



**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 2010

## **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 2010, the unaudited turnover decreased to approximately HK\$59.57 million, representing a decrease of approximately 13.99% as compared to the corresponding period of last year. The loss attributable to the owners of the Company amounted to approximately HK\$1.36 million, while the loss was approximately HK\$3.00 million for the corresponding period of last year.
- Loss per share of the Group was approximately HK0.25 cents for the three months ended 31 March 2010.

## 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 2010 (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 2010 and 31 March 2009

	Notes	Three months ended 31 March	
		2010 HK\$ (Unaudited)	2009 HK\$ (Unaudited)
Turnover	2	<b>59,569,661</b>	69,256,628
Cost of sales		<b>(52,202,083)</b>	(66,243,686)
Gross profit		<b>7,367,578</b>	3,012,942
Other income		<b>270,449</b>	224,275
Distribution costs		<b>(1,214,101)</b>	(396,755)
Administrative expenses		<b>(3,274,367)</b>	(3,228,703)
Research and development expenses		<b>(2,068,362)</b>	(1,848,268)
Share of result of a jointly controlled entity		<b>(1,493,401)</b>	(1,020,861)
Finance costs		<b>(625,717)</b>	(2,821)
Loss before taxation		<b>(1,037,921)</b>	(3,260,191)
Taxation	3	<b>(405,841)</b>	–
Loss for the period		<b>(1,443,762)</b>	(3,260,191)
Other comprehensive income (expenses):			
Exchange differences arising on translation of foreign operations		<b>365,686</b>	(83,364)
Total comprehensive expenses for the period		<b>(1,078,076)</b>	(3,343,555)
Loss for the period attributable to:			
Owners of the Company		<b>(1,360,473)</b>	(3,004,976)
Minority interests		<b>(83,289)</b>	(255,215)
		<b>(1,443,762)</b>	(3,260,191)
Total comprehensive expenses attributable to:			
Owners of the Company		<b>(1,002,638)</b>	(3,088,340)
Minority interests		<b>(75,438)</b>	(255,215)
		<b>(1,078,076)</b>	(3,343,555)
Loss per share – basic	5	<b>(0.25 cents)</b>	(0.56 cents)

## Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 March 2010 and 31 March 2009

	Attributable to owners of the Company							
	Share capital	Share premium	Translation reserve	Share options reserve	Retained profits	Total	Minority interests	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2010	54,000,000	53,868,328	40,753,684	3,009,109	27,652,897	179,284,018	3,327,001	182,611,019
Exchange differences arising on translation of foreign operations	-	-	357,835	-	-	357,835	7,851	365,686
Loss for the period	-	-	-	-	(1,360,473)	(1,360,473)	(83,289)	(1,443,762)
Total comprehensive income (expenses) for the period	-	-	357,835	-	(1,360,473)	(1,002,638)	(75,438)	(1,078,076)
Lapse of share options	-	-	-	(53,403)	53,403	-	-	-
At 31 March 2010	54,000,000	53,868,328	41,111,519	2,955,706	26,345,827	178,281,380	3,251,563	181,532,943
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 arising on translation of foreign operations	-	-	(83,364)	-	-	(83,364)	-	(83,364)
Loss for the period	-	-	-	-	(3,004,976)	(3,004,976)	(255,215)	(3,260,191)
Total comprehensive income (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

## Notes to the Condensed Consolidated Income Statement

For the period ended 31 March 2010

### 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 2009.

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 external customers, net of discounts and sales related taxes.

