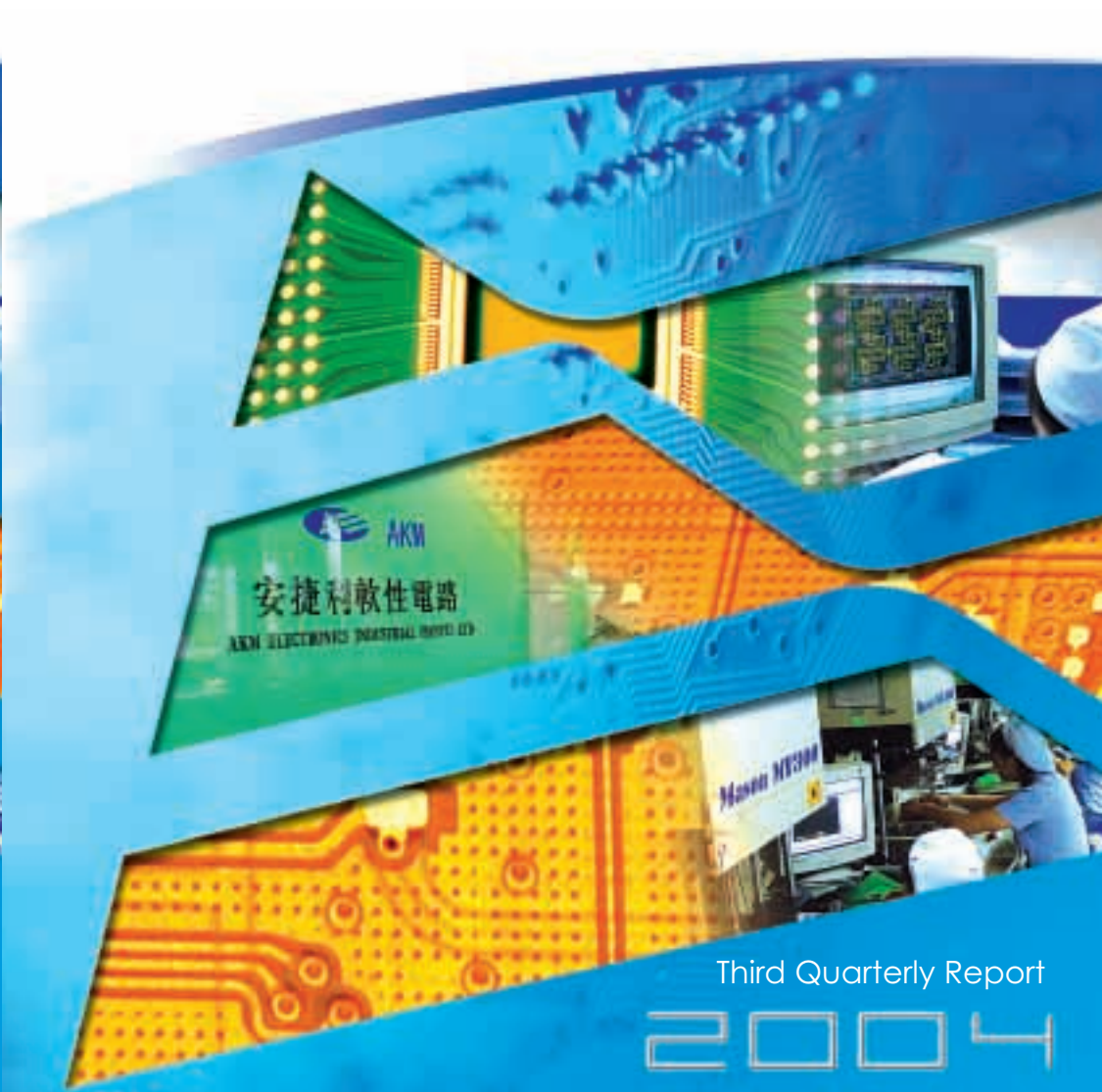




**AKM Industrial Company Limited**

**安捷利實業有限公司**

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



 **AKM**  
**安捷利軟性電路**  
AKM ELECTRONICS INDUSTRIAL GROUP LTD

Third Quarterly Report

2004

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims 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 of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- The Company was successfully listed on GEM of the Stock Exchange on 18 August 2004.
- For the nine months ended 30 September 2004, unaudited turnover increased to approximately HK\$191,047,000, which represents an approximate 144% growth as compared to that of the same period in previous year. The net profit increased by approximately 217% to approximately HK\$30,082,000 as compared to that of the same period last year.
- Earnings per share of the Company and its subsidiary (hereafter collectively referred to as the "Group") was approximately HK\$7 cents for the nine months ended 30 September 2004.

