



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 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 six months ended 30 June 2011, the unaudited turnover increased to approximately HK\$202.69 million, representing an increase of approximately 54.96% as compared to the corresponding period of last year. The loss attributable to the owners of the Company amounted to approximately HK\$5.51 million, while the loss for the corresponding period of last year was approximately HK\$1.36 million.
- Loss per share of the Group was approximately HK1.02 cent for the six months ended 30 June 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 and six months ended 30 June 2011 together with the comparative unaudited figures for the corresponding period of last year, as follows:

Condensed Consolidated Statement of Comprehensive Income

For the six months and three months ended 30 June 2011 and 30 June 2010

| | Notes | Six months ended 30 June | | Three months ended 30 June | |
|---|-------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | | 2011 HK\$ (Unaudited) | 2010 HK\$ (Unaudited) | 2011 HK\$ (Unaudited) | 2010 HK\$ (Unaudited) |
| Turnover | 3 | 202,691,116 | 130,803,700 | 100,273,057 | 71,234,039 |
| Cost of sales | | (183,442,430) | (115,719,105) | (89,225,138) | (63,517,022) |
| Gross profit | | 19,248,686 | 15,084,595 | 11,047,919 | 7,717,017 |
| Other income | | 656,025 | 612,386 | 394,741 | 341,937 |
| Distribution costs | | (4,511,564) | (2,655,826) | (2,024,519) | (1,441,725) |
| Administrative expenses | | (9,682,514) | (6,178,805) | (5,678,929) | (2,904,438) |
| Research and development expenses | | (5,351,285) | (4,443,074) | (2,516,184) | (2,374,712) |
| Share of result of a jointly controlled entity | | (2,634,641) | (969,804) | (2,134,498) | 523,597 |
| Finance costs | | (2,659,755) | (1,664,719) | (1,410,299) | (1,039,002) |
| (Loss) profit before taxation | 4 | (4,935,048) | (215,247) | (2,321,769) | 822,674 |
| Taxation | 5 | (556,515) | (858,846) | (133,436) | (453,005) |
| (Loss) profit for the period | | (5,491,563) | (1,074,093) | (2,455,205) | 369,669 |
| Other comprehensive income (expenses): | | | | | |
| Exchange differences arising on translation of foreign operations | | 4,766,835 | 2,009,743 | 3,918,954 | 1,644,057 |
| Total comprehensive (loss) income for the period | | (724,728) | 935,650 | 1,463,749 | 2,013,726 |
| (Loss) profit for the period attributable to: | | | | | |
| Owners of the Company | | (5,506,175) | (1,364,631) | (2,205,866) | (4,158) |
| Minority interests | | 14,612 | 290,538 | (249,339) | 373,827 |
| | | (5,491,563) | (1,074,093) | (2,455,205) | 369,669 |
| Total comprehensive (expenses) income attributable to: | | | | | |
| Owners of the Company | | (5,506,175) | 600,826 | (3,023,853) | 1,603,464 |
| Minority interests | | 14,612 | 334,824 | (279,233) | 410,262 |
| | | (724,728) | 935,650 | (3,303,086) | 2,013,726 |
| Loss per share (cent) basic | 7 | (1.02) | (0.25) | (0.41) | - |