#### (a) Business segments

For management purposes, the Group is currently organised into three operating divisions namely the manufacture and sale of flexible printed circuits ("FPC"), sourcing and sale of electronic components and the manufacture and sale of electronic modules for Liquid Crystal Display Module ("LCM"). These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

FPC business	– the manufacture and sale of FPC
Sourcing and sale of electronic components	– provision of sourcing and sale of electronic components for surface mount technology ("SMT") service
LCM business	– the manufacture and sale of electronic modules for LCM

#### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

### Three months ended 31 March 2010

	FPC business HK\$ (Unaudited)	Sourcing and sale of electronic components HK\$ (Unaudited)	LCM business HK\$ (Unaudited)	Elimination HK\$ (Unaudited)	Total HK\$ (Unaudited)
Turnover					
External sales	44,112,424	11,933,564	3,523,673	–	59,569,661
Inter-segment sales	–	5,939,725	–	(5,939,725)	–
<b>Total</b>	<b>44,112,424</b>	<b>17,873,289</b>	<b>3,523,673</b>	<b>(5,939,725)</b>	<b>59,569,661</b>
Result					
Segment results	3,214,378	1,313,223	(442,486)	–	4,085,115
Interest income					25,142
Share of result of a jointly controlled entity					(1,493,401)
Unallocated corporate expenses					(3,029,060)
Finance costs					(625,717)
Loss before taxation					<u>(1,037,921)</u>

Inter-segment sales are charged at prevailing market rates.

### Three months ended 31 March 2009

	FPC business HK\$ (Unaudited)	Sourcing and sale of electronic components HK\$ (Unaudited)	Total HK\$ (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)
Unallocated corporate expenses			(3,028,652)
Finance costs			(2,821)
Loss before taxation			<u>(3,260,191)</u>

**(b) Geographical segments**

The Group operates in two principal geographical areas, i.e. the People's Republic of China (excluding Hong Kong) (the "PRC") and Hong Kong (country of domicile). The following table provides an analysis of the Group's revenue from external customers by geographical location:

	<b>Turnover</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2010</b>	2009
	<b>HK\$</b>	HK\$
	<b>(Unaudited)</b>	(Unaudited)
PRC (other than Hong Kong)	<b>43,312,039</b>	26,496,523
Hong Kong	<b>12,030,194</b>	40,336,822
Others	<b>4,227,428</b>	2,423,283
	<b>59,569,661</b>	69,256,628

**3. TAXATION**

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2010</b>	2009
	<b>HK\$</b>	HK\$
	<b>(Unaudited)</b>	(Unaudited)
Current tax:		
Hong Kong Profits Tax	<b>(175,000)</b>	–
PRC Enterprise Income Tax	<b>(276,710)</b>	–
	<b>(451,710)</b>	–
Deferred tax:		
Current period	<b>45,869</b>	–
	<b>(405,841)</b>	–

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. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. 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. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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.

Notwithstanding the implementation of EIT Law, AKM Electronics Industrial (Panyu) Ltd. ("AKM Panyu") was awarded the Foreign Invested Advanced-technology Enterprise Certificate on 16 December 2008 and is pursuant to which entitled to a tax reduction from 25% to 15% for three years commenced from 1 January 2008.

#### 4. DIVIDENDS

The Directors do not recommend payment of an interim dividend for the three months ended 31 March 2010 (2009: Nil).

#### 5. LOSS PER SHARE

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2010</b>	2009
	<b>HK\$</b>	HK\$
	<b>(Unaudited)</b>	(Unaudited)
Loss for the purpose of basic loss per share (loss for the period attributable to owners of the Company)	<b>(1,360,473)</b>	(3,004,976)

	<b>Number of shares</b>	
	<b>2010</b>	2009
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 2010 and 31 March 2009 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 2010, the turnover of the Group amounted to approximately HK\$59.57 million, representing a decrease of approximately 13.99% as compared to the corresponding period of last year. The gross profit margin for the period was increased to approximately 12.37% (the corresponding period of 2009: 4.35%), which was mainly due to the increases in both of gross profit margin for the sales of FPC and sourcing of electronic components. The loss attributable to the owners of the Company for the period was approximately HK\$1.36 million, while the loss was approximately HK\$3.00 million for the corresponding period of last year. The decrease in loss was mainly due to the increases in both of gross profit for the sales of FPC and sourcing of electronic components.

