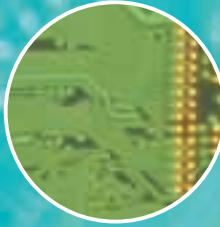
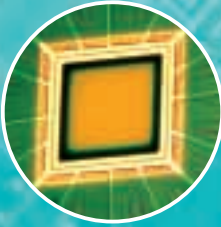
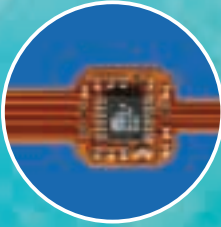




AKM Industrial Company Limited

安捷利實業有限公司

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



Interim 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. Companies listed on GEM 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, 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 six months ended 30 June 2005, the unaudited turnover decreased to approximately HK\$94.27 million, representing a decrease of approximately 27.16% as compared to that of the same period last year. The net profit decreased by approximately 31.38% to approximately HK\$13.87 million as compared to that of the same period last year.
- Earnings per share of the Group was approximately HK2.57 cents for the six months ended 30 June 2005.

The board (the "Board") of Directors is pleased to announce the unaudited condensed consolidated operating results of the Company and its subsidiaries (collectively, the "Group") for the three months and six months ended 30 June 2005 together with comparative figures for the corresponding period in the previous year as follows:

THE FINANCIAL STATEMENTS

Condensed Consolidated Income Statement

For the six months and three months ended 30 June 2005 and 30 June 2004

	Notes	Six months ended 30 June		Three months ended 30 June	
		2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2004 HK\$ (Unaudited)
Turnover	3	94,272,776	129,426,544	53,449,162	68,035,169
Cost of sales		(66,958,128)	(92,002,260)	(39,447,670)	(46,618,046)
Gross profit		27,314,648	37,424,284	14,001,492	21,417,123
Other operating income		187,228	24,638	73,464	1,028
Distribution costs		(2,861,155)	(4,912,660)	(1,445,401)	(2,918,987)
Administrative expenses		(5,832,385)	(6,116,512)	(2,933,147)	(4,034,298)
Research and development expenses		(2,890,012)	(2,603,474)	(1,446,476)	(1,157,708)
Profit from operations	4	15,918,324	23,816,276	8,249,932	13,307,158
Finance costs		–	(350,742)	–	(130,700)
Profit before taxation		15,918,324	23,465,534	8,249,932	13,176,458
Taxation	5	(2,040,232)	(3,246,306)	(1,057,581)	(2,023,520)
Profit for the period		13,878,092	20,219,228	7,192,351	11,152,938
Attributable to:					
Equity holders of the parent		13,873,998	20,219,228	7,188,257	11,152,938
Minority interests		4,094	–	4,094	–
		13,878,092	20,219,228	7,192,351	11,152,938
Dividend	6	–	–	–	–
Earnings per share	7				
– Basic		2.57 cents	5.05 cents	1.33 cents	2.79 cents
– Diluted		2.56 cents	N/A	1.32 cents	N/A

Condensed Consolidated Balance Sheet*As at 30 June 2005 and 31 December 2004*

	Notes	30 June 2005 HK\$ (Unaudited)	31 December 2004 HK\$ (Audited)
Non-current assets			
Property, plant and equipment	8	64,181,269	48,103,515
Deferred tax assets		303,000	303,000
		64,484,269	48,406,515
Current assets			
Inventories		37,948,407	17,423,933
Trade and other receivables	9	70,157,368	55,236,047
Bills receivable		32,440,853	26,553,251
Pledged bank deposits		9,244,378	9,825,754
Bank balances and cash		30,954,115	71,216,747
		180,745,121	180,255,732
Current liabilities			
Trade and other payables	10	46,520,247	50,823,026
Bills payable		4,599,513	2,899,405
Government grants received		1,679,245	1,160,377
Amounts due to fellow subsidiaries		1,666,538	1,750,524
Taxation payable		4,999,240	4,778,419
Bank borrowings	11	6,048,159	183,334
		65,512,942	61,595,085
Net current assets		115,232,179	118,660,647
Total assets less current liabilities		179,716,448	167,067,162
Capital and reserves			
Share capital	12	54,000,000	54,000,000
Reserves		124,252,159	113,067,162
Equity attributable to equity holders of the parent		178,252,159	167,067,162
Minority interests		4,289	–
Total equity		178,256,448	167,067,162
Non-current liability			
Loan from a minority interests		1,460,000	–
		1,460,000	–
		179,716,448	167,067,162

