



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
2012**

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 2012, the unaudited turnover increased to approximately HK\$230.35 million, representing an increase of approximately 13.65% as compared to the corresponding period of last year. The profit attributable to the owners of the Company amounted to approximately HK\$5.63 million, while the loss for the corresponding period of last year was approximately HK\$5.51 million.
- Profit per share of the Group was approximately HK1.04 cent for the six months ended 30 June 2012.

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 2012 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 2012 and 30 June 2011

	Notes	Six months ended 30 June		Three months ended 30 June	
		2012 HK\$ (Unaudited)	2011 HK\$ (Unaudited)	2012 HK\$ (Unaudited)	2011 HK\$ (Unaudited)
Turnover	3	230,350,927	202,691,116	123,859,870	100,273,057
Cost of sales		(198,535,743)	(183,442,430)	(106,695,149)	(89,225,138)
Gross profit		31,815,184	19,248,686	17,164,721	11,047,919
Other income		1,637,174	656,025	1,165,435	394,741
Distribution costs		(4,455,931)	(4,511,564)	(2,782,935)	(2,024,519)
Administrative expenses		(11,587,480)	(9,682,514)	(6,196,915)	(5,678,929)
Research and development expenses		(5,197,145)	(5,351,285)	(2,849,064)	(2,516,184)
Share of result of a jointly controlled entity		(3,301,074)	(2,634,641)	(1,105,261)	(2,134,498)
Finance costs		(3,321,735)	(2,659,755)	(1,806,132)	(1,410,299)
Profit (loss) before taxation	4	5,588,993	(4,935,048)	3,589,849	(2,321,769)
Taxation	5	(608,011)	(556,515)	(291,219)	(133,436)
Profit (loss) for the period		4,980,982	(5,491,563)	3,298,630	(2,455,205)
Other comprehensive income (expenses):					
Exchange differences arising on translation of foreign operations		(3,073,722)	4,766,835	(2,302,606)	3,918,954
Total comprehensive income (loss) for the period		1,907,260	(724,728)	996,024	1,463,749
Profit (loss) for the period attributable to:					
Owners of the Company		5,628,076	(5,506,175)	3,445,508	(2,205,866)
Minority interests		(647,094)	14,612	(146,878)	(249,339)
		4,980,982	(5,491,563)	3,298,630	(2,455,205)
Total comprehensive income (expenses) attributable to:					
Owners of the Company		2,596,826	(932,048)	1,182,612	1,550,274
Minority interests		(689,566)	207,320	(186,588)	(86,525)
		1,907,260	(724,728)	996,024	1,463,749
Profit (loss) per share (cent) basic	7	1.04	(1.02)	0.64	(0.41)

Condensed Consolidated Statement of Financial Position

At 30 June 2012 and 31 December 2011

	Notes	2012 30 June HK\$ (Unaudited)	2011 31 December HK\$ (Audited)
Non-current assets			
Property, plant and equipment	8	203,406,193	209,428,884
Prepaid lease payments for lands		57,324,479	58,564,077
Interest in a jointly controlled entity		14,941,845	18,857,509
Deposits for acquisition of property, plant and equipment		1,613,151	2,235,624
		277,285,668	289,086,094
Current assets			
Inventories		51,597,027	42,885,969
Trade and other receivables	9	127,685,167	128,770,998
Bills receivables	9	4,762,324	10,335,077
Prepaid lease payments for lands		1,291,747	1,304,976
Amount due from a jointly controlled entity		1,338,535	—
Pledged bank deposits		2,354,308	27,125,950
Bank balances and cash		17,090,067	13,943,465
		206,119,175	224,366,435
Current liabilities			
Trade and other payables	10	86,408,572	95,195,266
Bills payables	10	13,296,221	11,818,095
Deferred income		816,844	1,195,397
Amount due to a fellow subsidiary		118,191	119,401
Amount due to a jointly controlled entity		—	1,648,299
Loan from an intermediate holding company		48,000	48,000
Taxation payable		3,741,521	3,332,564
Bank borrowings	11	79,860,158	102,960,123
Loan from a minority shareholder of a subsidiary		2,247,500	2,247,500
Loan from ultimate holding company		977,159	987,167
Bank overdrafts		6,549,741	4,066,603
		194,063,907	223,618,415
Net current assets		12,055,268	748,020
Total assets less current liabilities		289,340,936	289,834,114