The distribution costs of the Group for the three months ended 31 March 2010 amounted to approximately HK\$1.21 million, representing an increase of approximately 206.01% as compared to the corresponding period of last year. The increase in distribution expenses was due to the fact that during the corresponding period of last year, there was recovery of certain debts which were written off in the previous years. However, there was no such debts recovery during the period under review.

The administrative expenses of the Group for the three months ended 31 March 2010 amounted to approximately HK\$3.27 million, representing an increase of approximately 1.41% as compared to the corresponding period of last year.

The research and development expenses of the Group for the three months ended 31 March 2010 amounted to approximately HK\$2.07 million, representing an increase of approximately 11.91% as compared to the corresponding period of last year.

### Business Review and Outlook

#### *Business Review*

During the first quarter of 2010, the turnover of the Group amounted to approximately HK\$59.57 million, representing a decrease of approximately 13.99% as compared to the corresponding period of last year. During the period, the turnover for sales of FPC, sourcing of electronic components for SMT service and sales of electronic modules for LCM were approximately HK\$44.11 million, HK\$11.93 million and HK\$3.52 million respectively. The turnover for sales of FPC and sourcing of electronic components for SMT service during the corresponding period of last year were approximately HK\$36.25 million and HK\$33.01 million respectively while there was no sales of electronic modules

for LCM for the corresponding period of last year as this is a new business of the Group commenced from the last quarter of 2009. During the first quarter of 2010, the loss attributable to the owners of the Company amounted to approximately HK\$1.36 million, representing a decrease of approximately 54.73% as compared to the corresponding period of last year.

During the first quarter of 2010, the turnover of FPC increased by approximately 21.70% as compared to the corresponding period of last year. The gross profit margin of FPC was approximately 13.76% (the corresponding period of 2009: 8.18%). Although the turnover of sourcing of electronic components for SMT service decreased by approximately 63.85% as compared to the corresponding period of last year, the gross profit margin increased to approximately 13.17% (the corresponding period of 2009: 0.15%) as a result of the adjustment in business model.

During the first quarter of 2010, the construction of a new production plant of AKM Electronic Technology (Suzhou) Co., Ltd. (安捷利電子科技(蘇州)有限公司) ("AKM ET"), a wholly-owned subsidiary of the Company, progressed smoothly with the main construction expected to be completed in the second quarter and operation expected to commence within year 2010.

## Outlook

As a result of the changes in competition environment in the PRC mobile market and adjustment of the Group's strategy, the operating results of the Group improved satisfactorily during the first quarter of 2010. Through adjustment and continuous improvement over the past few years, the core competitiveness of the Group has been steadily enhanced, especially in personnel training and technology innovation. The Group will strive to reach its targets scheduled at the beginning of the year, including identifying and developing large international customers, introduction of new equipment for the Nansha production plant, construction of the Suzhou new production plant and the setting up of new electronic modules business, so as to realize stable profits for the Company and create greater value for its shareholders, staff as well as the community.

The Directors believe that upon the completion of construction of the Suzhou new production plant for FPC, and the continued improvement of its internal core strength, the Group will complete the layout of the FPC production bases in the Southern and Eastern China to provide better services to major international customers and effectively increase its market share. The Board is committed to bring satisfactory results and returns to its shareholders.

## DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 31 March 2010, 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	Long/short position	Approximate percentage of total issued share capital in the Company
		(Notes)		
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

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	
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. 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. 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. 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 2010, 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 2010, 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
Dalmay International Corporation ("Dalmay") (Note 3)	Beneficial owner	39,660,000 ordinary shares	Long	7.34

*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.

## 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.

Save for the transitional period between the date of resignation of Mr. Li Kung Man as an independent non-executive Director on 15 October 2009 and the date of appointment of Mr. Wu Tak Lung as an independent non-executive Director on 13 January 2010, the audit committee comprised three members who were independent non-executive Directors during the period under review. As at the date of this Report, the audit committee comprises three members, Mr. Wu Tak Lung, Mr. Liang Zhi Li and Mr. Wang Heng Yi. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Wu Tak Lung.

## **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 2010.

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

11 May 2010, Hong Kong