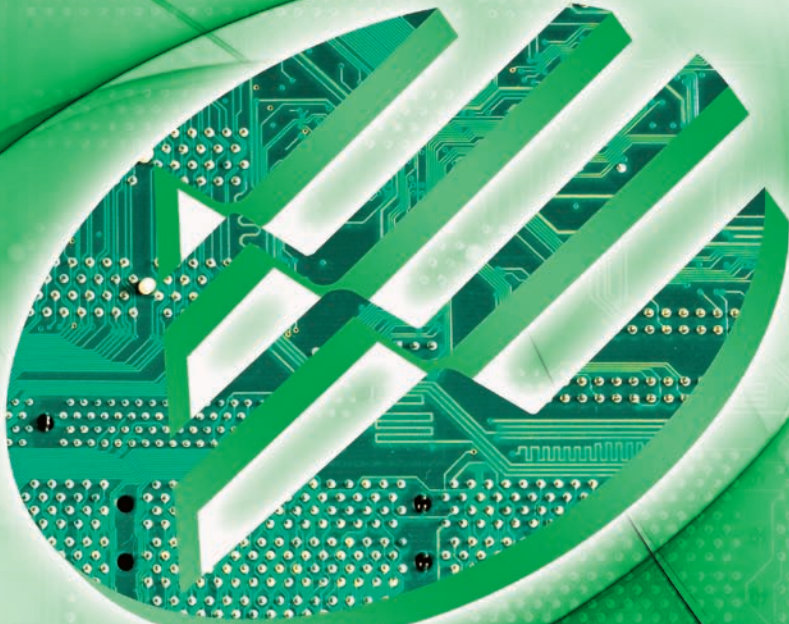




**AKM Industrial Company Limited**  
**安捷利實業有限公司**

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

Stock Code: 8298



First Quarterly Report **2008**

## **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 three months ended 31 March 2008, the unaudited turnover increased to approximately HK\$104.31 million, representing an increase of approximately 109.98% as compared to the corresponding period last year. The loss attributable to the equity holders of the parent of the Group amounted to approximately HK\$5.05 million, while the loss was approximately HK\$3.76 million for the corresponding period last year.
- Loss per share of the Group was approximately HK0.94 cents for the three months ended 31 March 2008.

## 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 2008 (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 2008 and 31 March 2007*

	Notes	Three months ended 31 March	
		2008 HK\$ (Unaudited)	2007 HK\$ (Unaudited)
Turnover	2	<b>104,314,577</b>	49,678,166
Cost of sales		<b>104,255,269</b>	(49,054,865)
Gross profit		<b>59,308</b>	623,301
Other income		<b>236,348</b>	500,636
Distribution costs		<b>(1,138,104)</b>	(1,340,496)
Administrative expenses		<b>(5,052,738)</b>	(3,025,240)
Research and development expenses		<b>(1,895,186)</b>	(2,154,210)
Share of result of a jointly controlled entity		<b>3,830,237</b>	1,915,147
Finance costs		<b>(116,254)</b>	(262,971)
Loss before taxation		<b>(4,076,389)</b>	(3,743,833)
Taxation	3	<b>(16,500)</b>	(17,500)
Loss for the period		<b>(4,092,889)</b>	(3,761,333)
Attributable to:			
Equity holders of the parent		<b>(5,050,448)</b>	(3,761,287)
Minority interests		<b>957,559</b>	(46)
		<b>(4,092,889)</b>	(3,761,333)
Loss per share	5		
– basic		<b>(0.94 cents)</b>	(0.70 cents)

## Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 March 2008 and 31 March 2007

	Attributable to equity holders of the parent							
	Share capital	Share premium	Translation reserve	Share options reserve	Accumulated profits	Total	Minority interests	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2008	54,000,000	53,868,328	27,054,429	4,098,318	33,086,177	172,107,252	1,026,492	173,133,744
Exchange differences from translation directly recognised in equity	-	-	6,860,224	-	-	6,860,224	-	6,860,224
Loss for the period	-	-	-	-	(5,050,448)	(5,050,448)	957,559	(4,092,889)
Total recognised income and expenses for the period	-	-	6,860,224	-	(5,050,448)	1,809,776	957,559	2,767,335
Recognition of equity-settled share based payments	-	-	-	16,006	-	16,006	-	16,006
Lapse of share options	-	-	-	(264,542)	264,542	-	-	-
At 31 March 2008	54,000,000	53,868,328	33,914,653	3,849,782	28,300,271	173,933,034	1,984,051	175,917,085
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 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