	Notes	2012 30 June HK\$ (Unaudited)	2011 31 December HK\$ (Audited)
Capital and reserves			
Share capital	12	54,000,000	54,000,000
Reserves		155,715,049	153,118,223
Equity attributable to owners of the Company		209,715,049	207,118,223
Minority interests		2,636,171	3,325,737
Total equity		212,351,220	210,443,960
Non-current liabilities			
Deferred income		31,040,063	31,770,576
Loans from an intermediate holding company		44,790,000	44,835,000
Loan from ultimate holding company		977,159	1,974,334
Bank borrowings	11	–	297,643
Deferred taxation		182,494	512,601
		76,989,716	79,390,154
		289,340,936	289,834,114

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012 and 30 June 2011

	Attributable to owners of the Company							Total
	Share capital	Share premium	Translation reserve	Share options reserve	Retained profits	Total	Minority interests	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2012	54,000,000	53,868,328	61,847,700	2,475,075	34,927,120	207,118,223	3,325,737	210,443,960
Exchange differences arising on translation of foreign operations	-	-	(3,031,250)	-	-	(3,031,250)	(42,472)	(3,073,722)
Profit (loss) for the period	-	-	-	-	5,628,076	5,628,076	(647,094)	4,980,982
Total comprehensive (expenses) income for the period	-	-	(3,031,250)	-	5,628,076	2,596,826	(689,566)	1,907,260
Lapse of share options	-	-	-	-	-	-	-	-
At 30 June 2012	54,000,000	53,868,328	58,816,450	2,475,075	40,555,196	209,715,049	2,636,171	212,351,220
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	-	-	4,574,127	-	-	4,574,127	192,708	4,766,835
(Loss) profit for the period	-	-	-	-	(5,506,175)	(5,506,175)	14,612	(5,491,563)
Total comprehensive income (expenses) for the period	-	-	4,574,127	-	(5,506,175)	(932,048)	207,320	(724,728)
Lapse of share options	-	-	-	(399,627)	399,627	-	-	-
At 30 June 2011	54,000,000	53,868,328	53,942,110	2,520,477	24,806,196	189,137,111	4,646,863	193,783,974

Condensed Consolidated Statement of Cash Flows*For the six months ended 30 June 2012 and 30 June 2011*

	Six months ended 30 June	
	2012	2011
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	8,889,888	(3,054,324)
Net cash used in investing activities	14,512,332	3,662,006
Net cash from financing activities	(26,638,332)	3,147,428
(Decrease) increase in cash and cash equivalents	(3,236,112)	3,755,110
Cash and cash equivalents at beginning of the year	13,943,465	3,049,223
Effect of foreign exchange rate changes	(167,027)	387,756
Cash and cash equivalents at end of the period representing	10,540,326	7,192,089
Bank balances and cash	17,090,067	20,669,178
Bank overdraft	(6,549,741)	(13,477,089)
	10,540,326	7,192,089

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

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 2011.

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 by the Group to external customers, net of discounts and sales related taxes.

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions namely (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	
	2012	2011	2012	2011	2012	2011	2012	2011
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
FPC business	194,902,016	98,849,798	108,853,906	-	(108,853,906)	-	16,358,556	7,093,684
Sourcing and sale of electronic components business	34,688,562	87,345,864	24,840,070	16,763,690	(24,840,070)	(16,763,690)	3,421,516	3,860,263
COF business	760,349	16,495,454	24,707	-	(24,707)	-	(705,841)	(1,609,859)
Total	230,350,927	202,691,116	133,718,683	16,763,690	(133,718,683)	(16,763,690)	19,074,231	9,344,088
Interest income							244,765	183,180
Share of result of a jointly controlled entity							(3,301,074)	(2,634,641)
Unallocated corporate (expenses) income							(7,107,194)	(9,167,920)
Finance costs							(3,321,735)	(2,659,755)
Profit (loss) before taxation							5,588,993	(4,935,048)

