



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

Third 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 nine months ended 30 September 2011, the unaudited turnover increased to approximately HK\$319.74 million, representing an increase of approximately 40.25% as compared to the corresponding period of last year. The loss attributable to the owners of the Company amounted to approximately HK\$1.27 million, while the profit for the corresponding period of last year was approximately HK\$410,000.
- Loss per share of the Group was approximately HK0.24 cent for the nine months ended 30 September 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 nine months ended 30 September 2011 together with the comparative unaudited figures for the corresponding period of last year, as follows:

Condensed Consolidated Statement of Comprehensive Income

For the nine months and three months ended 30 September 2011 and 30 September 2010

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2011 HK\$ (Unaudited)	2010 HK\$ (Unaudited)	2011 HK\$ (Unaudited)	2010 HK\$ (Unaudited)
Turnover	2	319,737,701	227,983,065	117,046,585	97,179,365
Cost of sales		(284,118,941)	(202,442,292)	(100,676,511)	(86,723,187)
Gross profit		35,618,760	25,540,773	16,370,074	10,456,178
Other income		1,551,708	1,537,272	895,683	924,886
Distribution costs		(6,775,664)	(4,850,052)	(2,264,100)	(2,194,226)
Administrative expenses		(15,711,754)	(10,506,512)	(6,029,240)	(4,327,707)
Research and development expenses		(8,027,532)	(6,182,698)	(2,676,247)	(1,739,624)
Share of result of a jointly controlled entity		(3,406,344)	155,342	(771,703)	1,125,146
Finance costs		(4,163,285)	(2,779,645)	(1,503,530)	(1,114,926)
(Loss) profit before taxation		(914,111)	2,914,480	4,020,937	3,129,727
Taxation	3	(530,700)	(1,459,940)	25,815	(601,094)
(Loss) profit for the period		(1,444,811)	1,454,540	4,046,752	2,528,633
Other comprehensive income:					
Exchange differences arising on translation of foreign operations		8,093,052	4,830,073	3,326,217	2,820,330
Total comprehensive income for the period		6,648,241	6,284,613	7,372,969	5,348,963
(Loss) profit for the period attributable to:					
Owners of the Company		(1,269,207)	414,377	4,236,968	1,779,008
Minority interests		(175,604)	1,040,163	(190,216)	749,625
		(1,444,811)	1,454,540	4,046,752	2,528,633
Total comprehensive income (expenses) attributable to:					
Owners of the Company		6,572,776	5,137,895	7,504,824	4,537,069
Minority interests		75,465	1,146,718	(131,855)	811,894
		6,648,241	6,284,613	7,372,969	5,348,963
(Loss) earnings per share	5				
Basic		(0.24) cent	0.08 cent	0.78 cent	0.33 cent

Condensed Consolidated Statement of Changes in Equity*For the nine months ended 30 September 2011 and 30 September 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	-	-	7,841,983	-	-	7,841,983	251,069	8,093,052
(Loss) profit for the period	-	-	-	-	(1,269,207)	(1,269,207)	(175,604)	(1,444,811)
Total comprehensive income (expenses) for the period	-	-	7,841,983	-	(1,269,207)	6,572,776	75,465	6,648,241
Lapse of share options	-	-	-	(445,029)	445,029	-	-	-
At 30 September 2011	54,000,000	53,868,328	57,209,966	2,475,075	29,088,566	196,641,935	4,515,008	201,156,943
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	-	-	4,723,518	-	-	4,723,518	106,555	4,830,073
Profit (loss) for the period	-	-	-	-	414,377	414,377	1,040,163	1,454,540
Total comprehensive (expenses) income for the period	-	-	4,723,518	-	414,377	5,137,895	1,146,718	6,284,613
Lapse of share options	-	-	-	(53,403)	53,403	-	-	-
At 30 September 2010	54,000,000	53,868,328	45,477,202	2,955,706	28,120,677	184,421,913	4,473,719	188,895,632

Notes to Condensed Consolidated Statement of Comprehensive Income

For the nine months ended 30 September 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. TURNOVER AND SEGMENTS INFORMATION

Turnover 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) 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 major 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.

Nine months ended 30 September

	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	189,535,269	151,736,490	-	-	-	-	17,156,654	11,227,532
Sourcing and sale of electronic components	109,354,104	58,554,227	22,672,782	21,435,058	(22,672,782)	(21,435,058)	6,006,731	5,138,220
COF modules business	20,848,328	-	-	-	-	-	(1,970,222)	-
LCM business	-	17,692,348	-	-	-	-	-	(1,857,729)
Total	319,737,701	227,983,065	22,672,782	21,435,058	(22,672,782)	(21,435,058)	21,193,163	14,508,023
Interest income							230,744	109,888
Share of result of a jointly controlled entity							(3,406,344)	155,342
Unallocated corporate expenses							(14,768,389)	(9,079,128)
Finance costs							(4,163,285)	(2,779,645)
(Loss) profit before taxation							(914,111)	2,914,480