Condensed Consolidated Statement of Financial Position

At 30 June 2011 and 31 December 2010

| | Notes | 2011 30 June HK\$ (Unaudited) | 2010 31 December HK\$ (Audited) |
|--|-------|--|--|
| Non-current assets | | | |
| Property, plant and equipment | 8 | 207,840,136 | 193,088,717 |
| Prepaid lease payments | | 57,776,432 | 57,438,003 |
| Interest in a jointly controlled entity | | 19,607,372 | 21,471,188 |
| | | 285,223,940 | 271,997,908 |
| Current assets | | | |
| Inventories | | 35,941,483 | 26,024,069 |
| Trade and other receivables | 9 | 116,957,364 | 152,793,085 |
| Bills receivables | 9 | 2,542,028 | 3,203,677 |
| Prepaid lease payments | | 1,273,241 | 1,251,986 |
| Pledged bank deposits | | 26,523,262 | 2,353,628 |
| Bank balances and cash | | 20,669,178 | 11,244,030 |
| | | 203,906,556 | 196,870,475 |
| Current liabilities | | | |
| Trade and other payables | 10 | 74,423,681 | 63,745,970 |
| Bills payables | 10 | 10,736,383 | 11,069,388 |
| Deferred income | | 963,159 | 355,156 |
| Amount due to a fellow subsidiary | | – | 731,419 |
| Amount due to a jointly controlled entity | | 4,711,306 | 1,884,891 |
| Loan from an intermediate holding company | | – | 48,000 |
| Taxation payable | | 5,108,908 | 4,625,423 |
| Bank borrowings | 11 | 100,229,196 | 96,643,630 |
| Loan from a minority shareholder of a subsidiary | | 2,247,500 | 2,247,500 |
| Loan from ultimate holding company | | 3,852,637 | 3,788,327 |
| Bank overdrafts | | 13,477,089 | 8,194,807 |
| | | 215,749,859 | 193,334,511 |
| Net current (liabilities) assets | | (11,843,303) | 3,535,964 |
| Total assets less current liabilities | | 273,380,637 | 275,533,872 |

| | Notes | 2011 30 June HK\$ (Unaudited) | 2010 31 December HK\$ (Audited) |
|---|-------|--|--|
| Capital and reserves | | | |
| Share capital | 12 | 54,000,000 | 54,000,000 |
| Reserves | | 135,137,111 | 136,069,159 |
| Equity attributable to owners of the Company | | 189,137,111 | 190,069,159 |
| Minority interests | | 4,646,863 | 4,439,543 |
| Total equity | | 193,783,974 | 194,508,702 |
| Non-current liabilities | | | |
| Deferred income | | 32,148,532 | 31,668,048 |
| Loans from an intermediate holding company | | 44,910,000 | 44,915,000 |
| Bank borrowings | 11 | 2,062,501 | 3,783,788 |
| Deferred taxation | | 475,630 | 658,334 |
| | | 79,596,663 | 81,025,170 |
| | | 273,380,637 | 275,533,872 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011 and 30 June 2010

| | 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 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 | - | - | - | - | - | - | - | - |
| (Loss) profit for the period | - | - | - | - | (5,506,175) | (5,506,175) | 14,612 | (5,491,563) |
| Total comprehensive income (expenses) for the period | - | - | - | - | (5,506,175) | (5,506,175) | 14,612 | (5,491,563) |
| Lapse of share options | - | - | - | (399,627) | 399,627 | - | - | - |
| At 30 June 2011 | 54,000,000 | 53,868,328 | 49,367,983 | 2,520,477 | 24,806,196 | 184,562,984 | 4,454,155 | 189,017,139 |
| 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 | - | - | 1,965,457 | - | - | 1,965,457 | 44,286 | 2,009,743 |
| Profit (loss) for the period | - | - | - | - | (1,364,631) | (1,364,631) | 290,538 | (1,074,093) |
| Total comprehensive (expenses) income for the period | - | - | 1,965,457 | - | (1,364,631) | 600,826 | 334,824 | 935,650 |
| Lapse of share options | - | - | - | (53,403) | 53,403 | - | - | - |
| At 30 June 2010 | 54,000,000 | 53,868,328 | 42,719,141 | 2,955,706 | 26,341,669 | 179,884,844 | 3,661,825 | 183,546,669 |

Condensed Consolidated Statement of Cash Flows*For the six months ended 30 June 2011 and 30 June 2010*

| | Six months ended 30 June | |
|---|---------------------------------|--------------|
| | 2011 | 2010 |
| | <i>HK\$</i> | <i>HK\$</i> |
| | (Unaudited) | (Unaudited) |
| Net cash used in operating activities | (3,054,324) | (10,056,680) |
| Net cash from (used in) investing activities | 3,662,006 | (37,056,678) |
| Net cash from financing activities | 3,147,428 | 36,503,976 |
| | | |
| Increase (decrease) in cash and cash equivalents | 3,755,110 | (10,609,382) |
| Cash and cash equivalents at beginning of the year | 3,049,223 | 13,693,414 |
| Effect of foreign exchange rate changes | 387,756 | 226,447 |
| | | |
| Cash and cash equivalents at end of the period representing | 7,192,089 | 3,310,479 |
| Bank balances and cash | 20,669,178 | 11,195,087 |
| Bank overdraft | (13,477,089) | (7,884,608) |
| | | |
| | 7,192,089 | 3,310,479 |
| | | |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

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 GEM of the Stock Exchange.