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2005 and 30 June 2004

	Attributable to equity holders of the parent						
	Share capital	Share premium	Translation reserve	Accumulated		Minority interests	Total
				profits	(losses)		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
At 1 January 2004	100,000	-	1,632,895	15,531,090	17,263,985	-	17,263,985
Exchange differences from translation of operations outside Hong Kong not recognised in the condensed consolidated income statement	-	-	179,582	-	179,582	-	179,582
Net profit for the period	-	-	-	20,219,228	20,219,228	-	20,219,228
At 30 June 2004	100,000	-	1,812,477	35,750,318	37,662,795	-	37,662,795
At 1 January 2005	54,000,000	53,868,328	2,269,413	56,929,421	167,067,162	-	167,067,162
Exchange differences from translation of operations outside Hong Kong not recognised in the condensed consolidated income statement	-	-	10,999	-	10,999	-	10,999
Capital contribution from minority interests	-	-	-	-	-	195	195
2004 final dividend paid	-	-	-	(2,700,000)	(2,700,000)	-	(2,700,000)
Net profit for the period	-	-	-	13,873,998	13,873,998	4,094	13,878,092
At 30 June 2005	54,000,000	53,868,328	2,280,412	68,103,419	178,252,159	4,289	178,256,448

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2005 and 30 June 2004

	Six months ended 30 June	
	2005	2004
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	(23,364,921)	3,908,854
Net cash used in investing activities	(20,073,460)	(19,154,938)
Net cash from financing activities	3,164,825	6,204,985
<hr/>		
Decrease in cash and cash equivalents	(40,273,556)	(9,041,099)
Cash and cash equivalents at beginning of the period	71,216,747	18,709,056
Effect of foreign exchange rate changes	10,924	36,758
<hr/>		
Cash and cash equivalents at end of the period, representing bank balances and cash	30,954,115	9,704,715
<hr/>		

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

1. GENERAL

The Company is incorporated in Hong Kong with limited liability on 9 December 1993 and its ultimate holding company is China North Industries Corporation, a state-owned enterprise established in the People's Republic of China (the "PRC").

The Company is an investment holding company and is engaged in sourcing of raw materials for its subsidiary. Its subsidiary is engaged in manufacture and sale of flexible printed circuits.

The Company's shares have been listed on GEM of the Stock Exchange since 18 August 2004.

2. 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 unaudited consolidated results for the six months ended 30 June 2005 are unaudited but have been reviewed by the audit committee of the Company.

3. 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 circuits as a single business segment.

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

	Six months ended 30 June		Three months ended 30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Geographical market:				
PRC other than Hong Kong	80,158,849	121,091,665	45,753,066	62,682,359
Hong Kong	11,417,328	8,334,879	6,041,506	5,352,810
Others	2,696,599	–	1,654,590	–
	94,272,776	129,426,544	53,449,162	68,035,169

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

4. PROFIT FROM OPERATIONS

	Six months ended 30 June		Three months ended 30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit from operations has been arrived at after charging:				
Allowance for bad and doubtful debts	–	944,467	–	–
Allowance for obsolete inventories	–	4,503,475	–	4,062,507
Depreciation of property, plant and equipment	4,740,857	3,180,577	2,587,924	1,654,793
and after crediting:				
Reversal of allowance for bad and doubtful debts	141,244	–	143,313	–
Reversal of allowance for obsolete inventories	2,489,055	–	1,917,870	–
Interest income	163,775	24,638	73,464	1,028

5. TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax	2,040,232	3,246,306	1,057,581	2,023,520

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.

6. DIVIDEND

On 27 April 2005, a dividend of HK0.5 cents per share on 540,000,000 shares, in aggregates approximately HK\$2,700,000 was paid to shareholders as the final dividend for year 2004.