Three months ended 30 September

	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	90,685,471	54,143,677	-	-	-	-	10,062,970	4,725,429
Sourcing and sale of electronic components	22,008,240	31,190,725	5,909,092	6,693,778	(5,909,092)	(6,693,778)	2,146,468	2,411,179
COF modules business	4,352,874	-	-	-	-	-	(360,363)	-
LCM business	-	11,844,963	-	-	-	-	-	(614,280)
Total	117,046,585	97,179,365	5,909,092	6,693,778	(5,909,092)	(6,693,778)	11,849,075	6,522,328
Interest income							47,564	48,776
Share of result of a jointly controlled entity							(771,703)	1,125,146
Unallocated corporate expenses							(5,600,469)	(3,451,597)
Finance costs							(1,503,530)	(1,114,926)
Profit before taxation							4,020,937	3,129,727

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 (place of domicile). The following table provides an analysis of the Group's revenue from external customers by geographical location:

	Turnover		Turnover	
	Nine months ended		Three months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC (other than Hong Kong)	216,731,233	167,840,154	74,706,914	72,284,014
Hong Kong	85,337,354	44,039,287	40,263,206	19,874,673
Others	17,669,114	16,103,624	2,076,465	5,020,678
Total	319,737,701	227,983,065	117,046,585	97,179,365

3. TAXATION

	Nine months ended		Three months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
Hong Kong Profits Tax	586,718	630,000	56,101	330,000
PRC Enterprise Income Tax	214,396	572,384	5,794	100,301
	801,114	1,202,384	61,895	430,301
Underprovision in prior year:				
Hong Kong Profits Tax	-	104	-	104
Deferred tax:				
Current period	(270,414)	257,452	(87,710)	170,689
	530,700	1,459,940	(25,815)	601,094

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 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 enterprise 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 the 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 qualification as advanced technology enterprise. If the renewal application is approved, AKM Panyu will continue to be entitled to the tax reduction from 25% to 15% for another three years commenced from 1 January 2011. If the application is not approved, AKM Panyu shall be subject to the tax rate of 25% from 1 January 2011.

4. DIVIDEND

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

5. EARNINGS PER SHARE

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

	Nine months ended	
	30 September	
	2011	2010
	HK\$	HK\$
	(Unaudited)	(Unaudited)
(Loss) profit for the purpose of basic (loss) earnings per share ((loss) profit for the period attributable to owners of the Company)	(1,269,207)	414,377
	Number of shares	
	2011	2010
Number of ordinary shares for the purpose of basic (loss) earnings per share	540,000,000	540,000,000

The diluted loss per share for the period ended 30 September 2011 is not presented as the exercise of the outstanding share options would result in a decrease in loss per share. The diluted earnings per share for the period ended 30 September 2010 is not presented as no assumption on the exercise of share options had been made because the respective exercise prices of the share options were higher than the average market price of the shares of the Company during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the nine months ended 30 September 2011 (the "period"), the turnover of the Group amounted to approximately HK\$319.74 million, representing an increase of approximately 40.25% as compared to the corresponding period of last year, which was mainly due to the increases in sale of FPC and sourcing and sale of electronic components. The gross profit margin for the period slightly decreased to approximately 11.14% (the corresponding period of 2010: 11.20%), which was mainly due to the increase in gross profit margin for the sale of FPC and the decrease in gross profit margin both for the sourcing and sale of electronic components and encapsulation of COF modules. The loss attributable to the owners of the Company for the period was approximately HK\$1.27 million, while the profit for the corresponding period of last year was approximately HK\$0.41 million. The decrease in profit for the period was mainly due to the significant losses incurred by a jointly controlled company, the one-off expenses incurred relating to restructuring of the business of the Group's certain subsidiaries and relocation of production plants, as well as the increasing labor costs in the PRC, the significant increase in finance costs caused by the upsurging interest rates, and the increase in foreign exchange losses resulting from the appreciation of Renminbi ("RMB").

The other income of the Group for the nine months ended 30 September 2011 amounted to approximately HK\$1.55 million, representing an increase of approximately 1% as compared to the corresponding period of last year. The increase in other income was mainly derived from the increase in rental in respect of production plant.

The distribution costs of the Group for the nine months ended 30 September 2011 amounted to approximately HK\$6.78 million, representing an increase of approximately 39.70% as compared to the corresponding period of last year. The increase in distribution costs was mainly due to the increase in turnover and the corresponding increase in commissions, transportation costs and custom clearance fees.

The administrative expenses of the Group for the nine months ended 30 September 2011 amounted to approximately HK\$15.71 million, representing an increase of approximately 49.54% as compared to the corresponding period of last year. The increase in administrative expenses was mainly due to the appreciation of RMB, the increase in foreign exchange losses and the increase in salary and social security expenses resulting from the higher salary standard.

The research and development expenses of the Group for the nine months ended 30 September 2011 amounted to approximately HK\$8.03 million, representing an increase of approximately 29.84% 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 nine months ended 30 September 2011 amounted to approximately HK\$4.16 million, representing an increase of approximately 49.78% 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 domestic bank borrowings.