The Company is an investment holding company and is also engaged in sourcing of raw materials and equipment for its subsidiaries and trading of flexible printed circuit ("FPC"). Its subsidiaries are principally engaged in manufacture and sale of FPC, sourcing and sale of electronic components and encapsulation of Chip On Film ("COF") modules.

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 2010.

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 the sales of FPC, sourcing and sale of electronic components and encapsulation of COF modules 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 (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 modules business – encapsulation of COF modules

Segment revenues and results

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

Segment information about these businesses is presented below.

Six months ended 30 June

| | Segment revenue | | Inter-segment sales | | Eliminations | | Segment results | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2011 HK\$ (Unaudited) | 2010 HK\$ (Unaudited) | 2011 HK\$ (Unaudited) | 2010 HK\$ (Unaudited) | 2011 HK\$ (Unaudited) | 2010 HK\$ (Unaudited) | 2011 HK\$ (Unaudited) | 2010 HK\$ (Unaudited) |
| FPC business | 98,849,798 | 97,592,813 | - | - | - | - | 7,093,684 | 6,502,103 |
| Sourcing and sale of electronic components | 87,345,864 | 27,363,502 | 16,763,690 | 14,741,280 | (16,763,690) | (14,741,280) | 3,860,263 | 2,727,041 |
| COF business | 16,495,454 | - | - | - | - | - | (1,609,859) | - |
| LCM business | - | 5,847,385 | - | - | - | - | - | (1,243,449) |
| Total | 202,691,116 | 130,803,700 | 16,763,690 | 14,741,280 | (16,763,690) | (14,741,280) | 9,344,088 | 7,985,695 |
| Interest income | | | | | | | 183,180 | 61,112 |
| Share of result of a jointly controlled entity | | | | | | | (2,634,641) | (969,804) |
| Unallocated corporate expenses | | | | | | | (9,167,920) | (5,627,531) |
| Finance costs | | | | | | | (2,659,755) | (1,664,719) |
| Loss before taxation | | | | | | | (4,935,048) | (215,247) |

Three months ended 30 June

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

Inter-segment sales are charged at prevailing market rates.

(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 Six months ended 30 June | | Turnover Three months ended 30 June | |
|----------------------------|---|-----------------------------|---|-----------------------------|
| | 2011 HK\$ (Unaudited) | 2010 HK\$ (Unaudited) | 2011 HK\$ (Unaudited) | 2010 HK\$ (Unaudited) |
| PRC (other than Hong Kong) | 142,024,319 | 95,556,140 | 80,778,683 | 52,244,101 |
| Hong Kong | 45,074,149 | 24,164,614 | 41,259,492 | 12,134,420 |
| Others | 15,592,649 | 11,082,946 | 12,834,883 | 6,855,518 |
| Total | 202,691,116 | 130,803,700 | 134,873,057 | 71,234,039 |

4. (LOSS) PROFIT BEFORE TAXATION

| | Six months ended 30 June | | Three months ended 30 June | |
|--|---------------------------------|-------------|-----------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| (Loss) profit before taxation has been arrived at after charging: | | | | |
| Allowance for bad and doubtful debts | 77,584 | 25,780 | 57,797 | 36,276 |
| Allowance for obsolete inventories | 926,324 | 652,171 | 492,291 | 367,961 |
| Depreciation of property, plant and equipment | 9,517,328 | 7,623,682 | 4,733,279 | 3,852,335 |
| Amortisation of prepaid lease payments | 631,300 | 605,425 | 323,536 | 302,713 |
| and after crediting: | | | | |
| Interest income | 183,180 | 61,112 | 43,928 | 35,970 |

