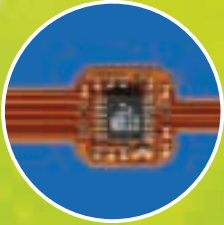




AKM Industrial Company Limited

安捷利實業有限公司

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



First Quarterly Report

2005

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

- For the three months ended 31 March 2005, unaudited turnover was approximately HK\$40.82 million, which represents an approximate 33.50% decrease as compared to that of the same period in previous year. The net profit decreased by approximately 26.26% to approximately HK\$6.69 million as compared to that of the same period last year.
- Earnings per share of the Company and its subsidiaries (hereafter collectively referred to as the "Group") was approximately HK1.24 cents for the three months ended 31 March 2005.

THE FINANCIAL STATEMENTS

Quarterly Results

The Directors are pleased to announce the unaudited consolidated quarterly results of the Group for the three months ended 31 March 2005, together with the comparative unaudited figures for the corresponding period in 2004, as follows:

Condensed Consolidated Income Statement

For the three months ended 31 March 2005

	Notes	Three months ended 31 March	
		2005	2004
		HK\$	HK\$
		(Unaudited)	(Unaudited)
Turnover	2	40,823,614	61,391,375
Cost of sales		(27,510,458)	(45,384,214)
Gross profit		13,313,156	16,007,161
Other operating income		113,764	23,610
Distribution costs		(1,415,754)	(1,993,673)
Administrative expenses		(2,899,238)	(2,082,214)
Research and development expenses		(1,443,536)	(1,445,766)
Profit from operations		7,668,392	10,509,118
Finance costs		–	(220,042)
Profit before taxation		7,668,392	10,289,076
Taxation	3	(982,651)	(1,222,786)
Net profit for the period		6,685,741	9,066,290
Dividend	4	–	–
Earnings per share – Basic	5	1.24 cents	2.27 cents
– Diluted		1.23 cents	N/A

Condensed Consolidated Statement of Changes in Equity

For the period ended 31 March 2005

	Share capital HK\$ (Unaudited)	Share premium HK\$ (Unaudited)	Translation reserve HK\$ (Unaudited)	Accumulated profits (losses) HK\$ (Unaudited)	Total HK\$ (Unaudited)
At 1 January 2005	54,000,000	53,868,328	2,269,413	56,929,421	167,067,162
Exchange differences from translation of operations outside Hong Kong not recognised in the condensed consolidated income statement	–	–	(2,005)	–	(2,005)
2004 final dividend declared	–	–	–	(2,700,000)	(2,700,000)
Net profit for the period	–	–	–	6,685,741	6,685,741
At 31 March 2005	54,000,000	53,868,328	2,267,408	60,915,162	171,050,898
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	–	–	165,972	–	165,972
Net profit for the period	–	–	–	9,066,290	9,066,290
At 31 March 2004	100,000	–	1,798,867	24,597,380	26,496,247

Notes to the Condensed Consolidated Profit and Loss Accounts

For the period ended 31 March 2005

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.

In 2005, the Group has adopted all new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKAS") (herein collectively referred to as "new HKFRSs") relevant to its operations, which are effective for periods beginning on or after 1 January 2005. The adoption of these new HKFRSs has resulted in changes to the Group's accounting policies in the following area:

Share-based payments

Prior to the adoption of HKFRS 2, the Group did not recognise the financial effect of share-based payments until such time as the share-based payments are settled. Following the adoption of HKFRS 2, the fair value of share options at grant date was amortised over the subsequent relevant vesting period.

The adoption of HKFRS 2 has no material effect on the results for current nor prior accounting periods. Accordingly, no prior period adjustment is required.

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:

	Three months ended 31 March	
	2005	2004
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Geographical market:		
PRC other than Hong Kong	34,405,783	58,409,306
Hong Kong	5,375,822	2,982,069
Others	1,042,009	–
	40,823,614	61,391,375

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

3. TAXATION

	Three months ended 31 March	
	2005	2004
	HK\$	HK\$
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax	982,651	1,222,786

No provision for Hong Kong Profits Tax has been made in the financial statements as the assessable profit derived by the Company for the current period will be absorbed by the tax loss incurred in prior year 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 three months ended 31 March 2005 (2004: Nil).

5. EARNINGS PER SHARE

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

	Three months ended 31 March	
	2005	2004
	HK\$	HK\$
Earnings for the purposes of basic and diluted earnings per share:		
– net profit for the period	6,685,741	9,066,290
	2005	2004
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	540,000,000	400,000,000
Effect of dilutive potential ordinary shares from share options	2,188,071	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	542,188,071	N/A

The calculation of basic earnings per share for the three months ended 31 March 2004 is on the assumption that the additional 900,000 shares arising from subdivision of each of the Company's share of HK\$1.00 each into 10 shares of HK\$0.10 each and the 399,000,000 shares issued upon capitalisation of loan from immediate holding company and loan from a shareholder had been in issue since 1 January 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 31 March 2005, the turnover of the Group amounted to approximately HK\$40.82 million, representing a decrease of approximately 33.50% as compared to the corresponding period last year. The decrease in turnover was mainly attributable to the decrease of the Group's sales volume. The gross profit margin for the period was increased to approximately 32.61% (the corresponding period of 2004: 26.07%) due to the sales of new products of multi-layer flexible printed circuits. The net profit of the Group for the period was approximately HK\$6.69 million, representing an decrease of approximately 26.26% as compared to the corresponding period last year. The decrease in net profit was mainly due to the decrease in turnover.

The distribution costs of the Group for the three months ended 31 March 2005 amounted to approximately HK\$1.42 million, representing a decrease of approximately 28.99% as compared to the corresponding period last year. The decrease in distribution costs was in line with the decrease in turnover.