Three months ended 30 June

	Segment revenue		Inter-segment sales		Eliminations		Segment results	
	2012	2011	2012	2011	2012	2011	2012	2011
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
FPC business	103,376,313	51,630,011	49,285,934	-	(49,285,934)	-	8,226,025	5,448,663
Sourcing and sale of electronic components business	20,004,756	42,277,143	16,284,862	(11,933,564)	(16,284,862)	11,933,564	1,943,727	1,715,978
COF business	478,801	6,365,903	1,264	-	(1,264)	-	(364,623)	(699,172)
Total	123,859,870	100,273,057	65,572,060	(11,933,564)	(65,572,060)	11,933,564	9,805,129	6,465,469
Interest income							216,062	43,928
Share of result of a jointly controlled entity							(1,105,261)	(2,134,498)
Unallocated corporate (expenses) income							(3,519,949)	(5,286,369)
Finance costs							(1,806,132)	(1,410,299)
Profit (loss) before taxation							3,589,849	(2,321,769)

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	
	2012 HK\$ (Unaudited)	2011 HK\$ (Unaudited)	2012 HK\$ (Unaudited)	2011 HK\$ (Unaudited)
PRC (other than Hong Kong)	158,700,401	142,024,319	92,695,005	80,778,683
Hong Kong	57,461,247	45,074,148	18,624,811	6,659,491
Others	14,189,279	15,592,649	12,540,054	12,834,883
Total	230,350,927	202,691,116	123,859,870	100,273,057

4. PROFIT (LOSS) BEFORE TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2012 HK\$ (Unaudited)	2011 HK\$ (Unaudited)	2012 HK\$ (Unaudited)	2011 HK\$ (Unaudited)
Profit (loss) before taxation has been arrived at after charging:				
Allowance for bad and doubtful debts	59,778	77,584	14,405	57,797
Allowance for obsolete inventories	788,180	926,324	172,988	492,291
Depreciation of property, plant and equipment	11,675,190	9,517,328	5,838,815	4,733,279
Amortisation of prepaid lease payments	649,138	631,300	322,962	323,536
and after crediting:				
Interest income	244,765	183,180	216,062	43,928

5. TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2012	2011	2012	2011
	HK\$	HK\$	HK\$	HK\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
Hong Kong Profits Tax	219,638	530,616	86,353	230,616
PRC Enterprise Income Tax	718,480	208,603	315,469	85,935
	938,118	739,219	401,822	316,551
Deferred tax:				
Current period	(330,107)	(182,704)	(110,603)	(183,115)
	608,011	556,515	291,219	133,436

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.

6. DIVIDEND

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

7. PROFIT (LOSS) PER SHARE

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

	Six months ended 30 June	
	2012	2011
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Profit (loss) for the purpose of basic profit (loss) per share (profit (loss) for the period attributable to owners of the Company)	5,628,076	(5,506,175)
	Number of shares	
	2012	2011
Number of ordinary shares for the purpose of basic profit (loss) per share	540,000,000	540,000,000

The diluted profit per share for the period ended 30 June 2012 and 30 June 2011 are not presented as the exercise of the outstanding share options would result in a decrease in profit per share.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$7,510,000 (2011: HK\$26,950,000) 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 30 June	At 31 December
	2012	2011
	HK\$	HK\$
	(Unaudited)	(Audited)
Within 30 days	47,727,967	41,715,295
31 – 60 days	23,150,581	47,138,515
61 – 90 days	18,164,080	17,406,811
91 – 120 days	16,916,277	14,171,292
121 days – 1 year	18,258,215	10,834,891
over 1 year	2,153	2,539
	124,219,273	131,269,343

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

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

	At 30 June 2012 HK\$ (Unaudited)	At 31 December 2011 HK\$ (Audited)
Within 30 days	43,578,790	32,787,434
31 – 60 days	16,507,156	29,949,478
61 – 90 days	13,174,826	14,644,828
91 – 120 days	3,702,689	3,962,291
121 days – 1 year	157,075	1,029,592
over 1 year	30,758	54,230
	77,151,294	82,427,853

