



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

Third Quarterly Report **2006**



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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 nine months ended 30 September 2006, the unaudited turnover decreased to approximately HK\$120.84 million, representing a decrease of approximately 14.05% as compared to the corresponding period last year. The net profit decreased by approximately 78.32% to approximately HK\$4.34 million as compared to the corresponding period last year.
- Earnings per share of the Group was approximately HK0.80 cents for the nine months ended 30 September 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 nine months ended 30 September 2006 together with the comparative unaudited figures for the corresponding period last year, as follows:

THE FINANCIAL STATEMENTS

Condensed Consolidated Income Statement

For the nine months and three months ended 30 September 2006 and 30 September 2005

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)	2006 HK\$ (Unaudited)	2005 HK\$ (Unaudited)
Turnover	2	120,838,823	140,585,913	38,265,888	46,313,137
Cost of sales		(92,809,023)	(101,084,045)	(33,105,107)	(34,125,917)
Gross profit		28,029,800	39,501,868	5,160,781	12,187,220
Other operating income		461,170	227,464	187,938	40,236
Distribution costs		(4,430,084)	(4,463,229)	(1,458,547)	(1,602,074)
Administrative expenses		(11,573,410)	(9,097,977)	(3,681,846)	(3,265,592)
Research and development expenses		(7,403,610)	(2,983,391)	(2,036,957)	(93,379)
Profit (loss) from operations		5,083,866	23,184,735	(1,828,631)	7,266,411
Finance costs		(116,691)	-	(67,527)	-
Share of result of a jointly controlled entity		47,885	(302,268)	31,652	(302,268)
Profit (loss) before taxation		5,015,060	22,882,467	(1,864,506)	6,964,143
Taxation	3	(670,188)	(2,914,569)	132,537	(874,337)
Profit (loss) for the period		4,344,872	19,967,898	(1,731,969)	6,089,806
Attributable to:					
Equity holders of the parent		4,342,855	20,031,282	(1,739,784)	6,157,284
Minority interests		2,017	(63,384)	7,815	(67,478)
		4,344,872	19,967,898	(1,731,969)	6,089,806
Dividend	4	-	-	-	-
Earnings (loss) per share	5				
- Basic		0.80 cents	3.71 cents	(0.32) cents	1.14 cents
- Diluted		N/A	3.69 cents	N/A	1.14 cents

Condensed Consolidated Statement of Changes in Equity*For the nine months ended 30 September 2006 and 30 September 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	-	-	3,511,566	-	-	3,511,566	-	3,511,566
Profit for the period	-	-	-	-	4,342,855	4,342,855	2,017	4,344,872
Total recognised income and expenses for the period	-	-	3,511,566	-	4,342,855	7,854,421	2,017	7,856,438
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 September 2006	54,000,000	53,868,328	8,534,680	1,007,409	77,425,219	194,835,636	15,015	194,850,651
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	-	-	2,736,982	-	-	2,736,982	15,552	2,752,534
Profit for the period	-	-	-	-	20,031,282	20,031,282	(63,384)	19,967,898
Total recognised income and expenses for the period	-	-	2,736,982	-	20,031,282	22,768,264	(47,832)	22,720,432
Capital contribution from minority interests	-	-	-	-	-	-	195	195
2004 final dividend paid	-	-	-	-	(2,700,000)	(2,700,000)	-	(2,700,000)
At 30 September 2005	54,000,000	53,868,328	5,006,395	379,321	73,881,382	187,135,426	(47,637)	187,087,789

Notes to the Condensed Financial Statements

For the nine months ended 30 September 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		Turnover	
	Nine months ended		Three months ended	
	30 September		30 September	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC other than Hong Kong	90,394,358	115,621,542	30,759,879	35,462,693
Hong Kong	22,872,216	20,415,071	6,346,200	8,997,743
Others	7,572,249	4,549,300	1,159,809	1,852,701
	120,838,823	140,585,913	38,265,888	46,313,137

	Segment results		Segment results	
	Nine months ended		Three months ended	
	30 September		30 September	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC other than Hong Kong	14,275,841	30,192,961	526,228	8,547,381
Hong Kong	6,681,858	5,591,491	2,358,416	1,958,055
Others	2,642,017	(745,813)	817,590	79,710
	23,599,716	35,038,639	3,702,234	10,585,146
Interest income	362,578	217,899	89,346	54,124
Unallocated expenses, net	(18,878,428)	(12,071,803)	(5,620,211)	(3,372,859)
Profit (loss) from operations	5,083,866	23,184,735	(1,828,631)	7,266,411
Finance costs	(116,691)	–	(67,527)	–
Share of result of a jointly controlled entity	47,885	(302,268)	31,652	(302,268)
Profit (loss) before taxation	5,015,060	22,882,467	(1,864,506)	6,964,143
Taxation	(670,188)	(2,914,569)	132,537	(874,337)
Profit (loss) for the period	4,344,872	19,967,898	(1,731,969)	6,089,806

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.

