

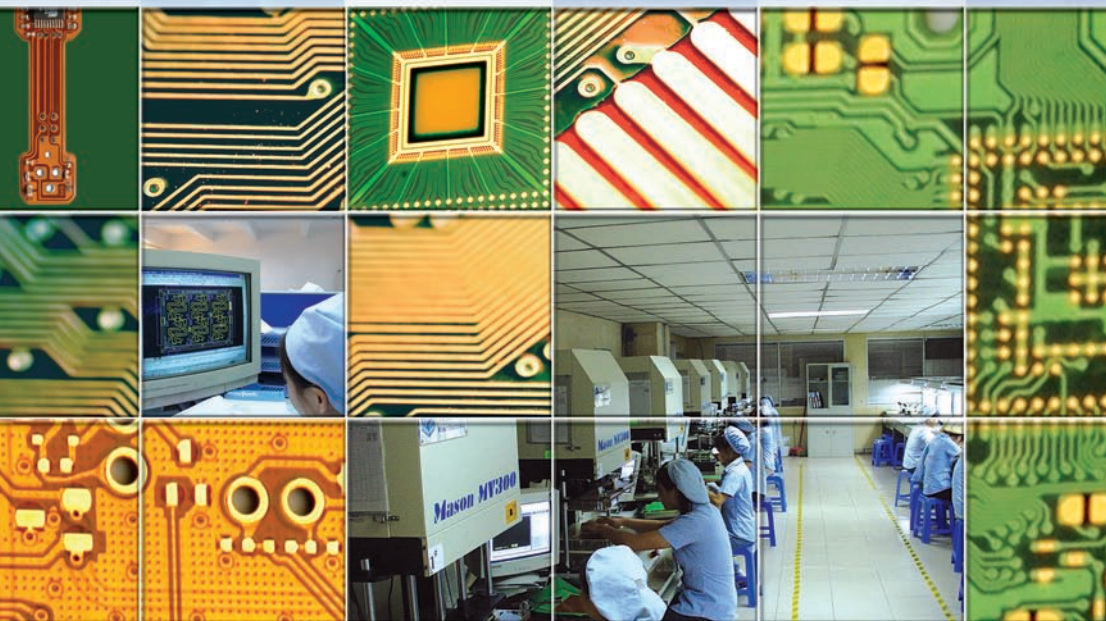


AKM Industrial Company Limited

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  
**2007**

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 three months ended 31 March 2007, the unaudited turnover increased to approximately HK\$49.68 million, representing an increase of approximately 16.12% as compared to the corresponding period last year. The loss attributable to the equity holders of the parent of the Group amounted to HK\$3.76 million, while there was a profit of HK\$5.12 million for the corresponding period last year.
- Loss per share of the Group was approximately HK0.70 cent for the three months ended 31 March 2007.

## THE FINANCIAL STATEMENTS

### Quarterly Results

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 ended 31 March 2007 (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 2007 and 31 March 2006

		Three months ended 31 March	
	Notes	2007 HK\$ (Unaudited)	2006 HK\$ (Unaudited)
Turnover	2	<b>49,678,166</b>	42,782,385
Cost of sales		<b>(49,054,865)</b>	(29,594,172)
Gross profit		<b>623,301</b>	13,188,213
Other income		<b>500,636</b>	159,064
Distribution costs		<b>(1,340,496)</b>	(1,227,663)
Administrative expenses		<b>(3,025,240)</b>	(4,094,122)
Research and development expenses		<b>(2,154,210)</b>	(2,280,072)
Share of result of a jointly controlled entity		<b>1,915,147</b>	86,676
Finance costs		<b>(262,971)</b>	(48,553)
(Loss) profit before taxation		<b>(3,743,833)</b>	5,783,543
Taxation	3	<b>(17,500)</b>	(666,194)
(Loss) profit for the period		<b>(3,761,333)</b>	5,117,349
Attributable to:			
Equity holders of the parent		<b>(3,761,287)</b>	5,122,037
Minority interests		<b>(46)</b>	(4,688)
		<b>(3,761,333)</b>	5,117,349
(Loss) earnings per share	5		
– basic		<b>(0.70 cents)</b>	0.95 cents
– diluted		<b>N/A</b>	N/A

## Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 March 2007 and 31 March 2006

