



**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  
2011

# **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, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## HIGHLIGHTS

- For the three months ended 31 March 2011, the unaudited turnover increased to approximately HK\$102.42 million, representing an increase of approximately 71.93% as compared to the corresponding period of last year. The loss attributable to the owners of the Company amounted to approximately HK\$3.30 million, while the loss was approximately HK\$1.36 million for the corresponding period of last year.
- Loss per share of the Group was approximately HK0.61 cents for the three months ended 31 March 2011.

# 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 2011 (the "period"), together with the comparative unaudited figures for the corresponding period of last year, as follows:

### Condensed Consolidated Statement of comprehensive Income

For the three months ended 31 March 2011 and 31 March 2010

		Three months ended 31 March	
	Notes	2011 HK\$ (Unaudited)	2010 HK\$ (Unaudited)
Revenue	2	102,418,059	59,569,661
Cost of sales		(94,217,292)	(52,202,083)
Gross profit		8,200,767	7,367,578
Other income		261,284	270,449
Distribution costs		(2,487,045)	(1,214,101)
Administrative expenses		(4,003,585)	(3,274,367)
Research and development expenses		(2,835,101)	(2,068,362)
Share of result of a jointly controlled entity		(500,143)	(1,493,401)
Finance costs		(1,249,456)	(625,717)
Loss before taxation		(2,613,279)	(1,037,921)
Taxation	3	(423,079)	(405,841)
Loss for the period		(3,036,358)	(1,443,762)
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		847,879	365,686
Total comprehensive expenses for the period		(2,188,479)	(1,078,076)
Loss for the period attributable to:			
Owners of the Company		(3,300,309)	(1,360,473)
Non-controlling interests		263,951	(83,289)
		(3,036,358)	(1,443,762)
Total comprehensive expenses attributable to:			
Owners of the Company		(2,482,323)	(1,002,638)
Non-controlling interests		293,844	(75,438)
		(2,188,479)	(1,078,076)
Loss per share	5		
– basic		(0.61 cents)	(0.25 cents)

## Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 March 2011 and 31 March 2010

	Attributable to owners of the Company							
	Share capital	Share premium	Translation reserve	Share options reserve	Retained profits	Total	Non-controlling interests	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2011	54,000,000	53,868,328	49,367,983	2,920,104	29,912,744	190,069,159	4,439,543	194,508,702
Exchange differences arising on translation of foreign operations	-	-	817,986	-	-	817,986	29,893	847,879
(Loss) profit for the period	-	-	-	-	(3,300,309)	(3,300,309)	263,951	(3,036,358)
Total comprehensive income (expenses) for the period	-	-	817,986	-	(3,300,309)	(2,482,323)	293,844	(2,188,479)
At 31 March 2011	54,000,000	53,868,328	50,185,969	2,920,104	26,612,435	187,586,836	4,733,387	192,320,223
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

# Notes to the Condensed Consolidated Statement of Comprehensive Income

For the period ended 31 March 2011

## 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 2010.

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

## 2. REVENUE AND SEGMENTS INFORMATION

Revenue represents the net amounts received and receivable for the sales of flexible printed circuits (“FPC”), sourcing and sale of electronic components and encapsulation of Chip On Film (“COF”) modules to external customers, net of discounts and sales related taxes.

### (a) Segment information

Information reported to the Executive Directors of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on type of goods delivered.

The Group is currently organised into three operating divisions namely (i) the manufacture and sale of FPC; (ii) sourcing and sale of electronic components; and (iii) encapsulation of COF modules. These divisions are the basis on which the Group reports its 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 |
| COF business                               | – | encapsulation of COF modules                            |

## Segment revenues and results

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

### Three months ended 31 March

	Segment revenue		Inter-segment sales		Eliminations		Segment profit (loss)	
	2011	2010	2011	2010	2011	2010	2011	2010
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
FPC business	<b>47,219,787</b>	44,112,424	<b>8,536,076</b>	-	<b>(8,536,076)</b>	-	<b>1,645,021</b>	3,214,378
Sourcing and sale of electronic components	<b>45,068,721</b>	11,933,564	<b>7,397,396</b>	5,939,725	<b>(7,397,396)</b>	(5,939,725)	<b>2,144,285</b>	1,313,223
COF business	<b>10,129,551</b>	-	-	-	-	-	<b>(910,687)</b>	-
LCM business	-	3,523,673	-	-	-	-	-	(442,486)
<b>Total</b>	<b>102,418,059</b>	59,569,661	<b>15,933,472</b>	5,939,725	<b>(15,933,472)</b>	(5,939,725)	<b>2,878,619</b>	4,085,115
Interest income							<b>139,252</b>	25,142
Share of result of a jointly controlled entity							<b>(500,143)</b>	(1,493,401)
Central administration costs							<b>(3,881,551)</b>	(3,029,060)
Finance costs							<b>(1,249,456)</b>	(625,717)
Loss before taxation							<b>(2,613,279)</b>	(1,037,921)

Revenue reported above represents revenue generated from external customers.

### (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:

	Turnover	
	Three months ended	
	31 March	
	2011	2010
	HK\$	HK\$
	(Unaudited)	(Unaudited)
PRC (other than Hong Kong)	61,245,636	43,312,039
Hong Kong	38,414,657	12,030,194
Others	2,757,766	4,227,428
	<b>102,418,059</b>	59,569,661

### 3. TAXATION

	Three months ended	
	31 March	
	2011	2010
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	(300,000)	(175,000)
PRC Enterprise Income Tax	(122,668)	(276,710)
	<b>(422,668)</b>	(451,710)
Deferred tax:		
Current period	(411)	45,869
	<b>(423,079)</b>	(405,841)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit of the Group companies incorporated in Hong Kong 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.

