

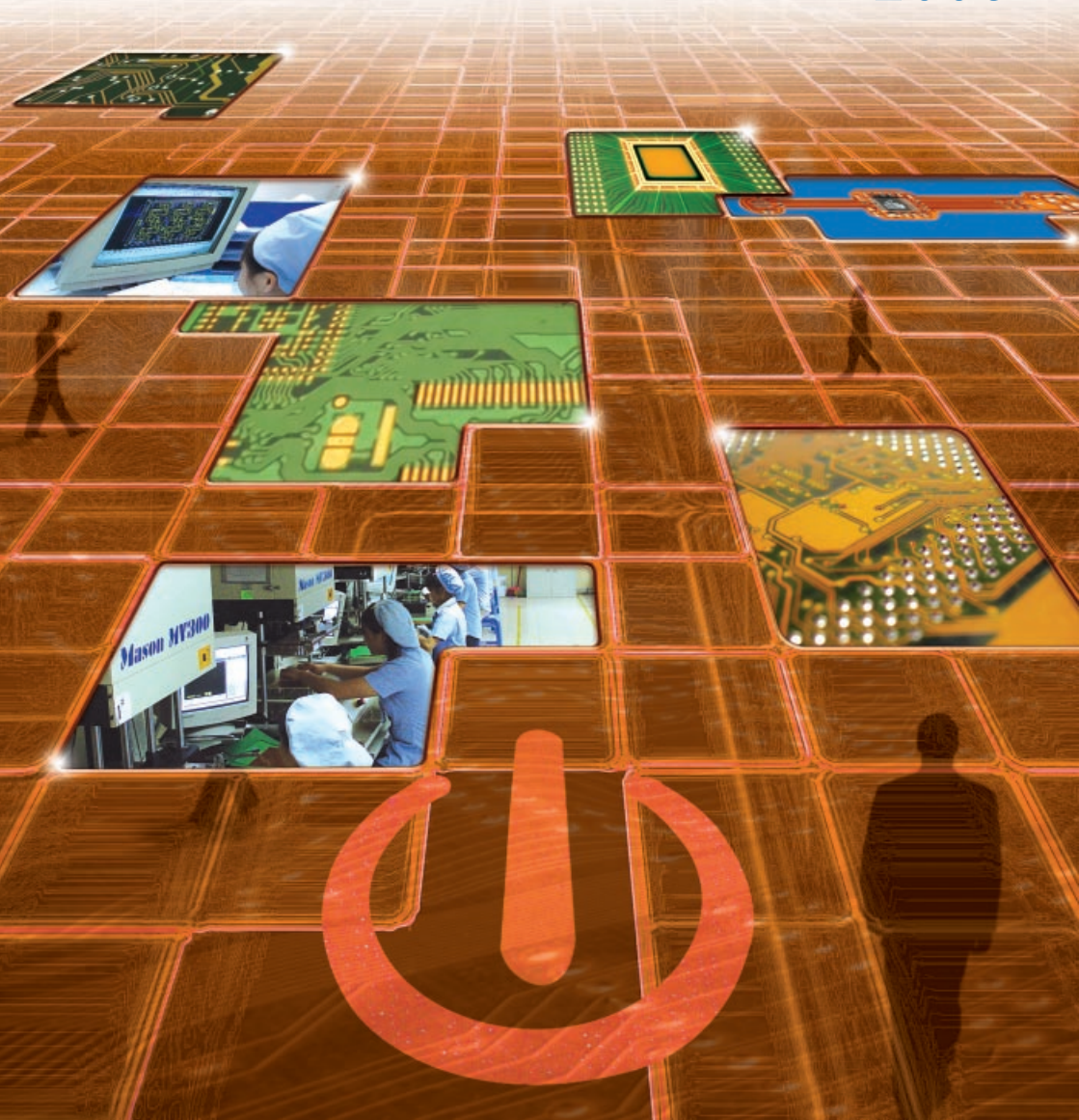


AKM Industrial Company Limited
安捷利實業有限公司

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

Stock Code: 8298

Interim 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. 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 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 six months ended 30 June 2006, the unaudited turnover decreased to approximately HK\$82.57 million, representing a decrease of approximately 12.41% as compared to that of the corresponding period last year. The net profit decreased by approximately 56.16% to approximately HK\$6.08 million as compared to that of the corresponding period last year.
- Earnings per share of the Group was approximately HK1.13 cents for the six months ended 30 June 2006.

