



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 **2009**

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

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This report, for which the directors (the “Directors”) of AKM Industrial Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- For the three months ended 31 March 2009, the unaudited turnover decreased to approximately HK\$69.26 million, representing a decrease of approximately 0.43% as compared to the corresponding period of last year. The loss attributable to the equity holders of the Company amounted to approximately HK\$3.00 million, while the loss was approximately HK\$5.05 million for the corresponding period of last year.
- Loss per share of the Group was approximately HK0.56 cents for the three months ended 31 March 2009.

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 ended 31 March 2009 (the "period"), together with the comparative unaudited figures for the corresponding period of last year, as follows:

Condensed Consolidated Income Statement

For the three months ended 31 March 2009 and 31 March 2008

	Notes	Three months ended 31 March	
		2009 HK\$ (Unaudited)	2008 HK\$ (Unaudited) (Restated)
Turnover	2	69,256,628	69,552,280
Cost of sales		(66,243,686)	(69,492,972)
Gross profit		3,012,942	59,308
Other income		224,275	236,348
Distribution costs		(396,755)	(1,138,104)
Administrative expenses		(3,228,703)	(5,052,738)
Research and development expenses		(1,848,268)	(1,895,186)
Share of result of a jointly controlled entity		(1,020,861)	3,830,237
Finance costs		(2,821)	(116,254)
Loss before taxation		(3,260,191)	(4,076,389)
Taxation	3	-	(16,500)
Loss for the period		(3,260,191)	(4,092,889)
Attributable to:			
Equity holders of the parent		(3,004,976)	(5,050,448)
Minority interests		(255,215)	957,559
		(3,260,191)	(4,092,889)
Loss per share	5		
- basic		(0.56 cents)	(0.94 cents)

Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 March 2009 and 31 March 2008

	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 2009	54,000,000	53,868,328	39,691,732	3,817,770	8,504,800	159,882,630	3,928,205	163,810,835
Exchange differences from translation directly recognised in equity	-	-	(83,364)	-	-	(83,364)	-	(83,364)
Loss for the period	-	-	-	-	(3,004,976)	(3,004,976)	(255,215)	(3,260,191)
Total recognised income and expenses for the period	-	-	(83,364)	-	(3,004,976)	(3,088,340)	(255,215)	(3,343,555)
At 31 March 2009	54,000,000	53,868,328	39,608,368	3,817,770	5,499,824	156,794,290	3,672,990	160,467,280
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

Notes to the Condensed Consolidated Income Statement

For the period ended 31 March 2009

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 2008.

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 2009

	FPC business <i>HK\$</i> (Unaudited)	Sourcing and sale of components <i>HK\$</i> (Unaudited)	Total <i>HK\$</i> (Unaudited)
Turnover			
External sales	36,245,752	33,010,876	69,256,628
Result			
Segment results	719,274	48,645	767,919
Interest income			24,224
Share of result of a jointly controlled entity			(1,020,861)
Finance costs			(2,821)
Unallocated corporate expenses			(3,028,652)
Loss before taxation			(3,260,191)
Taxation			-
Loss for the period			(3,260,191)

Three months ended 31 March 2008

	FPC business <i>HK\$</i> (Unaudited)	Sourcing and sale of components <i>HK\$</i> (Unaudited) (Restated)	Total <i>HK\$</i> (Unaudited) (Restated)
Turnover			
External sales	30,545,783	39,006,497	69,552,280
Result			
Segment results	(3,107,945)	133,963	(2,973,982)
Interest income			82,552
Share of result of a jointly controlled entity			3,830,237
Finance costs			(116,254)
Unallocated corporate expenses			(4,898,942)
Loss before taxation			(4,076,389)
Taxation			(16,500)
Loss for the period			(4,092,889)

(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	
	2009	2008
	HK\$	HK\$
	(Unaudited)	(Unaudited)
		(Restated)
PRC other than Hong Kong	26,496,523	17,089,733
Hong Kong	40,336,822	48,281,288
Others	2,423,283	4,181,259
	69,256,628	69,552,280

3. TAXATION

	Three months ended	
	31 March	
	2009	2008
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Hong Kong Profits Tax	–	16,500
PRC Enterprise Income Tax	–	–

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009.

No provision for Hong Kong Profits Tax was made in the period as there was no assessable profit derived. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the corresponding period last year. The income of its PRC subsidiaries neither arises in, nor is derived from, Hong Kong.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate to 25% from 1 January 2008.

Pursuant to the relevant laws and regulation in the PRC, AKM (Suzhou) FPC Company Limited (“AKM (Suzhou)”) is exempted from PRC income tax for two years commenced from 1 January 2008 followed by a 50% reduction for the next three years.

Pursuant to the relevant laws and regulations in the PRC, the applicable PRC Enterprise Income Tax rate for AKM Electronics Industrial (Panyu) Ltd. (“AKM Panyu”) was 24% prior to application of New Law and Implementation Regulations as mentioned above. 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 for an extension of 50% tax reduction in PRC Enterprise Income Tax up to 31 December 2007. On 16 December 2008, AKM Panyu was awarded the Foreign Invested Advanced – technology Enterprise Certificate. AKM Panyu is entitled to a tax reduction from 25% to 15% for three years commenced from 1 January 2008.

No provision for PRC income tax was made in the period as there was no income taxable accordingly.