## Notes to the Condensed Consolidated Income Statement

For the period ended 31 March 2008

### 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 2007.

The Quarterly Financial Statements are unaudited but have been reviewed by the audit committee of the Company.

### 2. TURNOVER AND SEGMENTS INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts.

#### (a) Business segments

For management purposes, the Group is currently organised into two operating divisions namely manufacture and sale of flexible printed circuits and sourcing and sale of components. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Flexible printed circuit business – the manufacture and sale of flexible printed circuits (“FPC”)
- Sourcing and sale of components – provision of sourcing and sale of electrical components for surface mount technology (“SMT”) service

Segment information about these businesses is presented below.

### Three months ended 31 March 2008

	FPC business HK\$ (Unaudited)	Sourcing and sale of components HK\$ (Unaudited)	Total HK\$ (Unaudited)
Turnover			
External sales	<b>30,545,783</b>	<b>73,768,794</b>	<b>104,314,577</b>
Result			
Segment results	<b>(3,107,945)</b>	<b>133,963</b>	<b>(2,973,982)</b>
Interest income			82,552
Share of result of a jointly controlled entity			3,830,237
Finance costs			(116,254)
Unallocated corporate expenses			<b>(4,898,942)</b>
Loss before taxation			<b>(4,076,389)</b>
Taxation			<b>(16,500)</b>
Loss for the period			<b>(4,092,889)</b>

### Three months ended 31 March 2007

	FPC business HK\$ (Unaudited)	Sourcing and sale of components HK\$ (Unaudited)	Total HK\$ (Unaudited)
Turnover			
External sales	28,640,487	21,037,679	49,678,166
Result			
Segment results	(2,948,200)	76,795	(2,871,405)
Interest income			373,103
Share of result of a jointly controlled entity			1,915,147
Finance costs			(262,971)
Unallocated corporate expenses			<b>(2,897,707)</b>
Loss before taxation			<b>(3,743,833)</b>
Taxation			<b>(17,500)</b>
Loss for the period			<b>(3,761,333)</b>

### (b) Geographical segments

The Group's two divisions operate in two principal geographical areas – the People's Republic of China (excluding Hong Kong) (the "PRC") and Hong Kong. The following table provides an analysis of the Group's sales by geographical market, based on the geographical location of customers, irrespective of the origin of the goods manufactured:

	Turnover	
	Three months ended	
	31 March	
	2008	2007
	HK\$	HK\$
	(Unaudited)	(Unaudited)
PRC other than Hong Kong	51,852,030	32,633,773
Hong Kong	48,281,288	15,196,877
Others	4,181,259	1,847,516
	<hr/>	<hr/>
	104,314,577	49,678,166

### 3. TAXATION

6

	Three months ended	
	31 March	
	2008	2007
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Hong Kong Profits Tax	16,500	17,500
PRC Enterprise Income Tax	–	–

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period. 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 and at its applicable tax rate. There is no taxable income derived by the PRC subsidiaries for both the current period and corresponding period last year.

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.



On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% from 1 January 2008. AKM Panyu is currently applying for the Foreign Invested Advanced – Technology Enterprise Certificate under the New Law, which would entitle the subsidiary to favourable tax rate. The tax rate of AKM Panyu will be 15% from 1 January 2008 if the favourable tax rate can be granted.

#### 4. DIVIDENDS

The directors do not recommend payment of an interim dividend for the three months ended 31 March 2008 (2007: Nil).

