



AKM Industrial Company Limited

安捷利實業有限公司

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

Stock Code: 8298

First Quarterly Report **2006**



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 of the Stock Exchange 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 2006, the unaudited turnover increased to approximately HK\$42.78 million, representing an increase of approximately 4.8% as compared to that of the corresponding period last year. The net profit decreased by approximately 23.4% to approximately HK\$5.12 million as compared to that of the corresponding period last year.
- Earnings per share of the Company and its subsidiaries (hereafter collectively referred to as the “Group”) was approximately HK0.95 cent for the three months ended 31 March 2006.

THE FINANCIAL STATEMENTS

Quarterly Results

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated operating results of the Group for the three months ended 31 March 2006 (the "period"), together with the comparative unaudited figures for the corresponding period last year, as follows:

Condensed Consolidated Income Statement

For the three months ended 31 March 2006 and 31 March 2005

	Notes	Three months ended 31 March	
		2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)
Turnover	2	42,782,385	40,823,614
Cost of sales		(29,594,172)	(27,510,458)
Gross profit		13,188,213	13,313,156
Other operating income		159,064	113,764
Distribution costs		(1,227,663)	(1,415,754)
Administrative expenses		(4,094,122)	(2,899,238)
Research and development expenses		(2,280,072)	(1,443,536)
Profit from operations		5,745,420	7,668,392
Finance costs		(48,553)	–
Share of result of a jointly controlled entity		86,676	–
Profit before taxation		5,783,543	7,668,392
Taxation	3	(666,194)	(982,651)
Profit for the period		5,117,349	6,685,741
Attributable to:			
Equity holders of the parent		5,122,037	6,685,741
Minority interests		(4,688)	–
		5,117,349	6,685,741
Dividend	4	–	–
Earnings per share	5		
– basic		0.95 cent	1.24 cents
– diluted		N/A	1.23 cents

Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 March 2006 and 31 March 2005

	Attributable to equity holders of the parent							
	Share capital	Share premium	Translation reserve	Share options reserve	Retained profits	Total	Minority interests	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2006	54,000,000	53,868,328	5,023,114	908,619	77,132,364	190,932,425	12,998	190,945,423
Exchange differences from translation of foreign operations recognised directly in equity	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	5,122,037	5,122,037	(4,688)	5,117,349
Total recognised income and expenses for the period	-	-	-	-	5,122,037	5,122,037	(4,688)	5,117,349
Recognition of equity-settled share based payments	-	-	-	30,012	-	30,012	-	30,012
2005 final dividend declared	-	-	-	-	(4,050,000)	(4,050,000)	-	(4,050,000)
At 31 March 2006	54,000,000	53,868,328	5,023,114	938,631	78,204,401	192,034,474	8,310	192,042,784
At 1 January 2005	54,000,000	53,868,328	2,269,413	379,321	56,550,100	167,067,162	-	167,067,162
At 1 January 2005 as previously reported	54,000,000	53,868,328	2,269,413	-	56,929,421	167,067,162	-	167,067,162
Effect of changes in accounting policies	-	-	-	379,321	(379,321)	-	-	-
At 1 January 2005, as restated	54,000,000	53,868,328	2,269,413	379,321	56,550,100	167,067,162	-	167,067,162
Exchange differences from translation of foreign operations directly recognised in equity	-	-	(2,005)	-	-	(2,005)	-	(2,005)
Profit for the period	-	-	-	-	6,685,741	6,685,741	-	6,685,741
Total recognised income and expenses for the period	-	-	(2,005)	-	6,685,741	6,683,736	-	6,683,736
2004 final dividend declared	-	-	-	-	(2,700,000)	(2,700,000)	-	(2,700,000)
At 31 March 2005	54,000,000	53,868,328	2,267,408	379,321	60,535,841	171,050,898	-	171,050,898

Notes to the Condensed Consolidated Profit and Loss Accounts

For the period ended 31 March 2006

1. BASIS OF PREPARATION

The unaudited consolidated results of the Group have been prepared under the historical cost convention and in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") and interpretations 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 2005.

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 trade discounts.

(a) Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods manufactured or services rendered;

	Turnover		Segment results	
	Three months ended 31 March		Three months ended 31 March	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC other than Hong Kong	29,164,892	34,405,783	9,612,878	10,881,715
Hong Kong	11,506,986	5,375,822	1,966,990	1,314,928
Others	2,110,507	1,042,009	380,682	(299,241)
	42,782,385	40,823,614	11,960,550	11,897,402
Interest income			159,064	90,309
Unallocated expenses, net			(6,374,194)	(4,319,319)
Profit from operations			5,745,420	7,668,392
Finance costs			(48,553)	–
Share of result of a jointly controlled entity			86,676	–
Profit before taxation			5,783,543	7,668,392
Taxation			(666,194)	(982,651)
Profit for the period			5,117,349	6,685,741

All the Group's assets and capital expenditure incurred during the year are located in the PRC, which is considered as one geographical location in an economic environment with similar risks and returns. In addition, over 90% of the Group's asset by geographical market are also located in the PRC. Consequently, no geographical segment asset analysis is presented.