5. TAXATION

| | Six months ended 30 June | | Three months ended 30 June | |
|---------------------------|-----------------------------|-----------------------------|-------------------------------|-----------------------------|
| | 2011 HK\$ (Unaudited) | 2010 HK\$ (Unaudited) | 2011 HK\$ (Unaudited) | 2010 HK\$ (Unaudited) |
| Current tax: | | | | |
| Hong Kong Profits Tax | 530,616 | 300,000 | 230,616 | 125,000 |
| PRC Enterprise Income Tax | 208,602 | 472,083 | 85,934 | 195,373 |
| | 739,219 | 772,083 | 316,551 | 320,373 |
| Deferred tax: | | | | |
| Current period | (182,704) | 86,763 | (183,115) | 132,632 |
| | 556,515 | 858,846 | 133,436 | 453,005 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit of the Group for both periods. 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 regulations 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 and had expired on 31 December 2010. AKM Panyu has applied to the relevant PRC government authorities for the renewal of its advanced technology enterprise qualification. If the renewal application is approved, AKM Panyu will continue to be entitled to the tax reduction from 25% to 15% for three years commenced from 1 January 2011. If the application is not approved, AKM Panyu shall be subject to the tax rate of 25% commenced from 1 January 2011.

6. DIVIDEND

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

7. LOSS PER SHARE

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

| | Six months ended 30 June | |
|--|-------------------------------------|-------------|
| | 2011 | 2010 |
| | HK\$ | HK\$ |
| | (Unaudited) | (Unaudited) |
| Loss for the purpose of basic loss per share (loss for the period attributable to owners of the Company) | (5,506,175) | (1,364,631) |

| | Number of shares | |
|--|-------------------------|-------------|
| | 2011 | 2010 |
| 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 period ended 30 June 2011 and 30 June 2010 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\$26,950,000 (2010: HK\$41,593,000) 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 120 days.

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

| | At | At |
|-------------------|--------------------|-------------|
| | 30 June | 31 December |
| | 2011 | 2010 |
| | HK\$ | HK\$ |
| | (Unaudited) | (Audited) |
| Within 30 days | 31,953,101 | 33,086,990 |
| 31 – 60 days | 24,073,501 | 25,824,755 |
| 61 – 90 days | 23,798,400 | 19,557,283 |
| 91 – 120 days | 16,710,832 | 9,823,407 |
| 121 days – 1 year | 9,473,116 | 6,074,202 |
| Over 1 year | 13,897 | 243,831 |
| | 106,022,847 | 94,610,468 |

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

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

| | At | At |
|-------------------|--------------------|-------------|
| | 30 June | 31 December |
| | 2011 | 2010 |
| | HK\$ | HK\$ |
| | (Unaudited) | (Audited) |
| Within 30 days | 27,909,659 | 25,454,463 |
| 31 – 60 days | 14,623,326 | 14,725,828 |
| 61 – 90 days | 11,831,006 | 11,210,960 |
| 91 – 120 days | 5,130,000 | 1,434,169 |
| 121 days – 1 year | 833,358 | 99,053 |
| Over 1 year | 60,000 | 44,875 |
| | 60,387,349 | 52,969,348 |

11. BANK BORROWINGS

| | At 30 June 2011 HK\$ (Unaudited) | At 31 December 2010 HK\$ (Audited) |
|---|---|--|
| Borrowings which are repayable within one year and included in current liabilities: | | |
| Loan from a bank – unsecured | 3,400,462 | 3,316,903 |
| Loans from banks – secured | 92,163,348 | 88,004,167 |
| Trust receipts loans – secured | 4,665,386 | 5,322,560 |
| | 100,229,196 | 96,643,630 |
| Borrowings which are repayable after 1 year and included in non-current liabilities: | | |
| After 1 year but within 2 years – unsecured | 2,062,071 | 3,486,145 |
| After 2 years but within 5 years – unsecured | – | 297,643 |
| | 2,062,071 | 3,783,788 |