## THE FINANCIAL STATEMENTS

### Quarterly Results

The Directors are pleased to announce the unaudited consolidated quarterly results of the Group for the three months and nine months ended 30 September 2004, together with the comparative unaudited figures for the corresponding period in 2003, as follows:

### Condensed Consolidated Income Statement

For the three months and nine months ended 30 September 2004

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2004 HK\$ (Unaudited)	2003 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2003 HK\$ (Unaudited)
Turnover	2	<b>191,047,085</b>	78,269,620	<b>61,620,541</b>	27,451,160
Cost of sales		<b>(133,197,934)</b>	(57,788,062)	<b>(41,195,674)</b>	(19,692,523)
Gross profit		<b>57,849,151</b>	20,481,558	<b>20,424,867</b>	7,758,637
Other operating income		<b>109,181</b>	63,127	<b>84,543</b>	7,975
Distribution costs		<b>(8,436,536)</b>	(2,974,386)	<b>(3,523,876)</b>	(841,468)
Administrative expenses		<b>(9,514,166)</b>	(3,703,866)	<b>(3,397,654)</b>	(1,095,835)
Research and development expenses		<b>(4,268,777)</b>	(2,261,224)	<b>(1,665,303)</b>	(755,587)
Profit from operations		<b>35,738,853</b>	11,605,209	<b>11,922,577</b>	5,073,722
Finance costs		<b>(727,846)</b>	(624,506)	<b>(377,104)</b>	(224,678)
Profit before taxation		<b>35,011,007</b>	10,980,703	<b>11,545,473</b>	4,849,044
Taxation	3	<b>(4,928,574)</b>	(1,482,874)	<b>(1,682,268)</b>	(672,133)
Net profit for the period		<b>30,082,433</b>	9,497,829	<b>9,863,205</b>	4,176,911
Dividend	4	-	-	-	-
Earnings per share – Basic	5	<b>7.12 cents</b>	2.37 cents	<b>2.11 cents</b>	1.04 cents

## Condensed Consolidated Statement of Changes in Equity

For the period ended 30 September 2004

	Share capital HK\$ (Unaudited)	Share premium HK\$ (Unaudited)	Translation reserve HK\$ (Unaudited)	Accumulated profits (losses) HK\$ (Unaudited)	Total HK\$ (Unaudited)
At 1 January 2004	100,000	–	1,632,895	15,531,090	17,263,985
Exchange differences from translation of operations outside Hong Kong not recognised in the condensed consolidated income statement	–	–	193,202	–	193,202
Issued by capitalisation of loan from immediate holding company and loan from a shareholder	39,900,000	20,657,771	–	–	60,557,771
Issue of shares to the public	14,000,000	42,000,000	–	–	56,000,000
Expenses incurred in connection with the issue of shares to the public	–	(8,789,443)	–	–	(8,789,443)
Net profit for the period	–	–	–	30,082,433	30,082,433
<b>At 30 September 2004</b>	<b>54,000,000</b>	<b>53,868,328</b>	<b>1,826,097</b>	<b>45,613,523</b>	<b>155,307,948</b>
At 1 January 2003	100,000	–	2,410,182	(5,646,840)	(3,136,658)
Exchange differences from translation of operations outside Hong Kong not recognised in the condensed consolidated income statement	–	–	(692,307)	–	(692,307)
Net profit for the period	–	–	–	9,497,829	9,497,829
At 30 September 2003	100,000	–	1,717,875	3,850,989	5,668,864

**Notes to the Condensed Consolidated Profit and Loss Accounts***For the period ended 30 September 2004***1. BASIS OF PREPARATION**

The unaudited consolidated results of the Group have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies adopted are consistent with those set out in the Group's annual financial statements for the year ended 31 December 2003.

The Quarterly Financial Statements are unaudited but have been reviewed by the audit committee of the Company.

**2. TURNOVER**

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances.

The Group's principal activities are the manufacture and sale of flexible printed circuit as a single business segment.

An analysis of the Group's turnover by geographical market of its customers is as follows:

	<b>Nine months ended</b>		<b>Three months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$</b>	HK\$	<b>HK\$</b>	HK\$
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
Geographical market:				
PRC other than Hong Kong	<b>176,617,683</b>	71,003,293	<b>55,526,018</b>	25,532,679
Hong Kong	<b>14,429,402</b>	7,266,327	<b>6,094,523</b>	1,918,481
	<b>191,047,085</b>	78,269,620	<b>61,620,541</b>	27,451,160

All of the production facilities of the Group are located in the PRC.