	Attributable to equity holders of the parent							
	Share capital	Share premium	Translation reserve	Share		Total	Minority interests	Total
				options reserve	Retained profits			
				HK\$	HK\$			
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
At 1 January 2007	54,000,000	53,868,328	11,536,392	941,049	65,347,865	185,693,634	13,421	185,707,055
Exchange differences from translation of foreign operations directly recognised in equity	-	-	3,055,358	-	-	3,055,358	-	3,055,358
Loss for the period	-	-	-	-	(3,761,287)	(3,761,287)	(46)	(3,761,333)
Total recognised income and expenses for the period	-	-	3,055,358	-	(3,761,287)	(705,929)	(46)	(705,975)
Recognition of equity-settled share based payments	-	-	-	18,050	-	18,050	-	18,050
At 31 March 2007	54,000,000	53,868,328	14,591,750	959,099	61,586,578	185,005,755	13,375	185,019,130
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 directly recognised 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



## Notes to the Condensed Consolidated Income Statement

*For the period ended 31 March 2007*

### **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 2006.

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	
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC other than Hong Kong	<b>32,633,773</b>	29,164,892	<b>(1,198,798)</b>	9,612,878
Hong Kong	<b>15,196,877</b>	11,506,986	<b>585,926</b>	1,966,990
Others	<b>1,847,516</b>	2,110,507	<b>(104,323)</b>	380,682
	<b>49,678,166</b>	42,782,385	<b>(717,195)</b>	11,960,550
Interest income			<b>373,103</b>	159,064
Finance costs			<b>(262,971)</b>	(48,553)
Share of result of a jointly controlled entity			<b>1,915,147</b>	86,676
Unallocated expenses, net of unallocated other income			<b>(5,051,917)</b>	(6,374,194)
(Loss) profit before taxation			<b>(3,743,833)</b>	5,783,543
Taxation			<b>(17,500)</b>	(666,194)
(Loss) profit for the period			<b>(3,761,333)</b>	5,117,349

## (b) Business segments

The Group's principal activities are the manufacture and sale of flexible printed circuit and sourcing of components for surface mount technology ("SMT") service. Business segment information is as follows:

	<b>Sales of flexible printed circuit</b>	<b>Sourcing of components</b>	<b>Elimination</b>	<b>Consolidation</b>
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover				
For the three months ended 31 March 2007				
External sales	28,640,487	21,037,679	–	49,678,166
Inter-segment sales	–	1,176,931	(1,176,931)	–
	<hr/>	<hr/>	<hr/>	<hr/>
	28,640,487	22,214,610	(1,176,931)	49,678,166
Segment results	(3,039,960)	168,555		(2,871,405)
For the three months ended 31 March 2006				
External sales	42,782,385	–	–	42,782,385
Segment results	9,680,478	–		9,680,478



### 3. TAXATION

	Three months ended	
	31 March	
	2007	2006
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Hong Kong Profits Tax	17,500	–
PRC Enterprise Income Tax	–	666,194

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax was made in the corresponding period last year as the Group's assessable profit in Hong Kong in the prior year was wholly absorbed by tax losses brought forward. The 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 each PRC subsidiary's applicable tax rate. And there is no taxable income derived by the PRC subsidiaries for the current period.

Pursuant to the relevant laws and regulations in the PRC, the applicable PRC Enterprise Income Tax rate for AKM Electronics Industrial (Panyu) Ltd. (安捷利(番禺)電子實業有限公司) ("AKM Panyu") is 24%. 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 2007 (2006: Nil).

## 5. (LOSS) EARNINGS PER SHARE

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

	Three months ended 31 March	
	2007	2006
	HK\$	HK\$
	(Unaudited)	(Unaudited)
(Loss) earnings for the purposes of basic and diluted earnings per share:		
– (loss) profit for the period attributable to equity holders of the parent	<b>(3,761,287)</b>	5,122,037
	<hr/>	
	Number of shares	
	2007	2006
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>540,000,000</b>	540,000,000
Effect of dilutive potential ordinary shares from share options	<b>N/A</b>	N/A
	<hr/>	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>N/A</b>	N/A

The diluted loss per share for the period ended 31 March 2007 is not presented as the exercise of the share options outstanding would result in a decrease in loss per share.

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 2007, the turnover of the Group amounted to approximately HK\$49.68 million, representing an increase of approximately 16.12% as compared to the corresponding period last year. The gross profit margin for the period was decreased to approximately 1.25% (the corresponding period of 2006: 30.83%), it was mainly due to the decrease in the sales and gross profit margin of flexible printed circuit. The net loss of the Group for the period was approximately HK\$3.76 million, while there was a net profit of approximately HK\$5.12 million for the corresponding period last year. The decrease in net profit was mainly due to the decrease in gross profit margin.