(b) Business segments

The Group's principal activities are the manufacture and sale of flexible printed circuit as a single business segment. Accordingly, no business segment information is required.

3. TAXATION

	Three months ended	
	31 March	
	2006	2005
	HK\$	HK\$
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax	666,194	982,651

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 subsidiaries, neither arises in, nor is derived from, Hong Kong.

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

Pursuant to the relevant laws and regulations in the PRC, the applicable PRC Enterprise Income Tax rate for AKM Electronics Industrial (Panyu) Ltd. ("AKM Panyu") is 24%.

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 2006 (2005: Nil).

5. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to equity holders of the parent is based on the following data:

	Three months ended	
	31 March	
	2006	2005
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Earnings for the purposes of basic and diluted earnings per share:		
– profit for the period attributable to equity holders of the parent	5,122,037	6,685,741
	2006	2005
	Number of	Number of
	shares	shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	540,000,000	540,000,000
Effect of dilutive potential ordinary shares from share options	N/A	2,188,071
Weighted average number of ordinary shares for the purpose of diluted earnings per share	N/A	542,188,071

No diluted earnings per share has been presented for the period ended 31 March 2006 because the exercise price of the Company's options, after taken into account of the effect of share-based payment, was higher than the market price of shares throughout the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 31 March 2006, the turnover of the Group amounted to approximately HK\$42.78 million, representing an increase of approximately 4.8% as compared to the corresponding period last year. The gross profit margin for the period was decreased to approximately 30.83% (the corresponding period of 2005: 32.61%). The net profit of the Group for the period was approximately HK\$5.12 million, representing a decrease of approximately 23.4% as compared to the corresponding period last year.

The distribution costs of the Group for the three months ended 31 March 2006 amounted to approximately HK\$1.23 million, representing a decrease of approximately 13.3% as compared to the corresponding period last year. The decrease in distribution costs was mainly due to the decrease in commission expenses as a result of decrease in net profit.

The administrative expenses of the Group for the three months ended 31 March 2006 amounted to approximately HK\$4.09 million, representing an increase of approximately 41.2% as compared to the corresponding period last year. The increase in administrative expenses as compared to that of the corresponding period last year was due to the reverse of bonus provision during the corresponding period last year which was overprovided in the year ended 31 December 2004. Further, the wholly-owned subsidiary AKM (Suzhou) FPC Company Limited (安捷利(蘇州)柔性電路板有限公司) ("AKM Suzhou") which was established in March 2005, its expenses incurred during the corresponding period last year was insignificant when compared to that incurred during the period.

The research and development expenses of the Group for the three months ended 31 March 2006 amounted to approximately HK\$2.28 million, representing an increase of approximately 58.0% as compared to the corresponding period last year. The increase in research and development expenses was mainly due to the increase in research and development projects and activities.

Business Review and Prospect

Business Review

For the three months ended 31 March 2006, the sales proportion of the three products, namely single-sided, double-sided and multi-layer flexible printed circuit were approximately 17%, 63% and 20% respectively while for the corresponding period last year were approximately 13%, 25% and 62% respectively.

The decrease in the Group's gross profit margin for the three months ended 31 March 2006 was mainly attributed to the change of product mix. The Group's fine line flexible printed circuit commenced commercial production in the third quarter of 2005 and has been rapidly expanding the applications of TFT LCD module. However, given its infant stage of commercial production, a comparatively low production yield ratio was recorded, which resulted in a fall in profit margin.

Since 2005, the Group has taken initiatives on an incremental basis to diversify product applications and to focus on high end products. The Group has gradually reduced its reliance on the local mobile phone manufacturers. With respect to the Group's ten largest customers, Truly and Philips, manufacturers of TFT LCD module, ranked the second and the fourth during the period respectively, while Huawei, an international mobile phone manufacturer, has also become one of the ten largest customers. The relatively low production yield ratio for new products was attributed to the higher quality standards set by the new major customers and the Group's efforts in adopting stringent measures on quality control. In early 2006, a new project management system was implemented on a trial basis at the Group's production plant in Panyu, where the production and management of mobile phone operations, TFT LCD modules, rigid-flex and other products (such as digital cameras and digital products for cars) were reorganized into four different project teams with a view to enhancing the core capability (including efficiency, speed and cost) and satisfying the needs of different categories of customers. The Group is confident that, with the enhancement of internal core capability, the production yield of the products and the profitability of the Group will be enhanced.

