

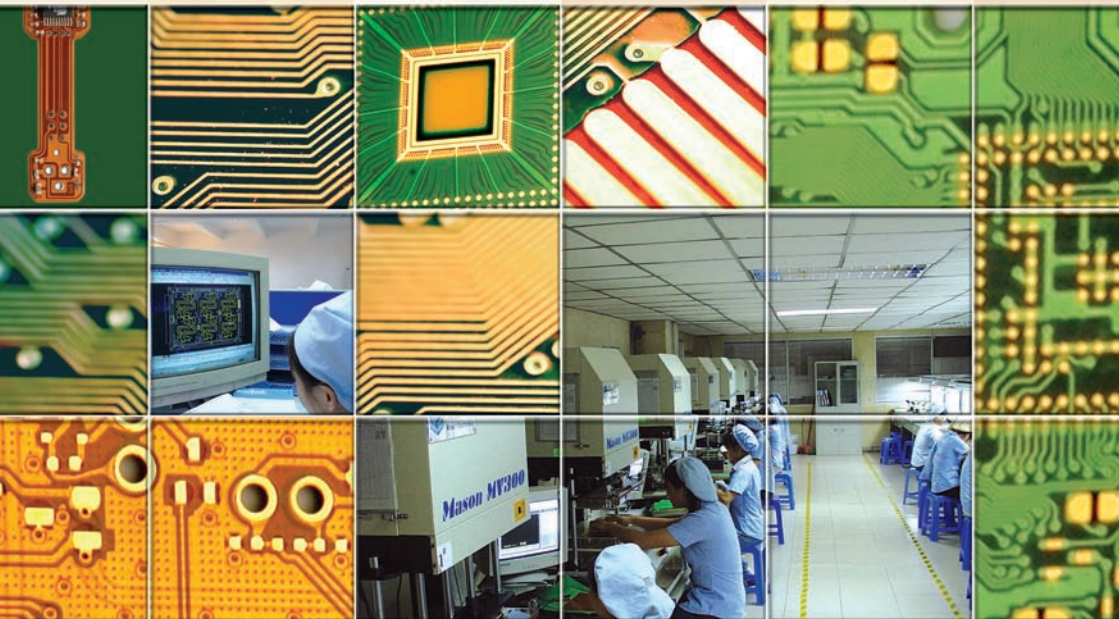


AKM Industrial Company Limited

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
2007

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of AKM Industrial Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, 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 2007, the unaudited turnover increased to approximately HK\$146.78 million, representing an increase of approximately 77.76% as compared to that of the corresponding period last year. The loss attributable to the equity holders of the parent of the Group amounted to HK\$9.44 million, while there was a profit of HK\$6.08 million for the corresponding period last year.
- Loss per share of the Group was approximately HK1.75 cents for the six months ended 30 June 2007.

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 2007 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 2007 and 30 June 2006

	Notes	Six months ended 30 June		Three months ended 30 June	
		2007	2006	2007	2006
		HK\$	HK\$	HK\$	HK\$
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	3	146,783,509	82,572,935	97,105,343	39,790,550
Cost of sales		(145,049,743)	(59,703,916)	(95,994,878)	(30,109,744)
Gross profit		1,733,766	22,869,019	1,110,465	9,680,806
Other income		1,019,102	273,232	518,466	114,168
Distribution costs		(2,844,241)	(2,971,537)	(1,503,745)	(1,743,874)
Administrative expenses		(7,809,465)	(7,891,564)	(4,784,225)	(3,797,442)
Research and development expenses		(4,211,810)	(5,366,653)	(2,057,600)	(3,086,581)
Share of result of a jointly controlled entity		3,211,620	16,233	1,296,473	(70,443)
Finance costs		(535,900)	(49,164)	(272,929)	(611)
(Loss) Profit before taxation	4	(9,436,928)	6,879,566	(5,693,095)	1,096,023
Taxation	5	180,534	(802,725)	198,034	(136,531)
(Loss) Profit for the period		(9,256,394)	6,076,841	(5,495,061)	959,492
Attributable to:					
Equity holders of the parent		(9,440,098)	6,082,639	(5,678,811)	960,602
Minority interests		183,704	(5,798)	183,750	(1,110)
		(9,256,394)	6,076,841	(5,495,061)	959,492
(Loss) Earnings per share	7				
– basic		(1.75 cents)	1.13 cents	(1.05 cents)	0.18 cent
– diluted		N/A	N/A	N/A	N/A