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.

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.

#### 4. DIVIDENDS

The Directors do not recommend payment of an interim dividend for the three months ended 31 March 2011 (2010: 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>2011</b>	2010
	<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>(3,300,309)</b>	(1,360,473)

	<b>Number of shares</b>	
	<b>2011</b>	2010
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 2011 and 31 March 2010 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 2011, the turnover of the Group amounted to approximately HK\$102.42 million, representing an increase of approximately 71.93% as compared to the corresponding period of last year, which was mainly due to the increase in turnover of the sales and sourcing of electronic components. The gross profit margin for the period decreased to approximately 8.01% (the corresponding period of 2010: 12.37%), which was mainly due to the decreases in gross profit margin for both of the sales of FPC and the sourcing of electronic components. The loss attributable to the owners of the Company for the period was approximately HK\$3.30 million, while the loss was approximately HK\$1.36 million for the corresponding period of last year. The increase in loss was mainly due to the increases in expenses as explained below.

The distribution costs of the Group for the three months ended 31 March 2011 amounted to approximately HK\$2.49 million, representing an increase of approximately 104.85% as compared to the corresponding period of last year. The increase in distribution expenses was due to the increase in fee expenses and salaries in line with the increase in turnover during the period.

The administrative expenses of the Group for the three months ended 31 March 2011 amounted to approximately HK\$4.00 million, representing an increase of approximately 22.27% as compared to the corresponding period of last year. The increase in administrative expenses was due to the increase in expenses in line with the increase in turnover and exchange loss incurred during the period.

The research and development expenses of the Group for the three months ended 31 March 2011 amounted to approximately HK\$2.84 million, representing an increase of approximately 37.07% as compared to the corresponding period of last year. The increase in research and development expenses was due to the increase in research and development projects and activities.

The finance costs of the Group for the three months ended 31 March 2011 amounted to approximately HK\$1.25 million, representing an increase of approximately 99.68% as compared to the corresponding period of last year. The increase in finance costs was mainly due to the increase in bank borrowings.

## Business Review and Outlook

### *Business Review*

During the first quarter of 2011, the turnover of the Group amounted to approximately HK\$102.42 million, representing an increase of approximately 71.93% as compared to the corresponding period of last year. During the period, the turnover for sales of FPC, sourcing of electronic components and encapsulation of COF modules were approximately HK\$47.22 million, HK\$45.07 million and HK\$10.13 million respectively. The turnover for sales of FPC, sourcing of electronic components and sales of electronic modules for LCM during the corresponding period of last year were approximately HK\$44.11 million, HK\$11.93 million and HK\$3.52 million respectively. During the first quarter of 2011, the loss attributable to the owners of the Company amounted to approximately HK\$3.30 million, representing an increase of approximately 142.59% as compared to the corresponding period of last year. The Group has discontinued the business of sales of electronic modules for LCM during the first quarter of 2011 due to its unsatisfactory performance, and the Group has adjusted its business direction to the business of encapsulation of COF modules.

During the first quarter of 2011, the turnover of FPC increased by approximately 7.04% as compared to the corresponding period of last year and the gross profit margin of FPC was approximately 11.57% (the corresponding period of 2010: 13.76%). The turnover of sourcing of electronic components increased by approximately 277.66% as compared to the corresponding period of last year and the gross profit margin was approximately 7.63% (the corresponding period of 2010: 13.17%).

During the period under review, the Group's wholly-owned subsidiary AKM Electronic Technology (Suzhou) Company Limited made smooth progress in the establishment of the Suzhou new production plant. Preparation for relocation according to production requirements is under process and part of the wet treatment equipments had been installed. Trial production is expected to commence in the second quarter of 2011. Upon its completion, this production plant will become the Group's manufacturing base of FPC in the Eastern China.

## Outlook

Following the changes in competition model of the PRC mobile phone market and the adjustment of the Group's corporate competing strategies, the Group has shifted its focus to serving large international clients with the provision of high density interconnect FPC and rigid-flex FPC products. Upgrade of complexity in product techniques enhanced our internal core capability. During the year, the Group will continue to focus on the following aspects, i.e. identifying and developing major international customers, securing more sales orders, relocation and operation of the Suzhou new production plant and the establishment of the new electronic components business. Internal management will be strengthened and our profitability will be improved.

The Group is dedicated to strengthen its core competence and achieve the Company's profit goal, thereby creating greater value for its shareholders, staffs as well as the community. It is the Group's mission to become a major international supplier of FPC and electronic modules and to become an industry leader in the PRC market. Besides, the Group will further enhance the capability to meet the customers' demands for one stop services with an aim to provide better services to the fast growing electronic market in the PRC.

With the completion of construction and the commencement of production of the Nansha and Suzhou new production plants, the Board is of the view that the Group has completed the layout of the FPC production bases in the Southern and the Eastern China, which was supported by the sourcing business of electronic components and SMT business, to provide better services to both large international clients and domestic clients, which allows the Group to increase its market share effectively. Although a loss was recorded in the first quarter of 2011, following the uplift of our internal management standards and increased core capability, as well as enhanced cost management and control, the Board is committed to delivering satisfactory results and offering promising long term returns to its shareholders in the future.

## DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 31 March 2011, 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. 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 2011, 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 2011, 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) <i>(Note 4)</i>	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") <i>(Note 1)</i>	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") <i>(Note 2)</i>	Interest in controlled corporation	360,000,000 ordinary shares	Long	66.67
Dalmary International Corporation ("Dalmary") <i>(Note 3)</i>	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 nor 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 to 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 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 2011.

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

11 May 2011, Hong Kong