12. SHARE CAPITAL

| | Number of shares | Share capital HK\$ |
|------------------------------------|-----------------------------|-----------------------------------|
| Authorised: | | |
| At 1 January 2011 and 30 June 2011 | 2,000,000,000 | 200,000,000 |
| Issued and fully paid: | | |
| At 1 January 2011 and 30 June 2011 | 540,000,000 | 54,000,000 |

13. CAPITAL COMMITMENTS

| | At 30 June 2011 HK\$ (Unaudited) | At 31 December 2010 HK\$ (Audited) |
|--|---|--|
| Capital expenditure in respect of acquisition of property, plant and equipment | | |
| – contracted for but not provided in financial statements | 9,150,000 | 15,756,186 |

14. RELATED PARTY TRANSACTIONS

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

| | Six months ended 30 June | | Three months ended 30 June | |
|---|--------------------------------------|-----------------------------|---------------------------------------|-----------------------------|
| | 2011 HK\$ (Unaudited) | 2010 HK\$ (Unaudited) | 2011 HK\$ (Unaudited) | 2010 HK\$ (Unaudited) |
| Transactions with an intermediate holding company: | | | | |
| Interest paid by the Group | 108,000 | 108,000 | 54,000 | 108,000 |
| Transactions with fellow subsidiaries: | | | | |
| Rentals for office charged to the Group | 60,000 | 60,000 | 30,000 | 30,000 |
| Transactions with a jointly controlled entity: | | | | |
| Income from leasing equipment | – | 278,223 | – | 124,201 |
| Sales of good by the Group | 112,395 | 52,170 | – | 35,744 |
| Subcontracting fee paid by the Group | 283,131 | 649,141 | 186,268 | 649,141 |
| Expense in respect of acquisition of equipment | 6,465,335 | – | 6,465,335 | – |

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2011 (the “period”), the turnover of the Group amounted to approximately HK\$202.69 million, representing an increase of approximately 54.96% as compared to the corresponding period of last year. The gross profit margin for the period decreased to approximately 9.50% (the corresponding period of 2010: 11.53%), which was mainly due to the decrease in gross profit margin for the sourcing of electronic components. The loss attributable to the owners of the Company for the period was approximately HK\$5.51 million, while the loss for the corresponding period of last year was approximately HK\$1.36 million. The increase in loss was mainly due to the one-off expenses incurred relating to restructuring the Group’s subsidiaries and relocation of its production plants, the upsurging labor cost in the PRC and the increase in foreign exchange losses.

The other income of the Group for the six months ended 30 June 2011 amounted to approximately HK\$0.66 million, representing a slight increase as compared to the corresponding period of last year. The increase in other income was mainly derived from the rental in respect of production plant and interest income.

The distribution costs of the Group for the six months ended 30 June 2011 amounted to approximately HK\$4.50 million, representing an increase of approximately 69.87% as compared to the corresponding period of last year. The increase in distribution costs was mainly due to the increase in logistic expenses and salaries.

The administrative expenses of the Group for the six months ended 30 June 2011 amounted to approximately HK\$9.68 million, representing an increase of approximately 56.71% as compared to the corresponding period of last year. The increase in administrative expenses was mainly due to the increase in foreign exchange losses and higher salaries.

The research and development expenses of the Group for the six months ended 30 June 2011 amounted to approximately HK\$5.35 million, representing an increase of approximately 20.44% as compared to the corresponding period of last year. The increase in research and development expenses was mainly due to the increase in research and development projects and activities.

The finance costs of the Group for the six months ended 30 June 2011 amounted to approximately HK\$2.66 million, representing an increase of approximately HK\$1.00 million as compared to the corresponding period of last year. The increase in finance costs was mainly due to the significant increase in interest rates of bank borrowings.

Business Review and Prospect

Business Review

The Group is principally engaged in the manufacture and sale of FPC, which are used in communication, LCD, consumer electronic products such as mobile phones, LCD, car electronics and cameras. The Group is also engaged in sourcing and sale of electronic components and encapsulation of COF.