3. TAXATION

	Nine months ended		Three months ended	
	30 September		30 September	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax	670,188	2,914,569	(132,537)	874,337

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.

4. 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 nine months ended 30 September 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:

	Nine months ended	
	30 September	
	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	4,342,855	20,031,282
	2006	2005
	Number of shares	Number of 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	2,139,535
Weighted average number of ordinary shares for the purpose of diluted earnings per share	N/A	542,139,535

No diluted earnings per share has been presented for the period ended 30 September 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 nine months ended 30 September 2006 (the "period"), the turnover of the Group amounted to approximately HK\$120.84 million, representing a decrease of approximately 14.05% as compared to the corresponding period last year. The gross profit margin for the period was decreased to approximately 23.20% (the corresponding period of 2005: 28.10%). The net profit of the Group for the period was approximately HK\$4.34 million, representing a decrease of approximately 78.32% as compared to the corresponding period last year.

The distribution costs of the Group for the nine months ended 30 September 2006 amounted to approximately HK\$4.43 million, representing a decrease of approximately 0.74% as compared to the corresponding period last year.

The administrative expenses of the Group for the nine months ended 30 September 2006 amounted to approximately HK\$11.57 million, representing an increase of approximately 27.21% as compared to the corresponding period last year. The increase in administrative expenses during the period as compared to 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 nine months ended 30 September 2006 amounted to approximately HK\$7.40 million, representing an increase of approximately 148.16% 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, and an amount of approximately HK\$1.36 million of government grant was obtained to set off against related expenses last year.

Business Review and Prospect

For the nine months ended 30 September 2006, the sales of the three products, namely single-sided, double-sided and multi-layer flexible printed circuits accounted for approximately 16%, 66% and 18% of the Group's turnover respectively, while the sales of these products for the corresponding period last year accounted for approximately 13%, 37% and 50% of the Group's turnover respectively.

In the first three quarters of 2006, the Group's net profit decreased by 78.32%, which was primarily due to the change of product structure and lower sales revenues. It was due to the fact that the Group's principal customers are domestic mobile phone manufacturers, who chose to apply sliding design generally in respect to mobile phones since early 2006, while the application of flexible printed circuit boards, especially multi-layer flexible printed circuit boards, with higher profit margins, has decreased drastically. The Group is taking measures to develop wide application and high-end products. As such, the over-dependence on the domestic mobile phone manufacturers is gradually being rectified.

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 previously, 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 announcement, the merger of these two companies had been approved by the local government and is now in the process of implementing the 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 applications of the Group's products to satisfy the customers' demand.

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 operation and is assessing the related costs and any other losses which may be incurred as a result of 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, which was disclosed on 7 June 2006 in conformity with the requirements of the GEM Listing Rules. The Group has paid full price for the land acquired and is preparing for the construction of a new factory.

OUTLOOK

In line with the Group's efforts in adjusting the market portfolio and product mix, the reliance on domestic mobile phone manufacturers had gradually reduced. 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 is beginning to pick up an upward trend.

The direct R&D centre (project centre), which was set up by the Group during the period, keeps on recruiting experienced R&D personnel, strengthening the development of new products and technology, enhancing the yield rate of the new products developed by the Group, and reducing scraps incurred in the course of production, so as to improve the gross profit rate and the profit margin.

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

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 30 September 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	870,000 ordinary shares	Beneficial owner	Long	0.16

(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 <i>(Notes)</i>	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 0.53% of the total issued share capital in the Company, such interest comprises his interests in 870,000 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 September 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 September 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
Dalmarty International Corporation ("Dalmarty") <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. Dalmaty 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 Dalmaty.
4. None of Alpha Luck, Silver City, CNIC and Dalmaty 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 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 September 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 nine months ended 30 September 2006.

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

8 November 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.