The administrative expenses of the Group for the three months ended 31 March 2005 amounted to approximately HK\$2.90 million, representing an increase of approximately 39.24% as compared to the corresponding period last year. The increase in administrative expenses was due to more staff employed and the increase in professional expenses. Since the Company was listed on GEM of the Stock Exchange in August 2004, professional parties like sponsor and legal advisers were retained and accordingly higher professional expenditure was incurred.

The research and development expenses of the Group for the three months ended 31 March 2005 amounted to approximately HK\$1.44 million, representing a decrease of approximately 0.15% as compared to the corresponding period last year.

Business Review and Prospect

For the three months ended 31 March 2005, the sales proportion of the three products, namely single-sided, double-sided and multi-layer flexible printed circuit were approximately 13%, 25% and 62% respectively while for the corresponding period in year 2004 were approximately 8%, 53% and 39% respectively.

During the period under review, the Group's performance declined substantially within the anticipation of the management of the Company as a result of the decreased sales of flexible printed circuit when compared with year 2004. Decrease in the sales of flexible printed circuit was mainly due to the significant reduction in the sales attributable to a mobile phone manufacturer which is one of our major customers. To counter the negative impact from such mobile phone manufacturer on the Group, the Company has taken measures to reduce the Group's future reliance on the sales attributable to it.

In 2005, the Group had taken effective steps to diversify the applications of its products of over 80% on mobile phones in 2004 to other electronic appliances such as computer notebooks and digital cameras. Mass production of flexible printed circuit applied in computer notebooks was conducted at the end of the first quarter this year.

Apart from that, in March 2005, the Company established a wholly owned subsidiary, AKM (Suzhou) FPC Company Limited (安捷利(蘇州)柔性電路板有限公司) in the eastern part of China with registered capital of HK\$5 million. The principal activities of the new subsidiary are to conduct certain production processes, assembling of electronic module as well as sale of the Company's own products. The Directors believe that the establishment of such new subsidiary will broaden the client base of the Group and enable the Group to serve its customers in a more effective and efficient manner. Hence, the Directors are confident that the Group's performance will improve in the second quarter of the year with the diversification of the applications of the Group's products and the establishment of such new subsidiary to broaden the Group's client base.

In the first quarter of the year, the Company also commenced trial runs on the fifth production line of the Group and new sample products like rigid-flex flexible printed circuits and high-density interconnect flexible printed circuits were developed. The Group anticipates that turnover attributable to these new products will be generated during the second half of the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

Save as disclosed below, as at 31 March 2005, none of the directors and the chief executive (if any) of the Company had any interest or short position 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 pursuant to Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules"):

Name of Director	Name of company in which interest is held	Class and number of securities in which interested under physically settled equity derivatives	Capacity	Long/Short position	Percentage of total issued share capital in the Company
Mr. Xiong Zheng Feng	the Company	2,000,000 ordinary shares	Beneficial owner	Long	0.37
Mr. Chai Zhi Qiang	the Company	2,800,000 ordinary shares	Beneficial owner	Long	0.52
Ms. Li Ying Hong	the Company	600,000 ordinary shares	Beneficial owner	Long	0.11

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 granted to him/her under a share option scheme adopted prior to the listing of the Company.
2. None of Mr. Xiong Zheng Feng, Ms. Li Ying Hong and Mr. Chai Zhi Qiang is interested in any securities of the Company other than under equity derivatives.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 March 2005, no person other than a director or chief executive (if any) of the Company had any interest 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:

Name of substantial shareholder	Capacity	Class and number of securities in which interested (other than under equity derivatives) (Note 3)	Long/Short position	Percentage of total issued share capital in the Company
Alpha Luck Industrial Ltd. ("Alpha Luck")	Beneficial owner	360,000,000 ordinary shares	Long	66.67
Silver City International (Holdings) Ltd. ("Silver City") (Note 1)	Interest in controlled corporation	360,000,000 ordinary shares	Long	66.67
China North Industries Corporation 中國北方工業公司 ("CNIC") (Note 2)	Interest in controlled corporation	360,000,000 ordinary shares	Long	66.67
Dalmay International Corporation ("Dalmay") (Note 3)	Beneficial owner	40,000,000 ordinary shares	Long	7.41

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 of the Company 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 of the Company 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, member of the senior management and employees of the Group. Mr. Xiong Zheng Feng, Mr. Chai Zhi Qiang and Ms. Li Ying Hong are interested in 30%, 28.75% and 6.75% respectively in the issued share capital of Dalmay.
4. None of Alpha Luck, Silver City, CNIC and Dalmay is interested in any securities of the Company under equity derivatives.

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 conflict of interest with any member of the Group or any interest in a business which competes or may compete with the business of any member of the Group 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 accrued any material benefits or had a directorship in or had any interests in any class of securities of any member of the Group (including options or rights to subscribe for such securities but excluding interests in such securities subscribed by any director or employee of Barits pursuant to an offer by way of public subscription made by the Company) as a result of the listing or any transaction of the Company for the three months ended 31 March 2005.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon "A Guide for the Formation of our Audit Committee" published by the Hong Kong Institute of Certified Public Accountants in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee of the Company are to review and supervise the financial reporting process and internal control procedures of the Company and provide advice and comments on the Company's draft annual reports and accounts, half-yearly reports and quarterly reports to the Directors.

The audit committee of the Company comprises three members which are all independent non-executive Directors, namely, Mr. Li Kung Man (the chairman of the audit committee), Mr. Liang Zhi Li and Mr. Wang Heng Yi.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the three months ended 31 March 2005.

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

10 May 2005, Hong Kong