Business Review and Outlook

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 nine months ended 30 September 2011, the turnover of the Group amounted to approximately HK\$319.74 million, representing an increase of approximately 40.25% as compared to the corresponding period of last year. During the period, the turnover for sales of FPC, sourcing and sale of electronic components and encapsulation of COF were approximately HK\$189.54 million, HK\$109.35 million and HK\$20.85 million respectively. The turnover for sales of FPC and sourcing and sale of electronic components during the corresponding period of last year were approximately HK\$151.74 million and HK\$58.55 million respectively, while the business of encapsulation of COF modules commenced from this year was a new business engaged by the Group. During the nine months ended 30 September 2011, the loss attributable to the owners of the Company amounted to approximately HK\$1.27 million, representing an increase of approximately HK\$1.68 million as compared to the corresponding period of last year, which mainly attributed to the one-off expenses incurred relating to restructuring of the business of the Group's certain subsidiaries and relocation of production plants, the significant losses incurred by a jointly controlled company, as well as the increasing labor costs in the PRC, the significant increase in finance costs caused by the upsurging interest rates, and the increase in foreign exchange losses resulting from the appreciation of RMB. For the three months ended 30 September 2011, the profit attributable to the owners of the Company amounted to approximately HK\$4.24 million, representing an increase of approximately 138.16% as compared to HK\$1.78 million of the corresponding period of last year, which was mainly due to the scale effect brought by the increase in turnover and the effect of reduced defect rate.

During the nine months ended 30 September 2011, the turnover of sale of FPC of the Group increased by approximately 24.91% as compared to the corresponding period of last year, the gross profit margin increased to approximately 14.93% (the corresponding period of 2010: approximately 13.26%). The turnover for sourcing and sale of electronic components increased by approximately 86.76% as compared to the corresponding period of last year, while the gross profit margin was approximately 8.25% (the corresponding period of 2010: approximately 11.45%). 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 7.24%.

During the period, the Group restructured the business of New Career Guangzhou Electronics Company Limited, a wholly-owned subsidiary, whereby the subsidiary's business of sales of electronic modules for LCM 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.

During the period, the Group had completed relocation of its production facilities to the new factory in Suzhou and has commenced normal production. Notwithstanding that there was effect from the relocation, the turnover of the Suzhou factory for the first three quarters remained comparable with those of the corresponding period of last year. However, given the increase in fixed costs and expenses, the profit decreased significantly, but it is expected that the result of the Suzhou factory will improve significantly in future quarters. 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 third quarter of 2011, although affected by the relocation of Suzhou factory, the Group's core business of FPC generally produced better development momentum, turnover for the quarter amounted to approximately HK\$90.69 million, representing an increase of approximately 67.49% as compared to the corresponding period of last year, while gross profit increased from approximately HK\$7.56 million of the corresponding period of last year to approximately HK\$14.42 million, representing an increase of approximately 90.73%, which reflected that the scale effect had started to take shape. A key international customer introduced in the beginning of the year commenced to place bulk orders and increased order amount in the third quarter, 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 the enhancement of the level of processing techniques and the continuous promotion of total quality management improvement activities, the defect rate has been significantly reduced. 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 commencement of normal production of the Group's Suzhou new production plant, 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 while the scale effect started to take shape, and the Group's 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, finance costs and other operating costs in the PRC, the Group is confident that it will be able to achieve scale operation, realize a turnaround and bring favourable investment return to its shareholders.

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 30 September 2011, none of the Directors and the chief executive of the Company and their respective associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of 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"):

(i) 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	Notes	Capacity	Long/short position	Approximate percentage of total issued share capital in the Company
Mr. Xiong Zheng Feng	2,000,000 ordinary shares	1	Beneficial owner	Long	0.37
	2,000,000 ordinary shares	2	Beneficial owner	Long	0.37
Mr. Chai Zhi Qiang	2,800,000 ordinary shares	1	Beneficial owner	Long	0.52
	2,000,000 ordinary shares	2	Beneficial owner	Long	0.37
Ms. Li Ying Hong	600,000 ordinary shares	1	Beneficial owner	Long	0.11
	2,000,000 ordinary shares	2	Beneficial owner	Long	0.37
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.

(II) The associated corporation

As at 30 September 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 any interests and short positions 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 September 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 3)</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 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 of the Company and their 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. During the period under review, the audit committee comprised of three members, Mr. Wu Tak Lung, Mr. Liang Zhi Li and Mr. Wang Heng Yi. All of them were independent non-executive Directors. The chairman of the audit committee was Mr. Wu Tak Lung during the period under review.

As disclosed in the announcement of the Company dated 17 October 2011, Mr. Wu Tak Lung resigned as an independent non-executive Director, a member and the chairman of the audit committee and a member of the remuneration committee of the Company with effect from 17 October 2011, and Mr. Hung Chi Yuen Andrew has been appointed as an independent non-executive Director, a member and the chairman of the audit committee and a member of the remuneration committee of the Company with effect from 17 October 2011. As at the date of this report, the audit committee comprises of three members, Mr. Hung Chi Yuen Andrew, 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. Hung Chi Yuen Andrew.

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 nine months ended 30 September 2011.

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

10 November 2011, Hong Kong