Condensed Consolidated Balance Sheet

At at 30 June 2007 and 31 December 2006

	Notes	30 June 2007 HK\$ (Unaudited)	31 December 2006 HK\$ (Audited)
Non-current assets			
Property, plant and equipment	8	81,079,469	72,862,592
Prepaid lease payments		24,651,572	18,207,150
Goodwill	9	2,120,863	2,120,863
Interest in a jointly controlled entity		9,549,316	6,337,696
		117,401,220	99,528,301
Current assets			
Inventories		38,773,597	33,549,621
Trade and other receivables	10	55,592,508	51,508,669
Bills receivables	10	17,207,543	11,436,940
Prepaid lease payments		504,395	371,575
Amount due from a jointly controlled entity		1,351,116	965,743
Pledged bank deposits		5,060,922	4,833,064
Bank balances and cash		35,961,434	56,214,588
		154,451,515	158,880,230
Current liabilities			
Trade and other payables	11	42,654,796	29,908,339
Bills payables	11	2,944,448	3,721,578
Government grants received		461,870	206,216
Amount due to a fellow subsidiary		3,833,913	2,434,591
Loan from intermediate holding company		15,905,728	15,558,000
Taxation payable		2,919,871	2,638,402
Bank borrowings	12	13,778,873	8,918,704
Loan from a minority shareholder of a subsidiary		2,247,500	2,247,500
Loan from an ultimate holding company		4,105,512	3,984,858
Bank overdraft		–	3,083,288
		88,852,511	72,701,476
Net current assets		65,599,004	86,178,754
Total assets less current liabilities		183,000,224	185,707,055
Capital and reserves			
Share capital	13	54,000,000	54,000,000
Reserves		128,803,099	131,693,634
Equity attributable to equity holders of the parent		182,803,099	185,693,634
Minority interests		197,125	13,421
Total equity		183,000,224	185,707,055

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007 and 30 June 2006

	Attributable to equity holders of the parent							
	Share capital	Share premium	Translation reserve	Share options reserve	Retained profits	Total	Minority interests	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 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	-	-	6,492,707	-	-	6,492,707	-	6,492,707
Loss for the period	-	-	-	-	(9,440,098)	(9,440,098)	183,704	(9,256,394)
Total recognised income and expenses for the period	-	-	6,492,707	-	(9,440,098)	(2,947,391)	183,704	(2,763,687)
Recognition of equity-settled share based payments	-	-	-	56,856	-	56,856	-	56,856
At 30 June 2007	54,000,000	53,868,328	18,029,099	997,905	55,907,767	182,803,099	197,125	183,000,224
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	-	-	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

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007 and 30 June 2006

	Six months ended 30 June	
	2007	2006
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	(7,670,967)	22,326,160
Net cash used in investing activities	(17,416,992)	(27,697,706)
Net cash from (used in) financing activities	2,604,496	(10,996,763)
Decrease in cash and cash equivalents	(22,483,463)	(16,368,309)
Cash and cash equivalents at beginning of the period	56,214,588	46,906,754
Effect of foreign exchange rate changes	2,230,309	155,733
Cash and cash equivalents at end of the period, representing bank balances and cash	35,961,434	30,694,178

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

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, and sourcing of components for the surface mount technology ("SMT") service.

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 2006.

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	2006	Three months ended 30 June	2006
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC other than Hong Kong	91,380,624	59,634,479	58,746,851	30,469,587
Hong Kong	51,008,267	16,526,016	35,811,390	5,019,030
Others	4,394,618	6,412,440	2,547,102	4,301,933
	146,783,509	82,572,935	97,105,343	39,790,550
	Segment results		Segment results	
	Six months ended 30 June	2006	Three months ended 30 June	2006
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC other than Hong Kong	(2,465,017)	13,749,613	(1,266,219)	4,136,735
Hong Kong	1,778,925	4,323,442	1,192,999	2,356,452
Others	(424,383)	1,824,427	(320,060)	1,443,745
	(1,110,475)	19,897,482	(393,280)	7,936,932
Interest income	741,635	273,232	368,532	114,168
Finance costs	(535,900)	(49,164)	(272,929)	(611)
Share of result of a jointly controlled entity	3,211,620	16,233	1,296,473	(70,443)
Unallocated expenses, net of unallocated other income	(11,743,808)	(13,258,217)	(6,691,891)	(6,884,023)
(Loss) Profit before taxation	(9,436,928)	6,879,566	(5,693,095)	1,096,023
Taxation	180,534	(802,725)	198,034	(136,531)
(Loss) Profit for the period	(9,256,394)	6,076,841	(5,495,061)	959,492