Eastern China is one of the core regions of the Group's development and the Group has established AKM Suzhou, a wholly-owned subsidiary, in Eastern China in March 2005. AKM Suzhou mainly engages in the production of single-sided and double-sided flexible circuit boards, while Panyu factory mainly engages in the production of more complicated fine line single-sided, multi-layer and rigid-flex printed circuit boards. It has achieved breakeven in the first quarter in 2006 from a loss suffered in 2005.

Given the growing importance of Eastern China in the Group's market portfolio, the Group has acquired Suzhou Guanzhilin Electronic Technology Co. Ltd. (蘇州冠之林電子科技有限公 司) ("Suzhou Guanzhilin") at a consideration of RMB3.11 million and increased its registered capital to USD2 million. The agreement for the acquisition of Suzhou Guanzhilin was entered into on 15 March 2006. As at the date of this report, Suzhou Guanzhilin has obtained the approval issued by Jiangsu Economic and Trade Commission and the Industrial and Commercial Business License issued by Suzhou Industrial & Commercial Administration Bureau.

The Group, through the joint venture company, Shenzhen Smart Electronics Co. Ltd. (深圳思 碼特電子有限公司) ("Shenzhen Smart") established by Ever Proven Investments Limited, a non-wholly owned subsidiary, provided surface mount technology ("SMT") services for flexible printed circuits. During the three months ended 31 March 2006, Shenzhen Smart has increased its registered capital to HK\$20 million and some of the newly-added capital will be applied to acquire two high-speed SMT production lines. Shenzhen Smart achieved profitability from a loss suffered in 2005. As at 31 March 2006, the Group has invested a total of approximately HK\$5.96 million in Shenzhen Smart.

In June 2005, the local government authority in-charge of land development intended to resume the land leased by the Group's Panyu plant. The Group is planning the relocation of its place of business and is assessing the related costs and any other losses which may be incurred by such relocation, as well as the possibility of disruption of operations caused to the Group by such relocation. The Group has been in discussion with lessor of the land and the relevant PRC government authority regarding compensation issues. The actual date of resumption of land has yet to be confirmed.

Outlook

In line with the Group's efforts in adjusting market portfolio and product mix, the reliance on local mobile phone manufacturers had gradually reduced. The customers newly introduced to the Group in 2005, such as Truly, Philips and Huawei, have become the Group's ten largest customers. To nurture and to maintain the relationships with its major customers, the Group has to make extra efforts in improving the quality standard and in meeting the delivery schedule of products with an objective to satisfying the ever-rising requirements of customers. The Directors believe that the implementation of project management system and the stringent internal audit system would help to raise the turnover and increase the profit of the Group.

The Group's plants at Suzhou, formed by AKM Suzhou and Suzhou Guanzhilin mainly engage in the production and the manufacturing of low to medium ended single-sided and double-sided flexible printed circuits, which are not in competitions with plant in Panyu. Such plants achieved breakeven in the period and it is expected that such plants will develop rapidly in year 2006.

Shenzhen Smart, the Group's joint venture company that mainly engages in the provision of surface mount technology services for flexible printed circuits, has recorded a profit in the period and it is expected that it would achieve outstanding results for year 2006.

The Group intends to spin-off the research centre of AKM Electronics Industrial (Panyu) Ltd. (安捷利(番禺)電子實業有限公司) to set up a research centre and project centre directly under the Company's control. The Company will continue to recruit experienced R&D personnel and fresh university graduates to strengthen the technological reserves of new products and to enhance production yield ratio by reducing scraps in the course of production of the newly developed products, so as to enhance gross profit margin and net profit margins of the products.

The Group will further cooperate and establish strategic alliances with international manufactures in the industry and co-operate with strategic partners to further enhance the R&D capability, manufacturing capacity and management ability of the Group and to forge core competitiveness.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

Save as disclosed below, as at 31 March 2006, 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, 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.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 March 2006, 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) <i>(Note 3)</i>	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") <i>(Note 1)</i>	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") <i>(Note 2)</i>	Interest in controlled corporation	360,000,000 ordinary shares	Long	66.67
Dalmary International Corporation ("Dalmary") <i>(Note 3)</i>	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, members 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.

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.

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 nor 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 member of the Group (including options or rights to subscribe for such securities) as at 31 March 2006.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 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

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 2006.

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

10 May 2006, Hong Kong