11. BANK BORROWINGS

	At 30 June 2012 HK\$ (Unaudited)	At 31 December 2011 HK\$ (Audited)
Borrowings which are repayable within one year and included in current liabilities:		
Loan from a bank – unsecured	9,508,324	3,783,788
Loans from banks – secured	66,666,319	97,292,372
Trust receipts loans – secured	3,685,515	1,883,963
	79,860,158	102,960,123
Bank borrowings which are repayable after 1 year and included in non-current liabilities:		
After 1 year but within 2 years – unsecured	–	297,643
After 2 years but within 5 years – unsecured	–	–
	79,860,158	103,257,766

12. SHARE CAPITAL

	Number of shares	Share capital HK\$
Authorised:		
At 1 January 2012 and 30 June 2012	2,000,000,000	200,000,000
Issued and fully paid:		
At 1 January 2012 and 30 June 2012	540,000,000	54,000,000

13. CAPITAL COMMITMENTS

	At 30 June 2012 HK\$ (Unaudited)	At 31 December 2011 HK\$ (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment		
– contracted for but not provided in financial statements	10,222,648	3,119,094

14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June 2012 HK\$ (Unaudited)		Three months ended 30 June 2012 HK\$ (Unaudited)	
	2012 HK\$ (Unaudited)	2011 HK\$ (Unaudited)	2012 HK\$ (Unaudited)	2011 HK\$ (Unaudited)
Transactions with an intermediate holding company:				
Interest paid by the Group	451,470	108,000	54,000	54,000
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:				
Sales of good by the Group	–	112,395	–	–
Subcontracting fee paid by the Group	4,127	283,131	–	186,268
Expense in respect of acquisition of equipment	–	6,465,335	–	6,465,335
Expense in respect of leasing equipments	73,987	–	–	–

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2012 (the “period”), the turnover of the Group amounted to approximately HK\$230.35 million, representing an increase of approximately 13.65% as compared to the corresponding period of last year. The gross profit margin for the period increased to approximately 13.81% (the corresponding period of 2011: 9.50%), which was mainly due to the increase in gross profit margin for the sourcing of electronic components and sales of FPC. The profit attributable to the owners of the Company for the period was approximately HK\$5.63 million, while the loss for the corresponding period of last year was approximately HK\$5.51 million. The increase in profit was mainly due to the relatively significant growth in the income of the Group’s FPC business and the increase in its gross profit margin.

The other income of the Group for the six months ended 30 June 2012 amounted to approximately HK\$1.64 million, representing an increase of approximately 149.56% as compared to that of last year. The increase in other income was mainly due to the increase in the government grants for research and development and the release of a development support fund for the construction of factory on the lands owned by the Group in Suzhou from deferred income to other income, as the construction of the factory has been completed and has already commenced operation.

The distribution costs of the Group for the six months ended 30 June 2012 amounted to approximately HK\$4.46 million, representing a decrease of approximately 1.23% as compared to the corresponding period of last year. The decrease in distribution costs was mainly due to the decrease in commission payable to intermediaries following the decrease in sourcing and sales of electronic components.

The administrative expenses of the Group for the six months ended 30 June 2012 amounted to approximately HK\$11.59 million, representing an increase of approximately 19.67% as compared to the corresponding period of last year. The increase in administrative expenses was mainly due to the increase in taxes and business reception expenses.

The research and development expenses of the Group for the six months ended 30 June 2012 amounted to approximately HK\$5.2 million, representing a decrease of approximately 2.88% as compared to the corresponding period of last year. The decrease in research and development expenses was mainly due to the decrease in research and development projects and activities.

The finance costs of the Group for the six months ended 30 June 2012 amounted to approximately HK\$3.32 million, representing an increase of approximately 24.89% as compared to the corresponding period of last year. The increase in finance costs was mainly due to the increase in interest-bearing 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 2012, the turnover of the Group amounted to approximately HK\$230.35 million, representing an increase of approximately 13.65% 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\$194.9 million, HK\$34.69 million and HK\$0.76 million respectively, while the turnover for sales of FPC, sourcing of electronic components and encapsulation of COF during the corresponding period of last year were approximately HK\$98.85 million, HK\$87.35 million and HK\$16.5 million respectively. During the first half of 2012, the profit attributable to the equity holders of the Company amounted to approximately HK\$5.63 million, as compared to the loss of approximately HK\$5.51 million in the corresponding period of last year, which was mainly contributed by significant increase in the sales of FPC.