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 and sourcing of components for surface mount technology ("SMT") service. Business segment information is as follows:

	Sales of flexible printed circuit	Sourcing of components	Elimination	Consolidation
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover				
For the six months ended 30 June 2007				
External sales	67,564,916	79,218,593	–	146,783,509
Inter-segment sales	–	1,176,931	(1,176,931)	–
	67,564,916	80,395,524	(1,176,931)	146,783,509
Segment results	(5,651,070)	328,785		(5,322,285)
For the six months ended 30 June 2006				
External sales	82,572,935	–	–	82,572,935
Segment results	11,559,292	–		11,559,292

4. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss) Profit before taxation				
has been arrived at after charging:				
Allowance for bad and doubtful debts	239,773	788,880	-	-
Allowance for obsolete inventories	2,664,753	164,075	2,264,470	-
Depreciation of property, plant and equipment	5,798,168	6,581,111	2,685,795	3,164,760
and after crediting:				
Reversal of allowance for bad and doubtful debts	-	-	5,234	-
Reversal of allowance for obsolete inventories	-	-	-	1,719,185
Interest income	741,635	273,232	368,532	114,168

5. TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hong Kong Profits Tax	35,000	-	17,500	-
PRC Enterprise Income Tax	(215,534)	802,725	(215,534)	136,531

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.

6. DIVIDEND

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

7. (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:

	Six months ended 30 June	
	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	(9,440,098)	6,082,639
	2007	2006
	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	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	N/A	N/A

The diluted loss per share for the period ended 30 June 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 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\$11,930,000 (2006: HK\$3,569,000) on the acquisition of property, plant and equipment.

9. GOODWILL

The goodwill arised on acquisition of a subsidiary in 2006:

	At 30 June 2007 HK\$ (Unaudited)	At 31 December 2006 HK\$ (Audited)
Purchase consideration	2,999,036	2,999,036
Fair value of net assets acquired	878,173	878,173
	2,120,863	2,120,863

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 30 June 2007 HK\$ (Unaudited)	At 31 December 2006 HK\$ (Audited)
Within 30 days	19,342,838	13,374,360
31 – 60 days	15,334,411	16,574,382
61 – 90 days	16,065,720	13,174,458
91 – 120 days	7,368,191	9,238,212
121 days – 1 year	8,326,603	4,973,438
Over 1 year	348,881	80,854
	66,786,644	57,415,704

11. TRADE AND OTHER PAYABLES/BILLS PAYABLES

	At 30 June 2007 HK\$ (Unaudited)	At 31 December 2006 HK\$ (Audited)
The following is an aged analysis of trade and bills payables:		
Within 30 days	14,098,639	12,569,353
31 – 60 days	7,542,500	6,047,896
61 – 90 days	3,623,203	3,041,671
91 – 120 days	1,535,714	2,201,853
121 days – 1 year	1,386,279	42,979
Over 1 year	261,523	396,947
	<hr/> 28,447,858	<hr/> 24,300,699

12. BANK BORROWINGS

	At 30 June 2007 HK\$ (Unaudited)	At 31 December 2006 HK\$ (Audited)
Bank borrowings which are repayable within one year comprise the following:		
Bank loans	5,131,890	4,981,072
Trust receipts loans – secured	8,646,983	3,937,632
	<hr/> 13,778,873	<hr/> 8,918,704

13. SHARE CAPITAL

	Number of shares	Share capital HK\$
Authorised:		
At 1 January 2007 and 30 June 2007	2,000,000,000	200,000,000
Issued and fully paid:		
At 1 January 2007 and 30 June 2007	540,000,000	54,000,000