The board of Directors (the "Board") 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 2006 together with the comparative unaudited figures for the corresponding period last year, as follows:

THE FINANCIAL STATEMENTS

Condensed Consolidated Income Statement

For the six months and three months ended 30 June 2006 and 30 June 2005

	Notes	Six months ended 30 June		Three months ended 30 June	
		2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)
Turnover	3	82,572,935	94,272,776	39,790,550	53,449,162
Cost of sales		(59,703,916)	(66,958,128)	(30,109,744)	(39,447,670)
Gross profit		22,869,019	27,314,648	9,680,806	14,001,492
Other operating income		273,232	187,228	114,168	73,464
Distribution costs		(2,971,537)	(2,861,155)	(1,743,874)	(1,445,401)
Administrative expenses		(7,891,564)	(5,832,385)	(3,797,442)	(2,933,147)
Research and development expenses		(5,366,653)	(2,890,012)	(3,086,581)	(1,446,476)
Profit from operations	4	6,912,497	15,918,324	1,167,077	8,249,932
Finance costs		(49,164)	–	(611)	–
Share of result of a jointly controlled entity		16,233	–	(70,443)	–
Profit before taxation		6,879,566	15,918,324	1,096,023	8,249,932
Taxation	5	(802,725)	(2,040,232)	(136,531)	(1,057,581)
Profit for the period		6,076,841	13,878,092	959,492	7,192,351
Attributable to:					
Equity holders of the parent		6,082,639	13,873,998	960,602	7,188,257
Minority interests		(5,798)	4,094	(1,110)	4,094
		6,076,841	13,878,092	959,492	7,192,351
Dividend	6	–	–	–	–
Earnings per share	7				
– Basic		1.13 cents	2.57 cents	0.18 cent	1.33 cents
– Diluted		N/A	2.56 cents	N/A	1.32 cents

Condensed Consolidated Balance Sheet

At at 30 June 2006 and 31 December 2005

	Notes	30 June 2006 HK\$ (Unaudited)	31 December 2005 HK\$ (Audited)
Non-current assets			
Property, plant and equipment	8	64,952,483	67,333,361
Interest in a jointly controlled entity		8,231,302	5,205,069
Goodwill	9	2,037,464	–
Prepaid lease payments		17,344,393	–
Deferred tax asset		303,000	303,000
		92,868,642	72,841,430
Current assets			
Inventories		37,327,424	35,656,990
Trade and other receivables	10	78,435,266	76,182,787
Bills receivables	10	13,174,895	25,273,970
Amount due from a jointly controlled entity		–	895,892
Prepaid lease payments		234,384	–
Pledged bank deposits		9,799,249	8,023,691
Bank balances and cash		30,694,178	46,906,754
		169,665,396	192,940,084
Current liabilities			
Trade and other payables	11	50,884,244	48,568,338
Bills payables	11	6,339,558	8,389,210
Government grants received		254,369	251,923
Amount due to a fellow subsidiary		2,061,908	1,734,315
Amount due to a jointly controlled entity		305,465	–
Taxation payable		3,313,457	4,344,349
Bank borrowings	12	2,353,693	10,087,956
Loan from a minority shareholder of a subsidiary		2,247,500	1,460,000
		67,760,194	74,836,091
Net current assets		101,905,202	118,103,993
Net assets		194,773,844	190,945,423
Capital and reserves			
Share capital	13	54,000,000	54,000,000
Reserves		140,766,644	136,932,425
Equity attributable to equity holders of the parent		194,766,644	190,932,425
Minority interests		7,200	12,998
Total equity		194,773,844	190,945,423