During the first half of 2012, the sales of FPC, which is the core business of the Group, increased by approximately 97.17% as compared to the corresponding period of last year, while the gross profit margin was approximately 14.27% (the corresponding period of 2011: 14.04%). The turnover for sourcing and sales of electronic components decreased by approximately 60.29% as compared to the corresponding period of last year, while the gross profit margin was approximately 13.18% (the corresponding period of 2011: 7.91%). The gross profit margin of encapsulation of COF module was still unsatisfactory as it was in business expansion period.

During the period under review, as disclosed in the announcement of the Company dated 21 June 2012, since the business of surface mount technology engaged in by Shenzhen Smart Electronics Co. Ltd. ("Shenzhen Smart"), a joint venture of the Group, was in continuous loss, in order to optimize the Group's structure of assets and liabilities, improve the liquidity of assets and focus on the development of its principal businesses, the Company entered into a transfer agreement with an independent third party on 21 June 2012, to transfer the 75% interests owned by the Company in Ever Proven Investments Limited ("Ever Proven"), the 53% interests in Shenzhen Smart indirectly owned by the Company through Ever Proven and a shareholder's loan due from Ever Proven to the Company to the independent third party, and exited the relevant business. As at the date of this report, the Company has duly received the first deposit and the second deposit according to the terms of the transfer agreement.

Outlook

In light of changes in the market competition 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. The Group is now a qualified supplier of a number of globally renowned electronic manufacturers, which demand more complicated techniques to produce their products. During the year, the Group will continue to focus on the following aspects: identifying and developing major international customers, securing more sales orders, elevating the production capacity of the Suzhou new factory, enhancing the stability of production technology for high-end FPC and optimizing the corporate value chain. Internal management will be strengthened and our profitability will be continually uplifted.

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.

The Board of Directors is of the opinion that, with the completion of FPC production bases located at Southern China and Eastern China and the expansion in electronic modules business, the Group will be capable of providing services to large international clients and fulfill their personalized needs. Despite the intense competition in the industry which is also suffering from a decline and the continuous increase in operating costs, the Group is confident that it will be able to achieve scale operation, deliver satisfactory results and offer promising returns to its shareholders in the future to come, through measures including effective market development, strengthening the close cooperative relationship with large international clients and uplifting our internal management standards and business synergies, and strengthening cost control.

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 2012, net current assets were approximately HK\$12.06 million (as at 31 December 2011: net current assets of approximately HK\$0.75 million).

As at 30 June 2012, there were bank balances, cash on hand and bank deposits of approximately HK\$19.44 million (as at 31 December 2011: approximately HK\$41.07 million).

As at 30 June 2012, there were bank borrowings of approximately HK\$79.86 million (as at 31 December 2011: approximately HK\$102.96 million) and bank overdraft of approximately HK\$6.55 million (as at 31 December 2011: approximately HK\$4.07 million).

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2012, bank deposits of approximately HK\$2.35 million (as at 31 December 2011: approximately HK\$27.13 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 2012, land use rights, buildings and machinery with carrying amounts of approximately HK\$19.97 million, HK\$64.14 million and HK\$48.3 million respectively (as at 31 December 2011: approximately HK\$54.18 million, HK\$64.36 million and nil respectively) were pledged to secure the general banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2012, the Group had outstanding capital commitments of approximately HK\$10.22 million (as at 31 December 2011: approximately HK\$3.12 million).

GEARING RATIO

As at 30 June 2012, the gearing ratio (calculated as total liabilities over total assets as at the respective balance sheet dates) of the Group was approximately 56.07% (as at 31 December 2011: approximately 59.01%).

MATERIAL ACQUISITIONS AND DISPOSALS

As disclosed in the announcement of the Company dated 21 June 2012, since the business of surface mount technology engaged in by Shenzhen Smart, a joint venture of the Group, was in continuous loss, in order to optimize the Group's structure of assets and liabilities, improve the liquidity of assets and focus on the development of its principal businesses, the Company entered into a transfer agreement with an independent third party on 21 June 2012, to transfer the 75% interests owned by the Company in Ever Proven, the 53% interests in Shenzhen Smart indirectly owned by the Company through Ever Proven and a shareholder's loan due from Ever Proven to the Company to the independent third party, and exited the relevant business. As at the date of this report, the Company has duly received the first deposit and the second deposit according to the terms of the transfer agreement.