4. DIVIDENDS

The Directors do not recommend payment of an interim dividend for the three months ended 31 March 2009 (2008: 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:

	Three months ended	
	31 March	
	2009	2008
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Loss for the period attributable to equity holders of the parent	(3,004,976)	(5,050,448)
	Number of shares	
	2009	2008
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 31 March 2009 and 31 March 2008 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 2009, the turnover of the Group amounted to approximately HK\$69.26 million, representing a decrease of approximately 0.43% as compared to the corresponding period of last year. During the end of the year 2008, the Directors reviewed the nature of sale and purchase transactions with Shenzhen Smart Electronics Co. Ltd. (深圳思碼特電子有限公司), a jointly controlled entity of the Group, and considered that the presentation as contracting fees is more relevant to the substance of the transactions. The gross profit margin for the period was increased to approximately 4.35% (the corresponding period of 2008: 0.09%), which was mainly due to the increase in gross profit margin of flexible printed circuit. The loss attributable to the equity holders of the Company for the period was approximately HK\$3.00 million, while the loss was approximately HK\$5.05 million for the corresponding period of last year. The decrease in loss was mainly due to the increase in gross profit of flexible printed circuit.

The distribution costs of the Group for the three months ended 31 March 2009 amounted to approximately HK\$0.40 million, representing a decrease of approximately 65.14% as compared to the corresponding period of last year. The decrease in distribution expenses was mainly due to the recovery of certain debts which were written off in the previous years.

The administrative expenses of the Group for the three months ended 31 March 2009 amounted to approximately HK\$3.23 million, representing a decrease of approximately 36.10% as compared to the corresponding period of last year. The decrease in administrative expenses was mainly due to the fact that there was an exchange loss recorded during the corresponding period of last year as the exchange rate of Renminbi appreciated. However, there was no such loss during the period under review.

The research and development expenses of the Group for the three months ended 31 March 2009 amounted to approximately HK\$1.85 million, representing a decrease of approximately 2.48% as compared to the corresponding period of last year.

Business Review and Outlook

Business Review

During the first quarter of 2009, the turnover of the Group amounted to approximately HK\$69.26 million, representing a decrease of approximately 0.43% as compared to the corresponding period of 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\$36.25 million and HK\$33.01 million respectively. The turnover of printed flexible circuits and sourcing of components for SMT service during the corresponding period of last year were approximately HK\$30.54 million and HK\$39.01 million respectively. During the first quarter of 2009, the loss attributable to the equity holders of the Company amounted to approximately HK\$3.00 million, representing a decrease of approximately 40.50% as compared to the corresponding period of last year.

During the first quarter of 2009, the turnover of printed flexible circuits increased approximately 18.66% as compared to the corresponding period of last year. The gross profit margin of printed flexible circuits was approximately 8.18%, while there was a gross loss margin of approximately 0.25% in the corresponding period of last year.

In June 2005, the relevant PRC government authority in charge of land development intended to resume the land (“Panyu Land”) leased by the Group’s Panyu plant. To facilitate the relocation, the Group had identified its new place of operation in Nansha, Guangzhou, the PRC and relevant disclosure in relation to the acquisition of the land in Nansha (“Nansha Land”) had been made in the announcement of the Company dated 7 June 2006. By the end of year 2008, the construction of the production plant in Nansha has been substantially completed and the Group commenced the relocation (“Relocation”) of the Group’s operation in the Panyu Land to the Nansha Land at the end of January 2009.

After years of negotiation with the relevant PRC government authority on the compensation package for the Relocation, as disclosed in an announcement of the Company dated 7 May 2009, AKM Panyu had on 7 May 2009 received a notice issued by the relevant PRC government authority dated 6 May 2009 to AKM Panyu, notifying that RMB51,021,508 (equivalent to approximately HK\$57,858,390 as at the date of the announcement) will be paid to AKM Panyu as compensation for the Relocation. The amount of compensation is determined with reference to the relevant PRC laws and regulations and the valuation prepared by an independent valuer mutually appointed by the PRC government and AKM Panyu. The Relocation has been substantially completed in early May 2009.

Outlook

As severely influenced by the global financial tsunami and the changes in the competitive environment of the flexible printed circuits market, the Group continued with a trend of loss for the first quarter of 2009. The Group will maintain and put more efforts in developing large international clients, with focus on factories in the PRC which is expected to be benefited by the increase in domestic demand. The Directors believe that the successful sales to international manufacturers has shown positive effects and it is expected that purchase orders in the PRC will be significantly increased. Currently, the Group will strengthen its internal core competence after the Relocation. The Group strives to achieve production at an economic scale and to restore the Company’s profitability.

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 31 March 2009, 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	Capacity (Notes)	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.

(b) The associated corporation

As at 31 March 2009, 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 2009, 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 5% 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
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. 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. Dalmay 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 Dalmay.
4. None of Alpha Luck, Silver City, CNIC nor Dalmay is interested in any securities of the Company under equity derivatives.

COMPETING INTERESTS

None of the Directors, the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any conflict of interest with any member of the Group or any interest in a business which competes or may compete with the business of any member of the Group during the period.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee of the Company are to review and supervise the financial reporting process and internal control procedures of the Company and provide advice and comments to the Directors.

The audit committee of the Company comprises three members which are all independent non-executive Directors, namely, Mr. Li Kung Man (the chairman of the audit committee), Mr. Liang Zhi Li and Mr. Wang Heng Yi.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the three months ended 31 March 2009.

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

12 May 2009, Hong Kong