



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 **2008**

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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 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 2008, the unaudited turnover increased to approximately HK\$268.27 million, representing an increase of approximately 82.77% 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 approximately HK\$12.27 million, while the loss was approximately HK\$9.44 million for the corresponding period last year.
- Loss per share of the Group was approximately HK2.27 cents for the six months ended 30 June 2008.

THE FINANCIAL STATEMENTS

Quarterly Results

The board of Directors (the "Board") hereby announces 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 2008 together with the comparative unaudited figures for the corresponding period last year, as follows:

Condensed Consolidated Income Statement

For the six months and three months ended 30 June 2008 and 30 June 2007

	Notes	Six months ended 30 June		Three months ended 30 June	
		2008	2007	2008	2007
		HK\$	HK\$	HK\$	HK\$
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	3	268,271,112	146,783,509	163,956,535	97,105,343
Cost of sales		(269,155,191)	(145,049,743)	(164,899,922)	(95,994,878)
Gross(loss) profit		(884,079)	1,733,766	(943,387)	1,110,465
Other income		477,338	1,019,102	240,990	518,466
Distribution costs		(2,647,246)	(2,844,241)	(1,509,142)	(1,503,745)
Administrative expenses		(10,069,876)	(7,809,465)	(5,017,138)	(4,784,225)
Research and development expenses		(4,017,972)	(4,211,810)	(2,122,786)	(2,057,600)
Share of result of a jointly controlled entity		7,121,089	3,211,620	3,290,852	1,296,473
Finance costs		(364,457)	(535,900)	(248,203)	(272,929)
Loss before taxation	4	(10,385,203)	(9,436,928)	(6,308,814)	(5,693,095)
Taxation (charge) credit	5	(49,500)	180,534	(33,000)	198,034
Loss for the period		(10,434,703)	(9,256,394)	(6,341,814)	(5,495,061)
Attributable to:					
Equity holders of the parent		(12,273,913)	(9,440,098)	(7,223,465)	(5,678,811)
Minority interests		1,839,210	183,704	881,651	183,750
		(10,434,703)	(9,256,394)	(6,341,814)	(5,495,061)
Loss per share					
– basic	7	(2.27) cents	(1.75) cents	(1.34) cents	(1.05) cents

Condensed Consolidated Balance Sheet

At 30 June 2008 and 31 December 2007

	Notes	30 June 2008 HK\$ (Unaudited)	31 December 2007 HK\$ (Audited)
Non-current assets			
Property, plant and equipment	8	108,185,333	86,352,980
Prepaid lease payment		58,138,369	25,510,524
Interest in a jointly controlled entity		19,599,894	12,478,805
		185,923,596	124,342,309
Current assets			
Inventories		22,057,292	32,994,768
Trade and other receivables	9	52,108,537	64,867,375
Bills receivables	9	11,897,026	18,446,500
Prepaid lease payment		1,201,765	527,584
Amount due from a jointly controlled entity		3,311,430	15,117,070
Pledged bank deposits		11,108,494	8,684,583
Bank balances and cash		17,984,405	19,228,262
		119,668,949	159,866,142
Current liabilities			
Trade and other payables	10	27,525,267	55,347,190
Bills payables	10	18,280,755	7,322,341
Government grants received		4,602,273	643,363
Amount due to a fellow subsidiary		2,769,098	4,413,940
Loan from an intermediate holding company		50,373,636	15,604,000
Taxation payable		3,271,325	3,032,849
Bank borrowings	11	14,387,023	18,174,440
Loan from a minority shareholder of a subsidiary		2,247,500	2,247,500
Loan from ultimate holding company		4,545,455	4,289,084
Bank overdraft		3,211,584	–
		131,213,916	111,074,707
Net current (liabilities) assets		(11,544,967)	48,791,435
Total assets less current liabilities		174,378,629	173,133,744
Capital and reserves			
Share capital	12	54,000,000	54,000,000
Reserves		117,512,927	118,107,252
Equity attributable to equity holders of the parent		171,512,927	172,107,252
Minority interests		2,865,702	1,026,492
Total equity		174,378,629	173,133,744