### 3. TAXATION

	Nine months ended 30 September		Three months ended 30 September	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax	<b>4,928,574</b>	1,482,874	<b>1,682,268</b>	672,133

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company does not have any assessable profit for the period and income of its PRC subsidiary, AKM Electronics Industrial Panyu Ltd. ("AKM Panyu"), neither arises in, nor is derived from, Hong Kong.

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable to the period.

Pursuant to the relevant laws and regulations in the PRC, AKM Panyu is exempted from PRC Enterprise Income Tax for two years starting from 1 January 2000 and is eligible for and entitled to a 50% tax reduction for the next three years starting from 1 January 2002 at a reduced rate of 12%.

On 31 December 2003, AKM Panyu was awarded the Foreign Invested Advanced-technology Enterprise Certificate by Bureau of Foreign Trade and Economic Co-operation of Guangzhou City. AKM Panyu is entitled to an extension of 50% tax reduction in PRC Enterprise Income Tax up to 31 December 2007.

### 4. DIVIDENDS

The directors do not recommend payment of an interim dividend for the nine months ended 30 September 2004 (2003: Nil).

### 5. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and nine months ended 30 September 2004 is based on the net profit for each of the interim periods and on the weighted average number of 466,956,522 shares (2003: 400,000,000 shares) and 422,481,752 shares (2003: 400,000,000 shares) in issue for the periods respectively assuming that the 1,000,000 shares in issue after sub-division of the Company's shares and 399,000,000 shares issued by way of capitalisation of loan from immediate holding company and loan from a shareholder, pursuant to the written resolution passed on 6 August 2004 by shareholders of the Company, were deemed to have been issued for each of the interim periods.

No diluted earnings per share have been presented because the exercise price of the Company's options was higher than the average market price of shares for the periods.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the nine months ended 30 September 2004, the turnover of the Group amounted to approximately HK\$191 million, representing an increase of approximately 144% as compared to the corresponding period last year. The increase in turnover was mainly attributable to the increase of the Group's sales volume. The gross profit margin for the nine months period was increased to approximately 30.3% (the corresponding period of 2003: 26.2%) due to the increased sales of new products of multi-layer flexible printed circuit. The net profit of the Group for the nine months period was approximately HK\$30 million, representing an increase of approximately 217% as compared to the corresponding period last year. The increase in net profit was mainly due to the increase of turnover.

The distribution costs of the Group for the nine months ended 30 September 2004 amounted to approximately HK\$8.4 million, representing an increase of approximately 184% as compared to the corresponding period last year. The increase in distribution costs was mainly due to the increase in sales and sales and marketing activities.

The administrative expenses of the Group for the nine months ended 30 September 2004 amounted to approximately HK\$9.5 million, representing an increase of approximately 157% as compared to the corresponding period last year. The increase in administrative expenses was for the daily operation activities as turnover increased.

The research and development expenses of the Group for the nine months ended 30 September 2004 amounted to approximately HK\$4.3 million, representing an increase of approximately 89% as compared to the corresponding period last year. The increase in research and development expenses was mainly due to the increase in the number of staff to carry out more research and development projects and activities.

### Business Review and Prospect

For the nine months ended 30 September 2004, the sales proportion of the three products, namely single-sided flexible printed circuit, double-sided flexible printed circuit and multi-layer flexible printed circuit were 13%, 40% and 47% respectively. During the period, the sales of multi-layer flexible printed circuit had increased so significantly that it has become substantial to the Group's turnover and profit contribution.

As mentioned under the section headed "Reason for the Placing and use of proceeds" in the prospectus of the Company (the "Prospectus") dated 10 August 2004, the Group plans to expand the sales and distribution network by setting up representative offices in various places. Now, it is in the process to set up the representative office in Beijing as planned. In order to further increase the sales and distribution network in the PRC, it is also in the process to set up representative offices in Shanghai and Shenzhen. Also, the Group is carrying out feasibility studies in setting up representative offices in Japan and Taiwan so as to increase the overseas market share.

In order to offer better services to customers in the eastern part of the PRC, the Company carries out feasibility study about the establishment of a production line in the eastern part of the PRC, to have production capacity for some of the production processes.

As planned, the Company is in the process to acquire the fifth and sixth production lines which can expand its existing production capacity thus increasing the sales volume. Moreover, renovation of production plant is being carried out for installation.