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006 and 30 June 2005

	Attributable to equity holders of the parent							
	Share capital	Share premium	Translation reserve	Share options reserve	Retained profits	Total	Minority interests	Total
	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (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	-	-	1,702,790	-	-	1,702,790	-	1,702,790
Profit for the period	-	-	-	-	6,082,639	6,082,639	(5,798)	6,076,841
Total recognised income and expenses for the period	-	-	1,702,790	-	6,082,639	7,785,429	(5,798)	7,779,631
Recognition of equity-settled share based payments	-	-	-	98,790	-	98,790	-	98,790
2005 final dividend paid	-	-	-	-	(4,050,000)	(4,050,000)	-	(4,050,000)
At 30 June 2006	54,000,000	53,868,328	6,725,904	1,007,409	79,165,003	194,766,644	7,200	194,773,844
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	-	-	10,999	-	-	10,999	-	10,999
Profit for the period	-	-	-	-	13,873,998	13,873,998	4,094	13,878,092
Total recognised income and expenses for the period	-	-	10,999	-	13,873,998	13,884,997	4,094	13,889,091
Capital contribution from minority interests	-	-	-	-	-	-	195	195
2004 final dividend paid	-	-	-	-	(2,700,000)	(2,700,000)	-	(2,700,000)
At 30 June 2005	54,000,000	53,868,328	2,280,412	379,321	67,724,098	178,252,159	4,289	178,256,448

Condensed Consolidated Cash Flow Statement*For the six months ended 30 June 2006 and 30 June 2005*

	Six months ended 30 June	
	2006	2005
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	22,326,160	(23,364,921)
Net cash used in investing activities	(27,697,706)	(20,073,460)
Net cash (used in) from financing activities	(10,996,763)	3,164,825
Decrease in cash and cash equivalents	(16,368,309)	(40,273,556)
Cash and cash equivalents at beginning of the period	46,906,754	71,216,747
Effect of foreign exchange rate changes	155,733	10,924
Cash and cash equivalents at end of the period, representing bank balances and cash	30,694,178	30,954,115

Notes to the Condensed Financial Statements

For the six months ended 30 June 2006

1. GENERAL

The Company is incorporated in Hong Kong with limited liability on 9 December 1993. Its parent is Alpha Luck Industrial Limited (incorporated in Hong Kong with limited liability) 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 shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 18 August 2004 ("Listing Date").

The financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

The Company is an investment holding company and is also engaged in sourcing of raw materials and equipment for its subsidiaries. Its subsidiaries are principally engaged in manufacture and sale of flexible printed circuit.

2. 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 Interim Financial Statements 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 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		Turnover	
	Six months ended 30 June		Three months ended 30 June	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC other than Hong Kong	59,634,479	80,158,849	30,469,587	45,753,066
Hong Kong	16,526,016	11,417,328	5,019,030	6,041,506
Others	6,412,440	2,696,599	4,301,933	1,654,590
	82,572,935	94,272,776	39,790,550	53,449,162
	Segment results		Segment results	
	Six months ended 30 June		Three months ended 30 June	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC other than Hong Kong	13,749,613	21,645,580	4,136,735	10,763,865
Hong Kong	4,323,442	3,633,436	2,356,452	2,318,508
Others	1,824,427	(825,523)	1,443,745	(526,282)
	19,897,482	24,453,493	7,936,932	12,556,091
Interest income	273,232	163,775	114,168	73,464
Unallocated expenses, net	(13,258,217)	(8,698,944)	(6,884,023)	(4,379,623)
Profit from operations	6,912,497	15,918,324	1,167,077	8,249,932
Finance costs	(49,164)	-	(611)	-
Share of result of a jointly controlled entity	16,233	-	(70,443)	-
Profit before taxation	6,879,566	15,918,324	1,096,023	8,249,932
Taxation	(802,725)	(2,040,232)	(136,531)	(1,057,581)
Profit for the period	6,076,841	13,878,092	959,492	7,192,351

All the Group's assets and capital expenditure incurred during the period 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.

4. PROFIT FROM OPERATIONS

	Six months ended 30 June		Three months ended 30 June	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit from operations has been arrived at after charging:				
Allowance for bad and doubtful debts	788,880	-	-	-
Allowance for obsolete inventories	164,075	-	-	-
Depreciation of property, plant and equipment	6,581,111	4,740,857	3,164,760	2,587,924
and after crediting:				
Reversal of allowance for bad and doubtful debts	-	141,244	-	143,313
Reversal of allowance for obsolete inventories	-	2,489,055	1,719,185	1,917,870
Interest income	273,232	163,775	114,168	73,464

5. TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax	802,725	2,040,232	136,531	1,057,581

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 Enterprises 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.

6. DIVIDEND

On 26 April 2006, a dividend of HK0.75 cents per share on 540,000,000 shares, in aggregates approximately HK\$4,050,000 was paid to shareholders as the final dividend for year 2005.