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2005	2004
	HK\$	HK\$
Earnings for the purposes of basic and diluted earnings per share:		
– profit for the period attributable to equity holders of the parent	13,873,998	20,219,228
	<hr/>	
	2005	2004
	Number of	Number of
	shares	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	2,854,064	–
	<hr/>	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	542,854,064	N/A

The calculation of basic earnings per share for the six months ended 30 June 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 2003.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$20,819,000 (2004: HK\$7,135,000) on the acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

The Group allows a credit period normally ranging from 30 to 90 days to its trade customers. At the discretion of the Directors, several major customers were allowed to settle their balances beyond the written credit terms and up to 120 days.

The following is an aging analysis of trade receivables:

	At 30 June 2005 HK\$ (Unaudited)	At 31 December 2004 HK\$ (Audited)
Within 30 days	23,024,331	19,903,294
31 – 60 days	14,366,484	15,738,388
61 – 90 days	9,645,086	9,736,087
91 – 120 days	7,653,754	2,818,155
121 days – 1 year	8,648,340	5,737,610
Over 1 year	–	380,991
	63,337,995	54,314,525

10. TRADE AND OTHER PAYABLES

	At 30 June 2005 HK\$ (Unaudited)	At 31 December 2004 HK\$ (Audited)
Within 30 days	14,949,041	32,027,076
31 – 60 days	9,324,733	3,226,645
61 – 90 days	5,769,497	1,113,050
91 – 120 days	1,778,892	119,317
121 days – 1 year	1,051,135	33,379
	32,873,298	36,519,467

The following is an aging analysis of trade payables:

11. BANK BORROWINGS

	At 30 June 2005 HK\$ (Unaudited)	At 31 December 2004 HK\$ (Audited)
Bank borrowings which are repayable within one year comprise the following:		
Trust receipts loans – secured	6,048,159	183,334

12. SHARE CAPITAL

	Number of shares	Share capital HK\$
Authorised:		
At 1 January 2005 and 30 June 2005	2,000,000,000	200,000,000
Issued and fully paid:		
At 1 January 2005 and 30 June 2005	540,000,000	54,000,000

13. CAPITAL COMMITMENTS

	At 30 June 2005 HK\$ (Unaudited)	At 31 December 2004 HK\$ (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements	5,204,000	10,024,000

14. RELATED PARTY TRANSACTIONS

The Group had the following transactions with fellow subsidiaries during the period:

	Six months ended 30 June		Three months ended 30 June	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(A) On-going transactions				
Rentals for office and factory premises and staff quarters charged to the Group (Note a)	1,245,356	535,082	622,678	535,082
(B) Discontinued transactions				
Purchases of goods by the Group (Note c)	–	3,134,338	–	–
Purchases of machinery by the Group (Note c)	–	5,136,605	–	2,050,078
Utilities maintenance fee charged to the Group (Note d)	–	134,214	–	68,992
Utilities charges paid by the Group (Note b)	–	1,381,608	–	758,342
Backup electricity charges charged to Group (Note a)	–	133,217	–	75,468

Notes:

- The pricing of the transactions was determined with reference to the terms of the relevant agreements. Such transactions are expected to discontinue once the relocation of production plant has been completed. For details, please refer to the announcement of the Company dated 20 June 2005.
- The pricing of the transactions was determined with reference to actual costs incurred.
- The pricing of the transactions was determined with reference to actual costs plus agreed markup.
- The pricing of the transactions was determined by reference to agreed percentage of utilities charges.

In the opinion of Directors, the above related parties transactions were carried out in the ordinary course of business and all the above mentioned discontinued transactions have discontinued following the listing the Company's shares on GEM of the Stock Exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2005, the turnover of the Group amounted to approximately HK\$94.27 million, representing a decrease of approximately 27.16% as compared to the corresponding period last year. The gross profit margin for the period was approximately 28.97% (the corresponding period of 2004: 28.92%). The net profit of the Group for the period was approximately HK\$13.87 million, representing a decrease of approximately 31.38% 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 six months ended 30 June 2005 amounted to approximately HK\$2.86 million, representing a decrease of approximately 41.76% 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 six months ended 30 June 2005 amounted to approximately HK\$5.83 million, representing a decrease of approximately 4.65% as compared to the corresponding period last year.