## DISCLOSURE OF INTERESTS

### (a) Directors' interests in shares of the Company

#### *Interests and short positions of Directors in the Shares*

As at 30 September 2004, save as disclosed below, the Directors and chief executive (if any) of the Company do not have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors:

Name of Director	Capacity	Interests in Shares		Total number of Shares (Note)	% of issued Shares
		Number of Shares in which interested under physically equity derivatives	Number of Shares in which interested (other than under equity derivatives)		
Xiong Zheng Feng	Beneficial owner	2,000,000	Nil	2,000,000	0.37
Chai Zhi Qiang	Beneficial owner	2,800,000	Nil	2,800,000	0.52
Ma Jian Guo	Beneficial owner	1,800,000	Nil	1,800,000	0.33
Li Ying Hong	Beneficial owner	600,000	Nil	600,000	0.11

*Note:* The respective interests of Xiong Zheng Feng, Chai Zhi Qiang, Ma Jian Guo and Li Ying Hong in the underlying shares of the Company reflect the share options granted to them respectively under the Pre-IPO Share Option Scheme adopted by the Company on 6 August 2004. With respect to the share options held by the Directors as shown above, the date of grant is 6 August 2004; the exercise price is HK\$0.40 per share; the exercise period is from 18 August 2005 to 6 August 2014. As at 30 September 2004, none of the above Directors has exercised their share options.

**(b) Substantial shareholders**

As at 30 September 2004, save as disclosed below, so far as is known to any Director or chief executive (if any) of the Company, no persons (not being a Director or chief executive (if any) of the Company nor the Company itself) had an interest or short position in the shares or underlying shares of the Company which were required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO), or who were, directly and indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Substantial Shareholder	Capacity	Interests in Shares		Total number of Shares	% of issued Shares
		Number of Shares in which interested (other than under equity derivatives)	Number of Shares in which interested under physically equity derivatives		
Alpha Luck Industrial Ltd. ("Alpha Luck")	Beneficial owner	360,000,000	Nil	360,000,000	66.67
Silver City International (Holdings) Ltd. <sup>(1)</sup> ("Silver City")	Interest in controlled corporation	360,000,000	Nil	360,000,000	66.67
China North Industries Corporation* (中國北方工業公司) ("CNIC") <sup>(2)</sup>	Interest in controlled corporation	360,000,000	Nil	360,000,000	66.67
Dalmary International Corporation ("Dalmary") <sup>(3)</sup>	Beneficial owner	40,000,000	Nil	40,000,000	7.41

\* For identification purposes

*Notes:*

1. This represents the same block of shares of the Company shown against the name of Alpha Luck above. Since Alpha Luck is wholly beneficially owned by Silver City, Silver City is deemed to be interested in the same number of Shares to be held by Alpha Luck under Part XV of the SFO.
2. As Silver City is wholly beneficially owned by CNIC, CNIC is deemed to be interested in the same number of Shares which Silver City is deemed to be interested under Part XV of the SFO.
3. Dalmay is beneficially owned by 29 shareholders which consist of various Directors, members of the senior management and employees of the Group, of which Xiong Zheng Feng is interested in 30% of its issued share capital, Chai Zhi Qiang is interested in 28.75%, Ma Jian Guo is interested in 7.50% and Li Ying Hong is interested in 6.75%.

## **COMPETING INTERESTS**

None of the Directors, the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company during the period under review.

## **SPONSOR'S INTERESTS**

Pursuant to a sponsor agreement dated 10 August 2004 made between the Company and Barits Securities (Hong Kong) Limited ("Barits"), Barits has been appointed as the sponsor to the Company as required under the GEM Listing Rules at a fee for the period from 18 August 2004 to 31 December 2006.

None of Barits, its directors, employees and their respective associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 30 September 2004.

## **AUDIT COMMITTEE**

The Company has established an audit committee with terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Company and provide advice and comments to the Directors.

The audit committee comprises three independent non-executive Directors, namely, Mr. Li Kung Man (the chairman of the audit committee), Mr. Liang Zhi Li and Mr. Wang Heng Yi. The audit committee of the Company has reviewed the unaudited results of the Group for the nine months ended 30 September 2004.

## **PRACTICES AND PROCEDURES OF THE BOARD**

The Company had complied with standards of good practice concerning the general management responsibilities of the board of Directors as set out in Rules 5.34 to 5.45 of the GEM Listing Rules at all times since the Company's shares have been listed on the GEM of the Stock Exchange on 18 August 2004.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company's shares were listed on 18 August 2004.

Except for the placing of the shares of the Company on GEM of the Stock Exchange, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the nine months ended 30 September 2004.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Save as disclosed in the sub-section headed "Directors' interests in shares of the Company" under the section headed "Disclosure of interests" to this report, none of the Directors and their respective associates was granted by the Company or its subsidiaries any right to acquire shares of the Company or any other body corporate, or had exercised any such right as at 30 September 2004.

By Order of the Board  
**AKM Industrial Company Limited**  
**Xiong Zheng Feng**  
*Chairman*

9 November 2004, Hong Kong