#### 5. LOSS PER SHARE

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

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2008</b>	2007
	<b>HK\$</b>	HK\$
	<b>(Unaudited)</b>	(Unaudited)
Loss for the period attributable to equity holders of the parent	<b>(5,050,448)</b>	(3,761,287)
	<b>Number of shares</b>	
	<b>2008</b>	2007
Weighted average number of ordinary shares for the purpose of basic loss per share	<b>540,000,000</b>	540,000,000

The diluted loss per share for the periods ended 31 March 2008 and 31 March 2007 are not presented as the exercise of the outstanding share options would result in a decrease in loss per share.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the three months ended 31 March 2008, the turnover of the Group amounted to approximately HK\$104.31 million, representing an increase of approximately 109.98% as compared to the corresponding period last year. The gross profit margin for the period was decreased to approximately 0.06% (the corresponding period of 2007: 1.25%), it was mainly due to the decrease in gross profit margin of flexible printed circuit. The loss attributable to the equity holders of the Company for the period was approximately HK\$5.05 million, while the loss was approximately HK\$3.76 million for the corresponding period last year. The increase in loss was mainly due to the decrease in gross profit of flexible printed circuit and the exchange loss recorded in the period as the exchange rate of Renminbi increased.

The distribution costs of the Group for the three months ended 31 March 2008 amounted to approximately HK\$1.14 million, representing a decrease of approximately 15.10% as compared to the corresponding period last year.

8

The administrative expenses of the Group for the three months ended 31 March 2008 amounted to approximately HK\$5.05 million, representing an increase of approximately 67.02% as compared to the corresponding period last year. The increase in administrative expenses was mainly due to an exchange loss recorded during the period as the exchange rate of Renminbi increased.

The research and development expenses of the Group for the three months ended 31 March 2008 amounted to approximately HK\$1.90 million, representing a decrease of approximately 12.02% as compared to the corresponding period last year.

## Business Review and Outlook

### *Business Review*

During the first quarter of 2008, the turnover of the Group amounted to approximately HK\$104.31 million, representing an increase of approximately 109.98% as compared to the corresponding period last year. During the period, the turnover for sales of printed flexible circuits and sourcing of components for surface mount technology ("SMT") service were approximately HK\$30.54 million and HK\$73.77 million respectively. The turnover of printed flexible circuits and sourcing of components for SMT service during the corresponding period last year were approximately HK\$28.64 million and HK\$21.04 million respectively. During the first quarter of 2008, the loss attributable to the equity holders of the Company amounted to approximately HK\$5.05 million, representing an increase of approximately 34.27% as compared to the corresponding period last year.

During the first quarter of 2008, the turnover of printed flexible circuits increased approximately 6.65% as compared to the corresponding period last year. The gross loss margin of printed flexible circuits was approximately 0.25%, while there was a gross profit margin of approximately 1.91% in the corresponding period last year. It was mainly due to the significant decrease in profit throughout the whole industry, and the comparatively insufficient adaptability and responsive measures of the Group, resulting in the fall of production level below the economic scale.

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 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 discussing with the lessor of the land and the relevant PRC government authority in relation to compensation issues. The actual date of resumption of the land by the local government authority has yet to be confirmed. The Group has confirmed its new place of operation, and relevant disclosure had been made in the announcement dated 7 June 2006 in compliance with the GEM Listing Rules, and the Group had acquired the land and is in the process of constructing a new factory building. It is expected that the construction of the new factory will be completed within this year, and the relocation will take place in accordance with schedule.

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

## Outlook

As influenced by the changes in both of the competitive environment of the mobile phone market in Mainland China and the product structure of mobile phone, the Group continued with a trend of loss. During the quarter, to cope with the market changes, the Group has adjusted its market development strategy to focus on the production of purchased orders placed by international customers and has set up a committee to target at major international customers specifically. Further, the Group aimed at the improvement of internal core strength, and through improving the procedures and methods of quality control management, strict internal audit system and targeted cost control policy, it is expected that the Group will eliminate the effects in the increase of cost and the gross profit margin of products will return to the normal level. The Group is striving to turnaround its operating condition in 2008.

10

The Group is seeking to co-operate and establish strategic alliances with major international manufacturers and relevant design organisations in the industry through the introduction of overseas technology experts in the industry, in order to further enhance the R&D capability and manufacturing capacity of the Group and to build up the core competency of the enterprise. The Group had already signed a cooperative memorandum with an international manufacturer for the joint development of overseas flexible printed circuits markets, which is progressing smoothly and has started limited production.

## DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 31 March 2008, none of the Directors and the chief executive and their respective associates had or was deemed to have 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Rules 5.46 to 5.68 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules"):

#### (a) *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	Approximate percentage of total issued share capital in the Company
Mr. Xiong Zheng Feng	2,190,000 ordinary shares	Beneficial owner	Long	0.41

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

Name of Director	Class and number of underlying shares held under physically settled equity derivatives	(Notes)	Capacity	Long/short position	Approximate percentage of total issued share capital in the Company
Mr. Xiong Zheng Feng	2,000,000 ordinary shares	1	Beneficial owner	Long	0.37
	2,000,000 ordinary shares	2	Beneficial owner	Long	0.37
Mr. Chai Zhi Qiang	2,800,000 ordinary shares	1	Beneficial owner	Long	0.52
	2,000,000 ordinary shares	2	Beneficial owner	Long	0.37
Ms. Li Ying Hong	600,000 ordinary shares	1	Beneficial owner	Long	0.11
	2,000,000 ordinary shares	2	Beneficial owner	Long	0.37
Mr. Han Li Gang	1,600,000 ordinary shares	2	Beneficial owner	Long	0.30
Mr. Li Kung Man	800,000 ordinary shares	2	Beneficial owner	Long	0.15
Mr. Liang Zhi Li	800,000 ordinary shares	2	Beneficial owner	Long	0.15
Mr. Wang Heng Yi	800,000 ordinary shares	2	Beneficial owner	Long	0.15

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 to subscribe for shares in the Company at a subscription price of HK\$0.40 per share granted to him/her under a Pre-IPO Scheme adopted on 6 August 2004, which position remains unchanged since the date of grant on 6 August 2004.
2. The interest of each of Mr. Xiong Zheng Feng, Ms. Li Ying Hong, Mr. Chai Zhi Qiang, Mr. Han Li Gang, Mr. Li Kung Man, Mr. Liang Zhi Li and Mr. Wang Heng Yi in the underlying ordinary shares of the Company reflects the share options to subscribe for shares in the Company at a subscription price of HK\$0.36 per share granted to him/her under a share option scheme adopted on 6 August 2004, which position remains unchanged since the date of grant on 9 July 2007.
3. Mr. Xiong Zheng Feng is, in aggregate, interested in approximately 1.15% of the total issued share capital in the Company, such interest comprises his interests in 2,190,000 issued shares of the Company and 4,000,000 underlying shares held under equity derivatives.
4. None of Ms. Li Ying Hong, Mr. Chai Zhi Qiang, Mr. Han Li Gang, Mr. Li Kung Man, Mr. Liang Zhi Li nor Mr. Wang Heng Yi is interested in any securities of the Company other than underlying shares held under equity derivatives.

13

*(b) The associated corporation*

As at 31 March 2008, to the best knowledge of the Directors, none of the Directors nor 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 5.68 of the GEM Listing Rules.

## (b) Substantial shareholders

Save as disclosed below, as at 31 March 2008, no person other than certain Directors or chief executive 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, or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group:

Name of substantial shareholder	Capacity	Class and number of securities in which interested (other than under equity derivatives) (Note 4)	Long/Short position	Approximate percentage of total issued share capital in the Company
14 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
Dalmary International Corporation ("Dalmary") (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. Since Alpha Luck is wholly and 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 and beneficially owned by CNIC, CNIC is deemed to be interested in the same number of shares of the Company which Silver City is deemed to be interested under Part XV of the SFO.
3. Dalmary is beneficially owned by 29 shareholders which consist of various Directors, members of the senior management and employees of the Group. Mr. Xiong Zheng Feng, Mr. Chai Zhi Qiang and Ms. Li Ying Hong are interested in 30%, 28.75% and 6.75% respectively in the issued share capital of Dalmary.
4. None of Alpha Luck, Silver City, CNIC nor 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.

15

## 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 2008.

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

8 May 2008, Hong Kong