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

7. 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:

	Six months ended 30 June	
	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	6,082,639	13,873,998
	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	2,854,064
Weighted average number of ordinary shares for the purpose of diluted earnings per share	N/A	542,854,064

No diluted earnings per share has been presented for the period ended 30 June 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.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$3,569,000 (2005: HK\$20,819,000) on the acquisition of property, plant and equipment.

9. GOODWILL

The goodwill arised on acquisition of a subsidiary during the period:

	At	At
	30 June	31 December
	2006	2005
	HK\$	HK\$
	(Unaudited)	(Audited)
Purchase consideration	3,001,641	N/A
Fair value of net assets acquired	964,177	N/A
	2,037,464	N/A

10. TRADE AND OTHER RECEIVABLES/BILLS 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 credit terms up to 120 days.

The following is an aged analysis of trade and bills receivables:

	At	At
	30 June	31 December
	2006	2005
	HK\$	HK\$
	(Unaudited)	(Audited)
Within 30 days	11,680,807	33,788,510
31 – 60 days	19,282,922	29,724,038
61 – 90 days	19,814,992	16,989,436
91 – 120 days	9,565,060	12,328,433
121 days – 1 year	24,495,972	5,841,382
Over 1 year	36,582	451,067
	84,876,335	99,122,866

11. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	At	At
	30 June	31 December
	2006	2005
	HK\$	HK\$
	(Unaudited)	(Audited)

The following is an aged analysis of trade and bills payables:

Within 30 days	10,185,417	18,567,765
31 – 60 days	7,392,718	13,707,087
61 – 90 days	5,852,782	7,523,035
91 – 120 days	4,285,872	4,589,292
121 days – 1 year	1,417,257	3,345,028
Over 1 year	207,125	445,771
	29,341,171	48,177,978

12. BANK BORROWINGS

	At	At
	30 June	31 December
	2006	2005
	HK\$	HK\$
	(Unaudited)	(Audited)

Bank borrowings which are repayable within one year comprise the following:

Bank loans	–	4,807,693
Trust receipts loans – secured	2,353,693	5,280,263
	2,353,693	10,087,956

13. SHARE CAPITAL

	Number of shares	Share capital HK\$
Authorised:		
At 1 January 2006 and 30 June 2006	2,000,000,000	200,000,000
Issued and fully paid:		
At 1 January 2006 and 30 June 2006	540,000,000	54,000,000

14. CAPITAL COMMITMENTS

	At 30 June 2006 HK\$ (Unaudited)	At 31 December 2005 HK\$ (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements	4,296,929	1,622,474

15. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the period:

	Six months ended 30 June 2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	Three months ended 30 June 2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)
Transactions with fellow subsidiaries:				
Rentals for office and factory premises and staff quarters charged to the Group	1,275,437	1,245,356	637,719	622,678
Transactions with a jointly controlled entity:				
Purchase of goods by the Group	2,906,353	-	1,638,671	-

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2006 (the "period"), the turnover of the Group amounted to approximately HK\$82.57 million, representing a decrease of approximately 12.41% as compared to the corresponding period last year. The gross profit margin for the period was decreased to approximately 27.70% (the corresponding period of 2005: 28.97%). The net profit of the Group for the period was approximately HK\$6.08 million, representing a decrease of approximately 56.16% as compared to the corresponding period last year.

The distribution costs of the Group for the six months ended 30 June 2006 amounted to approximately HK\$2.97 million, representing an increase of approximately 3.86% as compared to the corresponding period last year.

The administrative expenses of the Group for the six months ended 30 June 2006 amounted to approximately HK\$7.89 million, representing an increase of approximately 35.31% as compared to the corresponding period last year. The increase in administrative expenses during the period as compared to that of the corresponding period last year was mainly due to the expenses incurred by 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, and the newly acquired wholly owned subsidiary, Suzhou Guanzhilin Electronic Technology Co. Ltd. (蘇州冠之林電子科技有限公司)("Suzhou Guanzhilin").

The research and development expenses of the Group for the six months ended 30 June 2006 amounted to approximately HK\$5.37 million, representing an increase of approximately 85.70% 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.

Business Review and Prospect

For the six months ended 30 June 2006, the sales of the three products, namely single-sided, double-sided and multi-layer flexible printed circuits accounted for approximately 17%, 65% and 18% of the Group's turnover for the period respectively, while the sales of these products for the corresponding period last year accounted for approximately 13%, 30% and 57% respectively of the Group's total turnover for the corresponding period last year.