The research and development expenses of the Group for the six months ended 30 June 2005 amounted to approximately HK\$2.89 million, representing an increase of approximately 11.01% as compared to the corresponding period last year. The increase in research and development expenses was mainly due to the increase in the research and development projects and activities carried out during the period under review.

Business Review and Prospect

For the six months ended 30 June 2005, the sales of the three products, namely single-sided, double-sided and multi-layer flexible printed circuits accounted for approximately 13%, 30% and 57% respectively of the Group's total turnover for the period while the sales of these products for the corresponding period in year 2004 accounted for approximately 11%, 48% and 41% respectively of the Group's total turnover for the corresponding period.

During the period under review, the Group's performance declined substantially as a result of the decrease in sales of flexible printed circuits when compared with the corresponding period in year 2004. Such decrease in the sales of flexible printed circuits was mainly due to the weakening performance of the mobile phone manufacturing industry in 2005.

Since the beginning of this year, measures have been taken to diversify the applications of the Group's products with a view to reducing the Group's reliance on the sales attributable to this mobile phone manufacturer. The effect of these steps are reflected gradually during the second quarter of the year. The turnover achieved by the Group during the three months ended 30 June 2005 showed signs of slight improvement when compared with the performance of first quarter of 2005. Such improvement was mainly due to the increase in contribution from the sales of flexible printed circuits applied in computer notebooks.

Despite the increase in turnover, while comparing the Group's business performance for the first quarter of 2005 with the second quarter, both of the gross profit margin and the net profit margin declined substantially. In view of the increasing competition in the flexible printed circuit manufacturing industry, the Group has adopted the strategy of reducing the average unit selling price of its products, in particular those applied in computer notebooks, in order to maintain its competitiveness. Furthermore, taking into account the additional machineries and equipment for the fifth and sixth production lines acquired during the period, higher depreciation expenditure incurred and further deteriorated the gross profit. However, the management of the Group will continue to put in efforts to increase the existing market share as well as improve the performance of the Group in the remaining period of year 2005.

Apart from that, as planned, during the second quarter of 2005, the Company commenced trial runs on the sixth production line of the Group for the production of fine line flexible printed circuits.

On 15 April 2005, the Company has acquired 75% interest in Ever Proven Investments Limited ("Ever Proven"), a company incorporated in the British Virgin Islands on 8 February 2005. The remaining 25% interest is owned by Kam Sun International Limited, an independent third party. Ever Proven is an investment holding company. It is the intention of the Company to invest through Ever Proven in providing the surface mount technology services for the flexible printed circuits in the third quarter. During the six month ended 30 June 2005, the Company and Kam Sun International Limited have provided loan, which amounted to approximately HK\$4.38 million and HK\$1.46 million respectively, to Ever Proven as its working capital.

On 16 June 2005, 銀利(廣州)電子電器實業有限公司 (Alpha Luck Electronic & Electric Appliance Industrial (Guangzhou) Ltd.) ("ALI Guangzhou") received a letter from the relevant local government authority in charge of land development in the PRC giving notice that the relevant local land development authority intends to requisition the land on which certain properties (the "Premises") are built which the Group currently rents from ALI Guangzhou for its production activities and staff accommodation, for land reserve purpose.

The Company is now contemplating a relocation of its operation as well as assessing the underlying costs and any potential losses due to the relocation and the possible business interruption to be incurred by the Group resulting from the relocation. The exact date of the requisition of land is yet to be confirmed. In addition, the Company is now in discussion with ALI Guangzhou and the relevant PRC government authority on the compensation with a view to minimising the potential losses arising in relation thereto.

Silver City International (Holdings) Limited, a substantial shareholder of the Company, has undertaken to indemnify the Group against any actions, claims, losses, damages, costs, penalties, charges, fires, payments, interests or any expenses which may be made against, suffered or incurred by any Group member in respect of or arising directly or indirectly from eviction of any member of the Group from the Premises.