The distribution costs of the Group for the three months ended 31 March 2007 amounted to approximately HK\$1.34 million, representing an increase of approximately 9.19% as compared to the corresponding period last year.


The administrative expenses of the Group for the three months ended 31 March 2007 amounted to approximately HK\$3.03 million, representing a decrease of approximately 26.11% as compared to the corresponding period last year. The decrease in administrative expenses was mainly due to the reallocation of expenses of certain departments from administrative expenses to production expenses this period.

The research and development expenses of the Group for the three months ended 31 March 2007 amounted to approximately HK\$2.15 million, representing a decrease of approximately 5.52% as compared to the corresponding period last year.

### Business Review and Prospect

#### *Business Review*

The Group is principally engaged in the manufacture and sale of flexible printed circuits, which are used in communication, LCD, consumer electrical and electronic appliances such as mobile phones, LCD, car electronics and cameras. From this period, the Group commenced the business of sourcing of components for the surface mount technology ("SMT") service in order to provide one stop service. As such, the current principal activities of the Group are sale of flexible printed circuits and sourcing of components for SMT service.

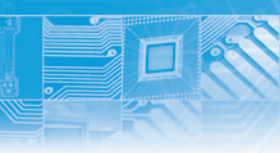


For the three months ended 31 March 2007, the turnover of the Group amounted to approximately HK\$49.68 million, representing an increase of approximately 16.12% as compared to the corresponding period last year, in which, the turnover of external sales of printed flexible circuit and sourcing of components for external sales for SMT service were approximately HK\$28.64 million and HK\$21.04 million respectively, while the turnover of external sales of printed flexible circuit during the corresponding period last year was approximately HK\$42.78 million, and there was no sales of sourcing of components for external sales for SMT service as this is a new business commencing from this period.

For the three months ended 31 March 2007, both of the turnover of flexible printed circuit and its gross profit margin decreased significantly compared to the corresponding period last year. It was mainly due to the fierce market competitions, which resulted in the decrease in both of the product price and sales volume. Together with the effect of fixed production cost, the gross profit margin decreased significantly.

In June 2005, the relevant local government authority in charge of land development intended to resume the land leased by the Group's Panyu plant (the "Premises"). 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, and is in the process of the construction of a new factory building which is expected to be completed by the end of 2007.

Silver City International (Holdings) Ltd., the substantial shareholder of the Company, has committed to indemnify any members of the Group against any acts, claims, losses, damages, costs, fines, charges, penalties, payments, interests or any expenses which might be made, suffered or incurred for or, directly or indirectly in connection with their moving out of the Premises.



### *Outlook*

Affected by the changes in both of the competitive environment of the domestic mobile phone market in Mainland China and the product structure of mobile phone, the Group still recorded a loss for the first quarter of 2007, but the loss was significantly lower than that of last quarter. During the period, following the adjustment of the strategy of market exploration, the sales to small and medium sized mobile manufacturers are in the trend of fast increasing. In light of the characteristics and the service requirement of large customers, and small and medium customers, the Group has set up a separate department to cater for the fast order requirement, as well as to target for the market exploration and production requirements. At the same time, the core business of the Group is still concentrated on the large customers with long term co-operation. Through the implementation of large customers development strategy, project management system, the strict internal audit system, expansion of income sources and reduction in costs, together with the improved internal core strength, the Group is striving to improve the operating conditions in 2007.

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 research and development capability, manufacturing capacity and management ability of the Group and build core competency. During the fourth quarter of 2006, the Group had already signed a cooperative letter of intent with an international manufacturer for the joint development of flexible printed circuits market in Japan and it is under progress.



## DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 31 March 2007, none of the directors and the chief executive and their associates had any interests 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"):

(l) *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	2,040,000 ordinary shares	Beneficial Owner	Long	0.38

(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 0.75% of the total issued share capital in the Company, such interest comprises his interests in 2,040,000 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 31 March 2007, 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 31 March 2007, no person other than a Director or chief executive (if any) of the Company had any interest or short positions in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO:

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

Notes:

1. This represents the same block of shares of the Company shown against the name of Alpha Luck above. Since Alpha Luck is wholly beneficially owned by Silver City, Silver City is deemed to be interested in the same number of shares of the Company held by Alpha Luck under Part XV of the SFO.
2. As Silver City is wholly beneficially owned by CNIC, CNIC is deemed to be interested in the same number of shares of the Company which Silver City is deemed to be interested under Part XV of the SFO.
3. Dalmaly 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 Dalmaly.



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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.

## **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 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 2007.

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

9 May 2007, Hong Kong