For the first half of 2006, the Group's net profit dropped by 56.16% as compared with the corresponding period last year, such decrease was mainly due to the fact that the decrease of the market share of the domestic mobile phone manufacturers, orders of which were heavily relied on by the Group had been continuously shrinking during the period, resulting in a drop of 12.41% of the Group's turnover; and that some of our principal customers varied their order requirements, causing the proportion of our high profit margin items, multi-layer flexible printed circuit boards, to shrink significantly from 57% in 2005 to 18% in 2006.

The first half of 2006 was the most challenging period for the Group since its establishment. The domestic mobile manufacturing industry, which the Group has heavily relied on, has somewhat started to revive, but the situation remained harsh. The Group has strived to increase the portion of overseas customers and non-mobile phone manufacturers in its customer base and to gradually get rid of the dilemma of over-dependence on the domestic mobile phone manufacturers, however, that still could not make up for the decrease in turnover as a result of the reduction of orders from the domestic mobile phone manufacturers.

During the period, the Group has taken proactive steps to improve its internal control system and strengthen internal strength. The Group has introduced a new ERP system which covers the Group's finance, marketing, engineering, production and logistics aspects, and the Group believes that the new ERP system will bring great benefit to the future expansion of the Group.

Eastern China remains a key target sector of the Group's business expansion, Suzhou Guanzhilin, a company acquired by the Group in the first quarter of 2006, and AKM Suzhou, a company set up by the Group in March 2005, have formed a complete production chain and proved to be in strict compliance with the government's requirements on waste water discharge. As at the date of this report, the merger of these two companies had been approved by the local government and is now in the stage of public notice period prior to their merger. It is expected that the merger will be completed by the end of this year. These two companies in Suzhou, with their low-cost competitive edge, will operate with a primary goal of expanding the application of the Group's products and improving the performance of the Group's products to satisfy the customers' demand.

Through Shenzhen Smart Electronics Co. Ltd. (深圳思碼特電子有限公司) ("Shenzhen Smart"), a joint venture established by Ever Proven Investments Limited (non-wholly owned subsidiary of the Group), we provided surface mount technology ("SMT") services for flexible printed circuits. During the period, Shenzhen Smart had newly acquired two high-speed SMT production lines, which raised its capacity significantly. Shenzhen Smart achieved turnaround in its operation, achieving a profit during the period as compared with a loss in 2005.

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 the lessor of the land and the relevant PRC government authority regarding compensation issues. The actual date of resumption of the land by the local government has yet to be confirmed. The Group has confirmed its new place of business and entered into a land purchase agreement, which was

disclosed in the announcement dated 7 June 2006 in compliance with the GEM Listing Rules. The Group will commence the construction of the new factory buildings in the second half of this year and relocation to the new factory for operation purpose is expected to occur by 2007.

Outlook

In line with the Group's efforts in adjusting market portfolio and product mix, the substantial reliance on domestic mobile phone manufacturers had gradually reduced, and the domestic mobile phone manufacturers had also generally struggled through the most difficult times. The Group has taken steps to gradually develop its products to the direction of application diversification and high-end products. Following its future expansion plan, the Group has kept more than 10 customers (such as PHILIPS, Alcatel, Huawei and LG) as the key customers of the Group. These customers are entitled to preferential treatment in respect of the resource allocation of the Company. The Directors believe that, through the implementation of large customers development strategy, project management system and the strict internal audit system, together with the enhanced perception of customers' needs and improved internal core strength, the Group has passed the most difficult stage and is beginning to pick up an upward trend.

The Group's plants at Suzhou, formed by AKM Suzhou and Suzhou Guanzhilin, which mainly engage in the production and the manufacturing of low to medium end single-sided and double-sided flexible printed circuits, which are not in competition and supplemented with the production and the manufacturing of medium to high end multi-layer and rigid-flex printed circuit boards by plant in Panyu. Such plants are expected to achieve profit this year as compared with the loss suffered in 2005.

The spin-off of the research centre of AKM Electronics Industrial (Panyu) Ltd. had been registered as an enterprise. The Group intends to set it up as a research centre and project centre directly under the Group's control. The research centre will continue to recruit experienced R&D personnel and co-operate with relevant institutes such as universities and research institutes etc. 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 the technological capabilities.