During the first half of 2011, the total turnover of the Group amounted to approximately HK\$202.60 million, representing an increase of approximately 54.96% 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 were approximately HK\$98.85 million, HK\$87.35 million and HK\$16.50 million respectively. The turnover for sales of FPC and sourcing of electronic components during the corresponding period of last year were approximately HK\$97.60 million and HK\$27.36 million respectively, while the business of encapsulation of COF modules commenced from this year was a new business engaged by the Group. During the first half of 2011, the loss attributable to the owners of the Company amounted to approximately HK\$5.51 million, representing an increase of approximately 303.49% as compared to the corresponding period of last year, which mainly attributed to the one-off expenses incurred relating to restructuring the Group's subsidiaries and relocation of the production plants, the upsurging labor cost in the PRC and the increase in foreign exchange losses.

During the first half of 2011, the turnover of FPC of the Group increased by approximately 1.29% as compared to the corresponding period of last year, the gross profit margin was approximately 14.04% (the corresponding period of 2010: approximately 12.87%). The turnover for sourcing of electronic components increased by approximately 61.46% as compared to the corresponding period of last year, while the gross profit margin was approximately 7.91% (the corresponding period of 2010: approximately 12.35%). The business of encapsulation of COF module was a new operation for the Group and still suffered loss, with a gross loss margin of approximately 8.54%.

During the first half of 2011, the Group restructured the business of New Career Guangzhou Electronics Company Limited, its wholly-owned subsidiary, whereby the subsidiary's business of sales of electronic modules for LCM with unsatisfactory performance was discontinued and its business direction was readjusted to the COF modules business. In order to integrate its operations, save expenses and cut costs, Shenzhen Smart Electronics Co. Ltd., a jointly controlled entity of the Group, relocated its production facilities from a leased plant in Bao An district, Shenzhen, to its wholly-owned production base located in Huizhou Digital Technology Park, which caused a one-off loss of approximately HK\$1.50 million for the period, it is expected that operation will gradually return to normal in the next quarter.

During the first half of 2011, the Group's wholly-owned subsidiary AKM Electronic Technology (Suzhou) Company Limited ("AKM Electronic Technology") had completed relocation of its production facilities to the new factory in Suzhou and has commenced normal production. Due to such relocation, the turnover and profit of the Suzhou factory for the first half year was lower than those of the corresponding period of last year. The Suzhou factory will become the Group's manufacturing base of FPC in the Eastern China, which will contribute to the long-term development of the Group.

During the first half of 2011, the Group's core business of FPC produced better development momentum, as both revenue and gross profit from this segment were higher than those of the corresponding period of last year and five largest customers accounted for 61.94% of turnover, which reflected a better customer concentration and an optimized customer structure.

Outlook

The Group is dedicated to strengthen its core competence and achieve its 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.

Following the changes in the competitive PRC mobile phone market and the adjustment of the Group's competing strategies, the Group has shifted its focus to serve large international clients with the provision of high density interconnect FPC and rigid-flex FPC products. At present, the Group has become a qualified supplier of a number of globally renowned electronic manufacturers, which demand more complicated techniques to produce their products. With continuous improvement of product quality, the Group will develop more large international clients and obtain more orders from existing customers. The Group has already made positive progress in this respect.

Following the completion of relocation of its production facilities to the Suzhou new factory, the Group has established two production bases, situated at Southern China and Eastern China respectively. As a result, the Group's production capacity improved significantly, and our concept of offering "one-stop service" to customers can be effectively implemented. The Group is confident that its scale of operation will be further expanded and the benefits of economy of scale will also be achieved.

The Board of Directors is of the opinion that, with the new production plants in Nansha and Suzhou being put into operation, the Group has established strong production bases in the FPC industry, while the structural adjustment of other business units has almost been completed. Despite the intense competition in the industry and the continuous increase in labour costs and other operating costs in the PRC, the Group is confident that it will be able to realize a turnaround and bring favourable investment return to its shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances 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 to meet its present funding requirements.

As at 30 June 2011, net current liabilities were approximately HK\$11.84 million (as at 31 December 2010: net current assets of approximately HK\$3.54 million).

As at 30 June 2011, there were bank balances, cash on hand and bank deposits of approximately HK\$47.19 million (as at 31 December 2010: approximately HK\$13.6 million).