14. CAPITAL COMMITMENTS

	At 30 June 2007 HK\$ (Unaudited)	At 31 December 2006 HK\$ (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in financial statements	33,894,917	1,077,410

15. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June		Three months ended 30 June	
	2007 HK\$ (Unaudited)	2006 HK\$ (Unaudited)	2007 HK\$ (Unaudited)	2006 HK\$ (Unaudited)
Transactions with intermediate holding company:				
Interest expenses charged to the Group	347,728	–	169,315	–
Transactions with fellow subsidiaries:				
Rentals for office and factory premises and staff quarters charged to the Group	1,345,771	1,275,437	682,886	637,719
Purchase of properties by the Group	995,541	–	–	–
Transactions with a jointly controlled entity:				
Sales of goods by the Group	35,117,434	–	24,957,983	–
Sales of machinery by the Group	2,787,258	–	2,787,258	–
Rental for equipment charged by the Group	272,975	–	136,488	–
Subcontracting fee paid by the Group	4,587,297	2,906,353	2,397,510	1,638,671
Purchase of goods by the Group	38,850,068	–	30,443,388	–

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2007 (the "period"), the turnover of the Group amounted to approximately HK\$146.78 million, representing an increase of approximately 77.76% as compared to the corresponding period last year. The gross profit margin for the period was decreased to approximately 1.18% (the corresponding period of 2006: 27.70%), it was mainly due to the decrease in the gross profit margin of flexible printed circuit. The net loss of the Group for the period was approximately HK\$9.44 million, while there was a net profit of approximately HK\$6.08 million for the corresponding period last year. The decrease in net profit was mainly due to the decrease in the sales and gross profit margin of flexible printed circuit.

The other income of the Group for the six months ended 30 June 2007 amounted to approximately HK\$1.02 million, representing an increase of approximately 272.98% as compared to the corresponding period last year. It was mainly due to the increase of interest income and there was rental income of equipment from Shenzhen Smart Electronics Co. Ltd. (深圳思碼特電子有限公司), a jointly controlled entity of the Group.

The distribution costs of the Group for the six months ended 30 June 2007 amounted to approximately HK\$2.84 million, representing a decrease of approximately 4.28% as compared to the corresponding period last year.

The administrative expenses of the Group for the six months ended 30 June 2007 amounted to approximately HK\$7.81 million, representing a decrease of approximately 1.04% as compared to the corresponding period last year.

The research and development expenses of the Group for the six months ended 30 June 2007 amounted to approximately HK\$4.21 million, representing a decrease of approximately 21.52% as compared to the corresponding period last year. The decrease in research and development expenses was mainly due to the reclassification of certain expenses.

The finance cost of the Group for the six months ended 30 June 2007 amounted to approximately HK\$0.54 million, representing an increase of approximately 990.03% as compared to the corresponding period last year. It was mainly due to the interest charged for the loan borrowed from Silver City International (Holdings) Ltd., a substantial shareholder of the Company.


Business Review and Prospect

Business Review

The Group is principally engaged in the manufacture and sale of flexible printed circuits and electronic components, which are used in communication, LCD, consumer electrical and electronic appliances such as mobile phones, LCD, car electronics and cameras. Starting from the previous quarter, the Group commenced the business of sourcing of components for 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 first half of 2007, the turnover of the Group amounted to approximately HK\$146.78 million, representing an increase of approximately 77.76% as compared to the corresponding period last year, in which, the turnover of external sales of printed flexible circuits and sourcing of components for external sales for SMT service were approximately HK\$67.56 million and HK\$79.22 million respectively. The turnover of external sales of printed flexible circuits during the corresponding period last year was approximately HK\$82.57 million, whereas no turnover was recorded for sourcing of components for external sales for SMT service as this is a new business commencing from the reporting period.

For the first half of 2007, both the turnover and gross profit margin of flexible printed circuits decreased significantly compared to the corresponding period last year, with the sector continued to register loss during the reporting period. The change in product structure as a result of change in market environment, fierce market competitions resulting in the drop in product price, failure in opening up new markets which resulted in the decrease in sales volume, together with the effect of fixed production cost, all contributed to the decrease in turnover and gross profit. Starting from year 2006, the Group's share in the market of double-sided flexible printed circuit has been increasing, whereas the market share of its multi-layer flexible printed circuit dropped significantly. As international manufacturers expanded their production capacity in China, and there are numerous small and medium manufacturers of flexible printed circuits competing for market share, resulting in an over-surplus of production capacity in the industry. Moreover, product price of flexible printed circuits also dropped as a result of fierce market competition.