Looking towards second half of year 2005, the Directors are of the opinion that the business environment of the Group will become more challenging. Despite the pressure on the average unit selling price, the deteriorating mobile phone industry, of which the Group heavily relies on, will affect its business performance in the second half of year 2005. Notwithstanding that, commencing from the third quarter of year 2005, the Group anticipate that there will be new sales orders generated from the application in LCD modules, surface mount technology services for flexible printed circuits and computer notebooks, of which will minimise the effects resulted from the mobile phone industry accordingly,

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally financed its operations and investing activities and intends to finance its future operations, capital expenditure and other capital requirements with proceeds from placing of shares in August 2004 by the Company, internally generated funds and loans from banks. Taking into account the financial resources of the Group, including internally generated fund from operating activities, banking facilities currently available and the net proceeds from the share placement, it is anticipated that the Group has sufficient working capital for its present funding requirements.

As at 30 June 2005, the net current assets were approximately HK\$115,232,000 (as at 31 December 2004: approximately HK\$118,661,000).

As at 30 June 2005, there were bank balances, cash on hand and bank deposits of approximately HK\$40,198,000 (as at 31 December 2004: approximately HK\$81,043,000).

As at 30 June 2005, there were bank borrowings of approximately HK\$6,048,000 (as at 31 December 2004: approximately HK\$183,000) in the form of trust receipt loans.

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2005, bank deposits of approximately HK\$9.2 million and bill receivables of approximately HK\$4.4 million were pledged as collateral to secure the issue of bills payable by banks to certain of the Group's suppliers and banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2005, the Group had outstanding capital commitments of approximately HK\$5,204,000 (as at 31 December 2004: approximately HK\$10,024,000).

GEARING RATIO

As at 30 June 2005, the gearing ratio (calculated as total liabilities over total assets as at the respective balance sheet dates) of the Group was approximately 27% (as at 31 December 2004: approximately 27%).

MATERIAL ACQUISITIONS AND DISPOSALS

On 15 April 2005, the Company has acquired for 75% interest in Ever Proven, a company incorporated in the British Virgin Islands on 8 February 2005. The remaining 25% interest is owned by Kam Sun International Limited, an independent third party. Ever Proven is an investment holding company. It is the intention of the Company to invest through Ever Proven in providing the surface mount technology service for the flexible printed circuit in the third quarter.

Save as disclosed above, the Group did not have any material acquisitions or disposals during the six months ended 30 June 2005 (six months ended 30 June 2004: none).

FOREIGN EXCHANGE EXPOSURE

The income and expenditure of the Group are mainly in both US\$ and RMB and the assets and liabilities of the Group are denominated in HK\$ and RMB. The official rates for US\$ and RMB have been stable for the year under review. However, the results of operations and the financial position of the Group may be affected by any changes in the exchange rates and the Group has not taken any hedging measures in this connection. On the other hand, 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 China. Taking into account the Group's operational and capital requirements, the Directors do not consider the Group is significantly exposed to any foreign currency exchange risk.

SEGMENTAL INFORMATION

The Group's principal activities are the manufacture and sale of flexible printed circuit as a single business segment. Geographically, the turnover was sourced from the PRC (other than Hong Kong) as to approximately HK\$80.16 million, Hong Kong as to approximately HK\$11.42 million and other regions as to HK\$2.70 million for the six months ended 30 June 2005.

EMPLOYEE INFORMATION

As at 30 June 2005, the Group had a total of 1,370 full-time employees based in Hong Kong and China. The Group fixes and reviews the emoluments of its staff and directors based on the qualification, experience, performance and the market rates so as to maintain the remuneration of its staff and directors 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 China and Hong Kong. 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 majority of the Group's employees are stationed in China.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSETS

The Group has no other future plans for material investments or capital assets save as those set out in the Prospectus.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2005 and it is the same for the comparative six months ended 30 June 2004.