As at 30 June 2011, there were bank borrowings of approximately HK\$96.79 million (as at 31 December 2010: approximately HK\$96.64 million) and bank overdraft of approximately HK\$13.48 million (as at 31 December 2010: approximately HK\$8.19 million).

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2011, bank deposits of approximately HK\$26.52 million (as at 31 December 2010: approximately HK\$2.35 million) 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 2011, land use rights and buildings with carrying amounts of approximately HK\$20.13 million and HK\$68.12 million respectively (as at 31 December 2010: approximately HK\$51.48 million and HK\$63.26 million respectively) were pledged to secure the general banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2011, the Group had outstanding capital commitments of approximately HK\$9.15 million (as at 31 December 2010: approximately HK\$15.76 million).

GEARING RATIO

As at 30 June 2011, the gearing ratio (calculated as total liabilities over total assets as at the respective balance sheet dates) of the Group was approximately 60.38% (as at 31 December 2010: approximately 58.52%).

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions or disposals during the six months ended 30 June 2011.

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 FPC, the sourcing of electronic components and the manufacture and encapsulation of COF modules. 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 2011, the Group had a total of 1,292 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

In April 2008, AKM ET, a wholly-owned subsidiary of the Company, entered into an agreement to acquire the land use rights of a piece of land with gross area of approximately 58,786 sq.m. situated at East of Liangang Road, Suzhou City, the PRC (the "Suzhou Land") at a consideration of RMB28,217,660. The Suzhou Land and an adjacent parcel of land ("Adjacent Land") of gross area of approximately 29,611 sq.m. purchased in June 2007 which are both situated at the Suzhou Gaoxin District will be used by the Group for the purpose of the expansion of the business for FPC production. Relevant disclosure in relation to acquisition of land use rights of the Suzhou Land and the Adjacent Land had been made in the announcement of the Company dated 24 April 2008. The construction and internal renovation of new production plant on the Suzhou Land and the Adjacent Land and the relocation therein had been completed, and operation has formally commenced in this production plant. The capital commitment in relation the new production plant is funded by the development support fund ("Development Support Fund"). Relevant disclosure in relation to the grant and receipt of Development Support Fund had been made in the announcement of the Company dated 25 September 2008.

Save as disclosed above, the Group has no other future plans for material investments or capital assets during the period or as at 30 June 2011.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2011.

SIGNIFICANT INVESTMENT HELD

The Group did not have any significant investment as at 30 June 2011.

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 30 June 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 in 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 | 0.37 |
| | 2,000,000 ordinary shares | 2 | Beneficial owner | 0.37 |
| Mr. Chai Zhi Qiang | 2,800,000 ordinary shares | 1 | Beneficial owner | 0.52 |
| | 2,000,000 ordinary shares | 2 | Beneficial owner | 0.37 |
| Ms. Li Ying Hong | 600,000 ordinary shares | 1 | Beneficial owner | 0.11 |
| | 2,000,000 ordinary shares | 2 | Beneficial owner | 0.37 |
| Mr. Han Li Gang | 1,600,000 ordinary shares | 2 | Beneficial owner | 0.30 |
| Mr. Liang Zhi Li | 800,000 ordinary shares | 2 | Beneficial owner | 0.15 |
| Mr. Wang Heng Yi | 800,000 ordinary shares | 2 | Beneficial owner | 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 30 June 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 30 June 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 shares 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.

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 1.1.2011 | Exercised during the period | Lapsed during the period | Outstanding at 30.6.2011 |
| 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 | 5,500,000 | - | (2,300,000) | 3,200,000 |
| Total | | | | 10,900,000 | - | (2,300,000) | 8,600,000 |

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 1.1.2011 | Exercised during the period | Lapsed during the period | Outstanding at 30.6.2011 |
| 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. 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 |
| | | | | 9,200,000 | - | - | 9,200,000 |
| Employees | 9.7.2007 | 10.7.2007 to 9.7.2017 | 0.36 | 11,700,000 | - | (2,200,000) | 9,500,000 |
| Total | | | | 20,900,000 | - | (2,200,000) | 18,700,000 |

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 2011, 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 2011.

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 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. 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 six months ended 30 June 2011.

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

10 August 2011, Hong Kong