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008 and 30 June 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	-	-	11,647,575	-	-	11,647,575	-	11,647,575
Loss for the period	-	-	-	-	(12,273,913)	(12,273,913)	1,839,210	(10,434,703)
Total recognised income and expenses for the period	-	-	11,647,575	-	(12,273,913)	(626,338)	1,839,210	1,212,872
Recognition of equity-settled sharebased payments	-	-	-	32,013	-	32,013	-	32,013
Lapse of share options	-	-	-	(264,542)	264,542	-	-	-
At 30 June 2008	54,000,000	53,868,328	38,702,004	3,865,789	21,076,806	171,512,927	2,865,702	174,378,629
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	-	-	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

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008 and 30 June 2007

	Six months ended 30 June	
	2008	2007
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Net cash generated from (used in) operating activities	18,175,655	(7,670,967)
Net cash used in investing activities	(55,005,527)	(17,416,992)
Net cash from financing activities	30,341,293	2,604,496
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Decrease in cash and cash equivalents	(6,488,579)	(22,483,463)
Cash and cash equivalents at beginning of the period	19,228,262	56,214,588
Effect of foreign exchange rate changes	2,033,138	2,230,309
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Cash and cash equivalents at end of the period representing	14,772,821	35,961,434
bank balances and cash	17,984,405	35,961,434
bank overdraft	(3,211,584)	–
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	14,772,821	35,961,434
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Notes to the Condensed Financial Statements

For the six months ended 30 June 2008

1. GENERAL

The Company is a public limited company 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 consolidated financial statements are presented in Hong Kong dollars while the functional currency of the Company is Renminbi ("RMB"). The reason for selecting Hong Kong dollars as its presentation currency is because the Company is a public company in Hong Kong with its shares listed on the Stock Exchange.

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 circuits and sourcing of components.

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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 2007.

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

3. 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.

Six months ended 30 June

	FPC business		Sourcing and sale of components		Total	
	2008 HK\$ (Unaudited)	2007 HK\$ (Unaudited)	2008 HK\$ (Unaudited)	2007 HK\$ (Unaudited)	2008 HK\$ (Unaudited)	2007 HK\$ (Unaudited)
Turnover						
External sales	61,912,647	67,564,916	206,358,465	79,218,593	268,271,112	146,783,509
Result						
Segment results	(7,872,397)	(5,639,264)	323,100	316,979	(7,549,297)	(5,322,285)
Interest income					172,802	741,635
Share of result of a jointly controlled entity					7,121,089	3,211,620
Finance costs					(364,457)	(535,900)
Unallocated corporate expenses					(9,765,340)	(7,531,998)
Loss before taxation					(10,385,203)	(9,436,928)
Taxation					(49,500)	180,534
Loss for the period					(10,434,703)	(9,256,394)

Three months ended 30 June

	FPC business		Sourcing and sale of components		Total	
	2008 HK\$ (Unaudited)	2007 HK\$ (Unaudited)	2008 HK\$ (Unaudited)	2007 HK\$ (Unaudited)	2008 HK\$ (Unaudited)	2007 HK\$ (Unaudited)
Turnover						
External sales	31,366,864	38,924,429	132,589,671	58,180,914	163,956,535	97,105,343
Result						
Segment results	(4,764,452)	(2,691,064)	189,137	240,184	(4,575,315)	(2,450,880)
Interest income					90,250	368,532
Share of result of a jointly controlled entity					3,290,852	1,296,473
Finance costs					(248,203)	(272,929)
Unallocated corporate expenses					(4,866,398)	(4,634,291)
Loss before taxation					(6,308,814)	(5,693,095)
Taxation					(33,000)	198,034
Loss for the period					(6,341,814)	(5,495,061)

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(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 Six months ended 30 June		Turnover Three months ended 30 June	
	2008 HK\$ (Unaudited)	2007 HK\$ (Unaudited)	2008 HK\$ (Unaudited)	2007 HK\$ (Unaudited)
PRC other than Hong Kong	127,147,255	91,380,624	75,295,225	58,746,851
Hong Kong	133,241,227	51,008,267	84,959,939	35,811,390
Others	7,882,630	4,394,618	3,701,371	2,547,102
	268,271,112	146,783,509	163,956,535	97,105,343

4. LOSS BEFORE TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2008	2007	2008	2007
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Loss before taxation has been arrived at after charging:

Allowance (reversal of allowance) for bad and doubtful debts	175,702	239,773	195,561	(5,234)
Allowance for obsolete inventories	1,732,671	2,664,753	824,775	2,264,470
Depreciation of property, plant and equipment	4,966,001	5,798,168	2,489,928	2,685,795
Amortisation of prepaid lease payments	375,446	62,849	226,901	62,849

and after crediting:

Interest income	172,802	741,635	90,250	368,532
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5. TAXATION (CHARGE) CREDIT

	Six months ended 30 June		Three months ended 30 June	
	2008	2007	2008	2007
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Hong Kong Profits Tax	(49,500)	(35,000)	(33,000)	(17,500)
PRC Enterprise Income Tax (overprovision in prior years)	-	215,534	-	215,534

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.