SIGNIFICANT INVESTMENT HELD

The Group did not have any significant investment as at 30 June 2005.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The Company has been listed on GEM of the Stock Exchange since 18 August 2004. Set out below is the actual business progress of the Group in comparison with the business objectives as stated in the prospectus of the Company dated 10 August 2004 (the "Prospectus") for the six month ended 30 June 2005:

Business objectives as stated in the Prospectus

Acquisition and installation of additional equipment and machineries

1. To purchase and install new production equipment and machineries for the sixth production line, including but not limited to directional light exposer, digital controlled drilling and milling lathe and laser driller.
2. To complete installation of equipment and machineries for the sixth production line capable for the production of single-sided, double-sided and multi-layer flexible printed circuit and rigid-flex board and to commence operation.

Overseas and domestic markets expansion

1. To seek suitable distribution agents, strategic alliances and set up a representative office for distribution of the Group's products in Taiwan.
2. To market the Group's products via advertisements and journals.

Actual business progress as at 30 June 2005

Acquisition and installation of additional equipment and machineries

A majority of new production equipment and machineries for the sixth production line were acquired and installation thereof have commenced.

A majority of the equipment and machineries acquired for the sixth production line was installed and trial production for fine line single-sided, double-sided and multi-layer flexible printed circuit and rigid-flex board by the sixth production line was commenced.

Overseas and domestic markets expansion

A representative office was established for distribution of the Group's products in Taiwan.

The Group marketed its products via advertisements and journals during the six months ended 30 June 2005

USE OF PROCEEDS

The shares of the Company have been listed on GEM of the Stock Exchange since 18 August 2004. The Company currently has deposited the net proceeds raised in interest bearing accounts with licensed banks in China and Hong Kong and will apply the proceeds in accordance with the schedule as mentioned under the section headed "Reasons for the Placing and use of proceeds" in the Prospectus.

For the six months ended 30 June 2005, the net proceeds from the listing of the Company were used according to the uses of proceeds as disclosed in the Prospectus as follows:

	Amount of net proceeds to be used as at 30 June 2005 as set out in the Prospectus	Actual amount of net proceeds spent as at 30 June 2005
	HK\$' million	HK\$' million
1. Expansion of production capacity		
– Acquisition and installation of additional equipment and machineries (the fifth production line)*	20.95	13.28
– Renovation of production plant	2.55	2.40
– Acquisition and installation of additional equipment and machineries (the sixth production line)**	23.00	11.51
2. Expansion of sales and distribution network	1.00	0.55

Note: As at 30 June 2005, the Group has entered into purchase agreements for the acquisition of equipment and machineries in relation to the fifth and sixth production lines of the Group amounting to approximately HK\$32.56 million, of which approximately HK\$1.71 million has been included as capital commitment and the remaining balance of approximately HK\$30.85 million have been recognised in the financial records of the Group as at 30 June 2005. As certain machineries and equipment required for the fifth and sixth production lines cost less than expected, a lower than projected spending has been resulted. The remaining unused net proceeds raised will be use as working capital of the Group.

- * As at 30 June 2005, additional equipment and machineries amounting to approximately HK\$15.80 million (approximately HK\$13.28 million were paid and the remaining balance of approximately HK\$2.55 million will be settled in the second half of year 2005) were acquired.
- ** As at 30 June 2005, additional equipment and machineries amounting to approximately HK\$15.05 million (approximately HK\$11.51 million were paid and the remaining balance of approximately HK\$3.55 million will be settled in the second half of year 2005) were acquired.

DISCLOSURE OF INTERESTS

(a) Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

Save as disclosed below, as at 30 June 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 GEM Listing Rules.

Name of Director	Name of company in which interest is held	Class and number of securities in which interested under physically equity derivatives (Notes)	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 the Pre-IPO Share Option Scheme, which position remains unchanged since the date of grant on 6 August 2004.
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.

(b) Substantial shareholders

Save as disclosed below, as at 30 June 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
Dalmaly International Corporation ("Dalmaly") (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. Dalmary 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 Dalmary.
4. None of Alpha Luck, Silver City, CNIC and Dalmary is interested in any securities of the Company under equity derivatives.