The Group will seek to co-operate and establish strategic alliances with international manufacturers and relevant enterprises in the industry and to co-operate with strategic partners to further enhance the R&D capability, manufacturing capacity and management ability of the Group and to build core competency.

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 internally generated funds and loans from banks. Taking into account the financial resources of the Group, including internally generated fund from operating activities and banking facilities currently available, it is anticipated that the Group has sufficient working capital for its present funding requirements.

As at 30 June 2006, the net current assets were approximately HK\$101,905,000 (as at 31 December 2005: approximately HK\$118,104,000).

As at 30 June 2006, there were bank balances, cash on hand and bank deposits of approximately HK\$40,493,000 (as at 31 December 2005: approximately HK\$54,930,000).

As at 30 June 2006, there were bank borrowings of approximately HK\$2,353,000 (as at 31 December 2005: approximately HK\$10,088,000) in the form of trust receipt loans.

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2006, bank deposits of approximately HK\$9,799,000 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 2006, the Group had outstanding capital commitments of approximately HK\$4,297,000 (as at 31 December 2005: approximately HK\$1,622,000).

GEARING RATIO

As at 30 June 2006, the gearing ratio (calculated as total liabilities over total assets as at the respective balance sheet dates) of the Group was approximately 26% (as at 31 December 2005: approximately 28%).

MATERIAL ACQUISITIONS AND DISPOSALS

In April 2006, the Company has acquired 100% interest in Suzhou Guanzhilin at a consideration of approximately RMB3.11 million, which mainly engages in the production of single-sided and double-sided flexible printed circuits.

Save as disclosed above, the Group did not have any material acquisitions or disposals during the six months ended 30 June 2006.

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 period. 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\$59.63 million, Hong Kong as to approximately HK\$16.53 million and other regions as to approximately HK\$6.41 million for the six months ended 30 June 2006.

EMPLOYEE INFORMATION

As at 30 June 2006, the Group had a total of 1,068 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

AKM Electronics Industrial (Panyu) Ltd. (安捷利(番禺)電子實業有限公司), the wholly-owned subsidiary of the Company, entered into an agreement for the transfer of land use rights on 1 June 2006 to purchase the land use rights of a piece of land situating at the South of Technology Road, Information Technology Park of the Economic and Development Area of Nansha, Guangzhou, the PRC (the "Land") at a total consideration of RMB18,106,140 (equivalent to approximately HK\$17,578,777). The Land has a total gross area of 92,852 sq.m., which will be used for production relocation and expansion purposes.

A new production facility will be built on the Land and the majority of the Group's operation will be relocated once the construction is completed. The capital commitment in relation to the new production facility is yet to be ascertained, but the amount shall be funded by internal resources and/or bank borrowings.

Saved as disclosed above, the Group has no other future plans for material investments or capital assets as at 30 June 2006.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2006.

SIGNIFICANT INVESTMENT HELD

The Group did not have any significant investment as at 30 June 2006.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The Company has been listed the GEM 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 for the period from 6 August 2004 (being the latest practicable date prior to the printing of the Prospectus) to 30 June 2006:

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 fifth production line, including but not limited to directional light exposer, digital controlled drilling and milling lathe and developing and etching line.
2. To complete installation of equipment and machineries for the fifth production line capable for the production of fine line single-sided, double-sided and multi-layer flexible printed circuit and to commence operation.

Actual business progress as at 30 June 2006

Acquisition and installation of additional equipment and machineries

The production equipment and machineries for the fifth production line were acquired and installed.

Installation of the equipment and machineries acquired for the fifth production line was completed and trial production for flexible printed circuit by the fifth production line finished. Operation commenced from the third quarter in 2005.

3. 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.

The production equipment and machineries for the sixth production line were acquired and installed.

4. 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.

Installation of the equipment and machineries acquired for the sixth production line was completed and trial production for flexible printed circuit by the sixth production line finished. Operation commenced from the fourth quarter in 2005.

Renovation of production capacity

1. To renovate the production plant for the further expansion of production facilities.

Renovation of production capacity

The renovation of the production plant was completed for the expansion of production facilities.

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 Beijing, Taiwan and Japan.
2. To market the Group's products via advertisements and journals.

Overseas and domestic markets expansion

A representative office was established for distribution of the Group's products in Beijing. The Group still continues to seek suitable distribution agents or strategic alliances in Taiwan and Japan.

The Group marketed its products via advertisements and journals during the period.