6. DIVIDEND

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

7. LOSS PER SHARE

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

	Six months ended 30 June	
	2008	2007
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Loss for the period attributable to equity holders of the parent	(12,273,913)	(9,440,098)
	2008	2007
	Number of	Number of
	shares	shares
Weighted average number of ordinary shares for the purpose of basic loss per share	540,000,000	540,000,000

The diluted loss per share for the periods ended 30 June 2008 and 30 June 2007 are not presented as the exercise of the outstanding share options would result in a decrease in loss per share.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$21,040,000 (2007: HK\$11,930,000) on the acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES AND 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 and above 120 days.

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

	At 30 June 2008 HK\$ (Unaudited)	At 31 December 2007 HK\$ (Audited)
Within 30 days	17,678,030	13,521,599
31 – 60 days	12,447,738	21,363,334
61 – 90 days	10,576,292	22,177,798
91 – 120 days	5,350,948	11,232,436
121 days – 1 year	12,345,452	11,195,685
Over 1 year	1,054,863	417,687
	<hr/> 59,453,323	<hr/> 79,908,539

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

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

	At 30 June 2008 HK\$ (Unaudited)	At 31 December 2007 HK\$ (Audited)
Within 30 days	5,899,138	22,846,603
31 – 60 days	7,002,133	16,787,882
61 – 90 days	10,274,617	9,215,801
91 – 120 days	14,046,893	5,033,071
121 days – 1 year	1,151,597	1,211,217
Over 1 year	602,087	472,672
	<hr/> 38,976,465	<hr/> 55,567,246

11. BANK BORROWINGS

	At 30 June 2008 <i>HK\$</i> (Unaudited)	At 31 December 2007 <i>HK\$</i> (Audited)
Bank borrowings which are repayable within one year comprise the following:		
Bank loans – secured	14,160,180	10,722,711
Trust receipts loans – secured	226,843	7,451,729
	14,387,023	18,174,440

12. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$</i>
Authorised:		
At 1 January 2008 and 30 June 2008	2,000,000,000	200,000,000
Issued and fully paid:		
At 1 January 2008 and 30 June 2008	540,000,000	54,000,000

13. CAPITAL COMMITMENTS

	At 30 June 2008 <i>HK\$</i> (Unaudited)	At 31 December 2007 <i>HK\$</i> (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment – contracted for but not provided in financial statements	16,797,188	30,420,181

14. RELATED PARTY TRANSACTIONS

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

	Six months ended		Three months ended	
	30 June		30 June	
	2008	2007	2008	2007
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Transactions with an intermediate holding company:				
Interest paid by the Group	487,908	347,728	376,876	169,315
Transactions with fellow subsidiaries:				
Rentals for office and factory premises and staff quarters charged to the Group	1,443,729	1,345,771	721,865	682,886
Acquisition of properties by the Group	-	995,541	-	-
Transactions with a jointly controlled entity:				
Sales of goods by the Group	93,278,848	35,117,434	58,516,551	24,957,983
Sales of equipments by the Group	-	2,787,258	-	2,787,258
Income from leasing equipments	297,915	272,975	148,957	136,488
Subcontracting fee paid by the Group	3,157,022	4,587,297	1,581,986	2,397,510
Purchase of goods by the Group	112,936,497	38,850,068	73,987,327	30,443,388

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2008 (the “period”), the turnover of the Group amounted to approximately HK\$268.27 million, representing an increase of approximately 82.77% as compared to the corresponding period last year. The increase in turnover was mainly attributed to the increase in the business of sourcing of components. The gross loss margin of 0.33% for the period was recorded while there was a gross profit margin of 1.18% for the corresponding period last year. Such increase in gross loss margin was due to the incurrence of loss for the business of flexible printed circuits. The loss attributable to the equity holders of the Company for the period was approximately HK\$12.27 million, while the loss was approximately HK\$9.44 million for the corresponding period last year. The increase in loss was mainly due to the decrease in the sales and gross profit margin of flexible printed circuits.