Save as disclosed above, the Group did not have any material acquisitions or disposals during the six months ended 30 June 2012.

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 2012, the Group had a total of 1,477 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

Save as disclosed in this report, the Group has no plans for material investments or capital assets as at 30 June 2012.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2012.

SIGNIFICANT INVESTMENT HELD

The Group did not have any significant investment as at 30 June 2012.

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 30 June 2012, 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 (Note 1)	14,190,000 ordinary shares	Beneficial owner	Long	2.63
Mr. Chai Zhi Qiang (Note 2)	11,500,000 ordinary shares	Beneficial owner	Long	2.13
Ms. Li Ying Hong (Note 3)	2,700,000 ordinary shares	Beneficial owner	Long	0.5

Notes:

1. On 5 April 2012, Mr. Xiong Zheng Feng acquired an aggregate of 12,000,000 ordinary shares in the Company at HK\$0.20 per share. Since 5 April 2012, Mr. Xiong Zheng Feng has been the beneficial owner of 14,190,000 ordinary shares in aggregate in the Company, representing approximately 2.63% of the total issued share capital in the Company.
2. On 5 April 2012, Mr. Chai Zhi Qiang acquired an aggregate of 11,500,000 ordinary shares in the Company at HK\$0.20 per share. Since 5 April 2012, Mr. Chai Zhi Qiang has been the beneficial owner of 11,500,000 ordinary shares in aggregate in the Company, representing approximately 2.13% of the total issued share capital in the Company.
3. On 5 April 2012, Ms. Li Ying Hong acquired an aggregate of 2,700,000 ordinary shares in the Company at HK\$0.20 per share. Since 5 April 2012, Ms. Li Ying Hong has been the beneficial owner of 2,700,000 ordinary shares in aggregate in the Company, representing 0.5% of the total issued share capital in the Company.

(ii) Interest in the underlying shares of the Company through equity derivatives

Name of Director	Class and number of underlying shares held under physically settled equity derivatives	Capacity	Long/short position	Approximate percentage of total issued share capital in the Company	
		(Notes)			
Mr. Xiong Zheng Feng	2,000,000 ordinary shares	1	Beneficial owner	Long	0.37
	2,000,000 ordinary shares	2	Beneficial owner	Long	0.37
Mr. Chai Zhi Qiang	2,800,000 ordinary shares	1	Beneficial owner	Long	0.52
	2,000,000 ordinary shares	2	Beneficial owner	Long	0.37
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 3.37% of the total issued share capital in the Company, such interest comprises his interests in 14,190,000 issued shares of the Company and 4,000,000 underlying shares held under equity derivatives.
4. Mr. Chai Zhi Qiang has been, in aggregate, interested in approximately 3.02% of the total issued share capital in the Company since 5 April 2012, such interest comprises his interests in 11,500,000 issued shares of the Company and 4,800,000 underlying shares held under equity derivatives.
5. Ms. Li Ying Hong has been, in aggregate, interested in approximately 0.98% of the total issued share capital in the Company since 5 April 2012, such interest comprises her interests in 2,700,000 issued shares of the Company and 2,600,000 underlying shares held under equity derivatives.
6. None of 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 2012, 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 2012, 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 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

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 which Silver City is deemed to be interested under Part XV of the SFO.
3. None of Alpha Luck, Silver City nor CNIC 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 1.1.2012	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2012
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	3,000,000	-	-	3,000,000
Total				8,400,000	-	-	8,400,000

Notes:

1. All dates are shown in the sequence of day. month. year.
2. 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 1.1.2012	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2012
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	9,200,000	-	-	9,200,000
Total				18,400,000	-	-	18,400,000

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 2012, the Company complied with the code provisions set out in the Code of Corporate Governance 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 2012.

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 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. 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 six months ended 30 June 2012.

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

9 August 2012, Hong Kong