For the period ended 30 June 2006, the net proceeds from the listing of the Company of approximately HK\$47.21 million (after deducting the relevant listing expenses) were used according to the uses of proceeds as disclosed in the Prospectus as follows:

	Amounted of net proceeds to be used up as at 30 June 2006 as set out in the Prospectus	Actual amount of net proceeds spent as at 30 June 2006
	HK\$'million	HK\$'million
1. Expansion of production capacity		
– Acquisition and installation of additional equipment and machineries		
i. the fifth production line	20.95	17.34
ii. the sixth production line	23.00	18.51
– Renovation of production plant	2.55	2.55
2. Expansion of sales and distribution network	1.85	1.02

Note: As at 30 June 2006, 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\$36.27 million, the remaining balance will be settled in the second half of year 2006. 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 from the listing of the Company will be used as working capital of the Group.

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 30 June 2006, none of the directors and the chief executive 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 Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have under such provisions of the SFO) Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules"):

(i) The Company

(i) Interest in shares of the Company

Name	Class and number of shares of which interested (other than under equity derivatives)	Capacity	Long/Short position	Approximately percentage of total issued share capital in the Company
Mr. Xiong Zheng Feng	720,000 ordinary shares	Beneficial Owner	Long	0.13

(ii) Interest in the underlying shares of the Company through equity derivatives

Name of Director	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	2,000,000 ordinary shares	Beneficial owner	Long	0.37
Mr. Chai Zhi Qiang	2,800,000 ordinary shares	Beneficial owner	Long	0.52
Ms. Li Ying Hong	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. Mr. Xiong Zheng Feng is in aggregate interested in approximately 0.5% of the total issued share capital in the Company, such interest comprises his interests in 720,000 issued shares and 2,000,000 underlying shares.
3. None of Ms. Li Ying Hong nor Mr. Chai Zhi Qiang is interested in any securities of the Company other than under equity derivatives.

(II) The associated corporation

As at 30 June 2006, to the best knowledge of the Company, none of the Directors, chief executive of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of any associated corporations of the Company (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and Rules 5.46 to 5.67 of the GEM Listing Rules.

(b) Substantial shareholders

Save as disclosed below, as at 30 June 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
Dalmaly International Corporation ("Dalmaly") <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, 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"). During the period, no options were granted under the above two schemes.

Details of the movements in the number of options during the period which have been granted under the Pre-IPO Scheme are as follows:

Name or category of participant	Date of grant <i>(Notes 1 & 2)</i>	Exercisable period <i>(Note 1, 2 & 3)</i>	Exercise price per share HK\$	Number of share options			
				Outstanding at 1.1.2006	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2006
Directors							
Mr. Xiong Zheng Feng	6.8.2004	18.8.2005 to 6.8.2014	0.4	2,000,000	-	-	2,000,000
Mr. Chai Zhi Qiang	6.8.2004	18.8.2005 to 6.8.2014	0.4	2,800,000	-	-	2,800,000
Ms. Li Ying Hong	6.8.2004	18.8.2005 to 6.8.2014	0.4	600,000	-	-	600,000
				5,400,000	-	-	5,400,000
Employees	6.8.2004	18.8.2005 to 6.8.2014	0.4	11,900,000	-	(1,400,000)	10,500,000
Total				17,300,000	-	(1,400,000)	15,900,000

Notes:

1. All dates are shown day, month, year.
2. The vesting period of the options is from the date of grant until the commencement of the exercisable period.
3. These grants are exercisable, starting from the first anniversary of the listing date at stepped annual increments of 25% of the total options granted, for a period not later than 10 years from the date of grant.

Save as disclosed above, none of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2006, 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.

DIRECTORS' SECURITIES TRANSACTIONS

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, all Directors confirm that they complied with such code of conduct throughout the six months ended 30 June 2006.

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.

SPONSOR'S INTERESTS

Pursuant to a sponsor agreement dated 10 August 2004 made between the Company and Mega Capital (Asia) Company Limited ("Mega Capital"), Mega Capital 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 Mega Capital, 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 30 June 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 six months ended 30 June 2006.

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

9 August 2006, Hong Kong

As at the date of this report, the executive Directors are Xiong Zheng Feng, Chai Zhi Qiang and Li Ying Hong; the non-executive Director is Han Li Gang; the independent non-executive Directors are Li Kung Man, Liang Zhi Li and Wang Heng Yi.