The other income of the Group for the six months ended 30 June 2008 amounted to approximately HK\$0.48 million, representing a decrease of approximately 53.16% as compared to the corresponding period last year. The decrease was mainly due to the decrease of interest income during the period.

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The distribution costs of the Group for the six months ended 30 June 2008 amounted to approximately HK\$2.65 million, representing a decrease of approximately 6.93% as compared to the corresponding period last year.

The administrative expenses of the Group for the six months ended 30 June 2008 amounted to approximately HK\$10.07 million, representing an increase of approximately 28.94% as compared to the corresponding period last year. The increase was mainly due to an exchange loss recorded during the period as the exchange rate of Renminbi appreciated.

The research and development expenses of the Group for the six months ended 30 June 2008 amounted to approximately HK\$4.02 million, representing a decrease of approximately 4.60% as compared to the corresponding period last year.

The finance costs of the Group for the six months ended 30 June 2008 amounted to approximately HK\$0.36 million, representing a decrease of approximately 31.99% as compared to the corresponding period last year. The decrease was mainly due to the capitalisation of part of interest expenses during the period.

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. The Group is also engaged in sourcing of components for surface mount technology (“SMT”) service.

During the first half of 2008, the turnover of the Group amounted to approximately HK\$268.27 million, representing an increase of approximately 82.77% as compared to the corresponding period last year. During the period, the turnover for sales of flexible printed circuits and sourcing of components for SMT service were approximately HK\$61.91 million and HK\$206.36 million respectively. The turnover of flexible printed circuits and sourcing of components for SMT service during the corresponding period last year were approximately HK\$67.56 million and HK\$79.22 million respectively. During the first half of 2008, the loss attributable to the equity holders of the Company amounted to approximately HK\$12.27 million, representing an increase of approximately 30.02% as compared to the corresponding period last year.

During the first half of 2008, the turnover of flexible printed circuits decreased approximately 8.37% as compared to the corresponding period last year. The gross loss margin of flexible printed circuits was approximately 1.95%, while there was a gross profit margin of approximately 2.10% in the corresponding period last year. It was mainly due to the significant decrease in demand of the Group's clients, and the extreme competition within the industry, that results the fall of production level below the economic scale. The appreciation of Renminbi also adversely affected the operating result.

AKM Electronic Technology (Suzhou) Co., Ltd. (安捷利電子科技(蘇州)有限公司), a wholly-owned subsidiary of the Company, entered into an agreement for the transfer of land use rights on 22 April 2008 to acquire the land use rights (the "Suzhou Land") of a piece of land situating at East of Liangang Road, Suzhou City, the PRC at the consideration of RMB28,217,660, which has gross area of approximately 58,786 sq.m. The consideration was fully settled by the Group on the date of signing of the agreement. The Suzhou Land and an adjacent parcel of land which has a gross area of approximately 29,611 sq.m. purchased in June 2007 will be used for the purpose of the expansion of the business for flexible printed circuits production.

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 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. 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 for the first half of 2008. In the first half of 2008, with reference to 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, and review of the employees' motivation and performance assessment scheme, it is expected that the Group will eliminate the effects in the increase of cost, the sales of flexible printed circuits will return to upward trend and the gross profit margin of products will return to the normal level. The Group is striving to turnaround its loss in operation in 2008.

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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, manufacturing capacity and management ability 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.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally financed its operations primarily with internally generated funds 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 2008, the net current liabilities were approximately HK\$11.54 million (as at 31 December 2007: net current assets were approximately HK\$48.79 million).

As at 30 June 2008, there were bank balances, cash on hand and bank deposits of approximately HK\$29.09 million (as at 31 December 2007: approximately HK\$27.91 million).

As at 30 June 2008, there were bank borrowings of approximately HK\$14.39 million (as at 31 December 2007: approximately HK\$18.17 million) and bank overdraft of approximately HK\$3.21 million (as at 31 December 2007: nil).

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2008, bank deposits of approximately HK\$11.11 million (as at 31 December 2007: approximately HK\$8.68 million) and bills receivables of approximately HK\$3.20 million (as at 31 December 2007: nil) 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.