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 entered into a land purchase agreement, which was disclosed in the announcement dated 7 June 2006 in compliance with the GEM Listing Rules, 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.

AKM Electronic Technology (Suzhou) Co., Ltd. (安捷利電子科技(蘇州)有限公司), the wholly-owned subsidiary of the Company, entered into an agreement for the transfer of land use rights on 28 June 2007 to purchase the land use rights of a piece of land situating at North of Lushan Road, East of Liangang Road, Gaoxin District, Suzhou, the PRC at the consideration of RMB5,922,300, which has gross area of 29,611 sq.m. and will be for the purpose of expansion of production. The consideration was fully settled in early August 2007 by the Group.

Outlook

The latter half of the year is the peak sales season for the industry. Driven by the downstream applications, market demand for products of the flexible printed circuit industry will increase in the latter half of 2007. It is expected that growth in the operations of the Group will be registered. In the first half of 2007, in line with the structural change in the flexible printed circuit market, the Group has adjusted its market development strategies accordingly. Apart from continuing the provision of services to the large customers in the mobile phone industry, the Group also concentrated on developing the markets for monitors and notebook PCs. Currently, the Group is the major supplier of TRULY and BOE. The work in relation to soliciting new large customers, certification and sample tests are all under progress, while LG has placed orders with the Group. It is expected that significant progress will be made in soliciting large international customers. 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 on the whole.



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 its core competencies and profitability.

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 2007, the net current assets were approximately HK\$65,599,000 (as at 31 December 2006: approximately HK\$86,179,000).

As at 30 June 2007, there were bank balances, cash on hand and bank deposits of approximately HK\$41,022,000 (as at 31 December 2006: approximately HK\$61,048,000).

As at 30 June 2007, there were bank borrowings of approximately HK\$13,779,000 (as at 31 December 2006: approximately HK\$8,919,000) and no bank overdraft (as at 31 December 2006: HK\$3,083,000).

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2007, bank deposits of approximately HK\$5,061,000 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 2007, the Group had outstanding capital commitments of approximately HK\$33,895,000 (as at 31 December 2006: approximately HK\$1,077,000).

GEARING RATIO

As at 30 June 2007, the gearing ratio (calculated as total liabilities over total assets as at the respective balance sheet dates) of the Group was approximately 33% (as at 31 December 2006: approximately 28%).

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions or disposals during the six months ended 30 June 2007.

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 Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to US dollars and RMB. 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 and sourcing of components for SMT service. Geographically, the turnover was sourced from the PRC (other than Hong Kong) as to approximately HK\$91.38 million, Hong Kong as to approximately HK\$51.01 million and other regions as to approximately HK\$4.39 million for the six months ended 30 June 2007.

EMPLOYEE INFORMATION

As at 30 June 2007, the Group had a total of 1,219 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. 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 is under construction 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 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 2007.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2007.

SIGNIFICANT INVESTMENT HELD

The Group did not have any significant investment as at 30 June 2007.

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 30 June 2007, none of the directors and the chief executive and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules:

(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	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 30 June 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 30 June 2007, no person other than a director or chief executive (if any) of the Company had any interests 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 4)	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, 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 Dalmaly.
4. None of Alpha Luck, Silver City, CNIC and Dalmaly 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>(Notes 1, 2 & 3)</i>	Exercise price per share <i>HK\$</i>	Number of share options			
				Outstanding at 1.1.2007	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2007
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	8,200,000	-	(300,000)	7,900,000
Total				13,600,000	-	(300,000)	13,300,000

Notes:

- All dates are shown day. months. year.
- The vesting period of the options is from the date of grant until the commencement of the exercisable period.
- 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 2007, 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 the required standard of dealings and such code of conduct throughout the six months ended 30 June 2007.

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.

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 six months ended 30 June 2007.

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

13 August 2007, Hong Kong