SHARE OPTION SCHEME

Pursuant to written resolutions of all 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"). Throughout the period under review, the following directors and employees had granted share options which were granted under the Pre-IPO Scheme to subscribe for shares of the Company, details of which were as follows:

Name of Grantee	Date of grant	Exercise period of share options	Number of shares subject to the option	Exercise price (HK\$)
Director				
Xiong Zheng Feng	6 August 2004	18 August 2005 to 6 August 2014	2,000,000	0.40
Chai Zhi Qiang	6 August 2004	18 August 2005 to 6 August 2014	2,800,000	0.40
Li Ying Hong	6 August 2004	18 August 2005 to 6 August 2014	600,000	0.40

Name of Grantee	Date of grant	Exercise period of share options	Number of shares subject to the option	Exercise price (HK\$)
Senior Management				
Lam Sau Yan	6 August 2004	18 August 2005 to 6 August 2014	500,000	0.40
Li Da Shu	6 August 2004	18 August 2005 to 6 August 2014	1,800,000	0.40
Li Jing	6 August 2004	18 August 2005 to 6 August 2014	1,800,000	0.40
Employees				
Cao Zhong Hua	6 August 2004	18 August 2005 to 6 August 2014	800,000	0.40
Li Chang Qing	6 August 2004	18 August 2005 to 6 August 2014	800,000	0.40
Zhong Hui	6 August 2004	18 August 2005 to 6 August 2014	500,000	0.40
Li Lin	6 August 2004	18 August 2005 to 6 August 2014	500,000	0.40
Shi Min	6 August 2004	18 August 2005 to 6 August 2014	500,000	0.40
Zuo Jun Yong	6 August 2004	18 August 2005 to 6 August 2014	200,000	0.40
Zhu Hong Yan	6 August 2004	18 August 2005 to 6 August 2014	500,000	0.40
Yang Min Hua	6 August 2004	18 August 2005 to 6 August 2014	300,000	0.40
Chen Bing	6 August 2004	18 August 2005 to 6 August 2014	400,000	0.40
Qin Rong	6 August 2004	18 August 2005 to 6 August 2014	300,000	0.40
Li Fa Wen	6 August 2004	18 August 2005 to 6 August 2014	300,000	0.40
Liu Yu Cai	6 August 2004	18 August 2005 to 6 August 2014	300,000	0.40

Name of Grantee	Date of grant	Exercise period of share options	Number of shares subject to the option	Exercise price (HK\$)
Li Jing Mei	6 August 2004	18 August 2005 to 6 August 2014	300,000	0.40
Pan Li	6 August 2004	18 August 2005 to 6 August 2014	300,000	0.40
Yin Ming	6 August 2004	18 August 2005 to 6 August 2014	200,000	0.40
Hu Lian	6 August 2004	18 August 2005 to 6 August 2014	300,000	0.40
Yan Hua	6 August 2004	18 August 2005 to 6 August 2014	200,000	0.40
Zeng Fan Hua	6 August 2004	18 August 2005 to 6 August 2014	500,000	0.40
Li Kun	6 August 2004	18 August 2005 to 6 August 2014	200,000	0.40
Zhang Kai Hu	6 August 2004	18 August 2005 to 6 August 2014	200,000	0.40
Wang Dao Zhong	6 August 2004	18 August 2005 to 6 August 2014	200,000	0.40
Wang Qiong	6 August 2004	18 August 2005 to 6 August 2014	200,000	0.40
Guo Hao Yong	6 August 2004	18 August 2005 to 6 August 2014	200,000	0.40

For the six months ended 30 June 2005, save as share options under the Pre-IPO Scheme were granted to the Directors and certain employees of the Company on 6 August 2004, no options were granted under the above two schemes. Save as the 500,000 share options granted to Mr. Cheng Li Qun, an ex-employee of the Company had been lapsed on 13 May 2005, no option had been lapsed or cancelled during the period. None of the share options were exercised during the six months ended 30 June 2005.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2005, the Company complied with the code provisions set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors of the Company, all Directors of the Company confirm that they complied with such code of conduct throughout the six months ended 30 June 2005.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Scheme", at no time during the period was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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 six months ended 30 June 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 LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2005.

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

3 August 2005, Hong Kong