As at 30 June 2008, land use rights of approximately HK\$20.70 million (as at 31 December 2007: approximately 19.73 million) were pledged to secure the Group's banking facilities.

CAPITAL COMMITMENTS

As at 30 June 2008, the Group had outstanding capital commitments of approximately HK\$16.80 million (as at 31 December 2007: approximately HK\$30.42 million).

GEARING RATIO

As at 30 June 2008, the gearing ratio (calculated as total liabilities over total assets as at the respective balance sheet dates) of the Group was approximately 43% (as at 31 December 2007: approximately 39%).

MATERIAL ACQUISITIONS AND DISPOSALS

Save for the acquisition of the Suzhou Land, the Group did not have any material acquisitions or disposals during the six months ended 30 June 2008.

FOREIGN EXCHANGE EXPOSURE

The income and expenditure of the Group are mainly received and incurred in US dollars and RMB and the assets and liabilities of the Group are denominated in HK dollars and RMB. The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily with respect to US dollars and RMB. 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. Further, 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 the PRC. However, taking into account the Group's current 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 circuits and sourcing of components for SMT service. An analysis of the Group's turnover by geographical market of its customers and business segments for the period are set out in note 3 to the condensed financial statements.

EMPLOYEE INFORMATION

As at 30 June 2008, the Group had a total of 928 full-time employees based in Hong Kong and China. The Group fixes and reviews the emoluments of its directors and staff based on the qualification, experience, performance and the market rates so as to maintain the remuneration of its directors and staff 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), a wholly-owned subsidiary of the Company, entered into an agreement for the transfer of land use rights on 1 June 2006 to acquire 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.

Save as disclosed above, the Group has no other future plans for material investments or capital assets as at 30 June 2008.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2008.

SIGNIFICANT INVESTMENT HELD

The Group did not have any significant investment as at 30 June 2008.

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 30 June 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 of Director	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

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. 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.

(b) The associated corporation

As at 30 June 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 30 June 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
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.

SHARE OPTION SCHEMES

Pursuant to written resolutions of the then 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 Scheme.

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 (Note 1)	Exercisable period (Notes 1 & 2)	Exercise price per share HK\$	Number of share options			
				Outstanding at 1.1.2008	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2008
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	7,400,000	-	-	7,400,000
Total				12,800,000	-	-	12,800,000

Notes:

- All dates are shown in the sequence of day. month. year.
- These share options 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 of not later than 10 years from the date of grant.

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

Name or category of participant	Date of grant (Note 1)	Exercisable period (Notes 1 & 2)	Exercise price per share HK\$	Number of share options			
				Outstanding at 1.1.2008	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2008
Directors							
Mr. Xiong Zheng Feng	9.7.2007	10.7.2007 to 9.7.2017	0.36	2,000,000	-	-	2,000,000
Mr. Chai Zhi Qiang	9.7.2007	10.7.2007 to 9.7.2017	0.36	2,000,000	-	-	2,000,000
Ms. Li Ying Hong	9.7.2007	10.7.2007 to 9.7.2017	0.36	2,000,000	-	-	2,000,000
Mr. Han Li Gang	9.7.2007	10.7.2007 to 9.7.2017	0.36	1,600,000	-	-	1,600,000
Mr. Li Kung Man	9.7.2007	10.7.2007 to 9.7.2017	0.36	800,000	-	-	800,000
Mr. Liang Zhi Li	9.7.2007	10.7.2007 to 9.7.2017	0.36	800,000	-	-	800,000
Mr. Wang Heng Yi	9.7.2007	10.7.2007 to 9.7.2017	0.36	800,000	-	-	800,000
				10,000,000	-	-	10,000,000
Employees	9.7.2007	10.7.2007 to 9.7.2017	0.36	21,700,000	-	2,700,000	19,000,000
Total				31,700,000	-	2,700,000	29,000,000

Notes:

1. All dates are shown in the sequence of day. month. year.
2. These share options are exercisable, starting from the day after the date upon which the options were granted, for a period of 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 2008, 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 Directors' securities transactions on terms no less than the standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the standard of dealings regarding securities transactions throughout the six months ended 30 June 2008.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Schemes", 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.

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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 2008.

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

11 August 2008, Hong Kong