



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
2012**

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This report, for which the directors (the “Directors”) of AKM Industrial Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- For the three months ended 30 September 2012, the unaudited turnover increased to approximately HK\$194.74 million, representing an increase of approximately 71.8% as compared to the corresponding period of last year. The profit attributable to the owners of the Company amounted to approximately HK\$17.07 million, while the profit for the corresponding period of last year was approximately HK\$4.24 million, representing an increase of approximately 302.6%.
- For the nine months ended 30 September 2012, the unaudited turnover increased to approximately HK\$425.09 million, representing an increase of approximately 40.47% as compared to the corresponding period of last year. The profit attributable to the owners of the Company amounted to approximately HK\$22.70 million, while the loss for the corresponding period of last year was approximately HK\$1.27 million.
- Earnings per share of the Group was approximately HK4.20 cents for the nine months ended 30 September 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 nine months ended 30 September 2012 together with the comparative unaudited figures (including the original and restated 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 2012 and 30 September 2011

	Notes	Nine months ended 30 September			Three months ended 30 September		
		2012 HK\$	2011 HK\$	2011 HK\$	2012 HK\$	2011 HK\$	2011 HK\$
		(Unaudited)	Original (Unaudited)	Restated (Unaudited)	(Unaudited)	Original (Unaudited)	Restated (Unaudited)
Turnover	2	425,091,667	319,737,701	302,617,870	194,740,740	117,046,585	113,340,193
Cost of sales		(359,857,110)	(284,118,941)	(266,999,110)	(161,321,367)	(100,676,511)	(96,970,119)
Gross profit		65,234,557	35,618,760	35,618,760	33,419,373	16,370,074	16,370,074
Other income		2,172,930	1,551,708	1,551,708	535,756	895,683	895,683
Distribution costs		(7,843,415)	(6,775,664)	(6,775,664)	(3,387,484)	(2,264,100)	(2,264,100)
Administrative expenses		(19,082,893)	(15,711,754)	(15,711,754)	(7,495,413)	(6,029,240)	(6,029,240)
Research and development expenses		(8,581,352)	(8,027,532)	(8,027,532)	(3,384,207)	(2,676,247)	(2,676,247)
Share of result of a jointly controlled entity		(3,301,074)	(3,406,344)	(3,406,344)	–	(771,703)	(771,703)
Gain on disposal of a subsidiary	3	172,587	–	–	172,587	–	–
Finance costs		(5,139,890)	(4,163,285)	(4,163,285)	(1,818,155)	(1,503,530)	(1,503,530)
Profit (loss) before taxation		23,631,450	(914,111)	(914,111)	18,042,457	4,020,937	4,020,937
Taxation	4	(1,255,984)	(530,700)	(530,700)	(647,973)	25,815	25,815
Profit (loss) for the period		22,375,466	(1,444,811)	(1,444,811)	17,394,484	4,046,752	4,046,752
Other comprehensive (expenses) income:							
Exchange differences arising on translation		(2,766,469)	8,093,052	8,093,052	307,253	3,326,217	3,326,217
Total comprehensive income for the period		19,608,997	6,648,241	6,648,241	17,701,737	7,372,969	7,372,969
Profit (loss) for the period attributable to:							
Owners of the Company		22,698,201	(1,269,207)	(1,269,207)	17,070,125	4,236,968	4,236,968
Non-controlling interests		(322,735)	(175,604)	(175,604)	324,359	(190,216)	(190,216)
		22,375,466	(1,444,811)	(1,444,811)	17,394,484	4,046,752	4,046,752
Total comprehensive income (expenses) attributable to:							
Owners of the Company		21,002,086	6,572,776	6,572,776	18,405,260	7,504,824	7,504,824
Non-controlling interests		(1,393,089)	75,465	75,465	(703,523)	(131,855)	(131,855)
		19,608,997	6,648,241	6,648,241	17,701,737	7,372,969	7,372,969
Earnings per share	6						
Basic		4.20 cents	(0.24) cents	(0.24) cents	3.16 cents	0.78 cents	0.78 cents

Condensed Consolidated Statement of Changes in Equity

For the nine months ended 30 September 2012 and 30 September 2011

	Attributable to owners of the Company							
	Share	Share	Translation	Share	Retained	Non-		
	Capital	Premium	Reserve	options	Profits	Total	controlling	Total
	HK\$	HK\$	HK\$	reserve	HK\$	HK\$	Interests	HK\$
(Unaudited)	(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	-	-	(287,801)	-	-	(287,801)	-	(287,801)
Disposal of a subsidiary	-	-	(3,927,997)	-	2,519,683	(1,408,314)	(1,070,354)	(2,478,668)
Profit (loss) for the period	-	-	-	-	22,698,201	22,698,201	(322,735)	22,375,466
Total comprehensive (expenses) income for the period	-	-	(4,215,798)	-	25,217,884	21,002,086	(1,393,089)	19,608,997
At 30 September 2012	54,000,000	53,868,328	57,631,902	2,475,075	60,145,004	228,120,309	1,932,648	230,052,957
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	-	-	7,841,983	-	-	7,841,983	251,069	8,093,052
Loss 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

Notes to the Condensed Consolidated Statement of Comprehensive Income

For the nine months ended 30 September 2012

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 2011.

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 | – | COF modules business |

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		
	2012	2011	2011	2012	2011	2012	2011	2012	2011	2011
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	Original	Restated
	(Unaudited)	Original (Unaudited)	Restated (Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
FPC business	360,255,340	189,535,269	189,535,269	109,192,817	-	(109,192,817)	-	39,876,485	17,156,654	17,156,654
Sourcing and sale of electronic components	63,336,173	109,354,104	109,354,104	40,816,550	22,672,782	(40,816,550)	(22,672,782)	5,405,954	6,006,731	6,006,731
COF modules business	1,500,154	20,848,328	1,302,717	24,838	-	(24,838)	-	(964,454)	(1,970,222)	(1,164,012)
LCM business (Note 1)	-	-	2,425,780	-	-	-	-	-	-	(806,210)
Total	425,091,667	319,737,701	302,617,870	150,034,205	22,672,782	(150,034,205)	(22,672,782)	44,317,985	21,193,163	21,193,163
Interest income								273,750	230,744	230,744
Share of result of a jointly controlled entity								(3,301,074)	(3,406,344)	(3,406,344)
Gain on disposal of a subsidiary								172,587	-	-
Unallocated corporate expenses								(12,691,908)	(14,768,389)	(14,768,389)
Finance costs								(5,139,890)	(4,163,285)	(4,163,285)
Profit (loss) before taxation								23,631,450	(914,111)	(914,111)

Three months ended 30 September

	Segment revenue			Inter-segment sales		Eliminations		Segment results		
	2012	2011	2011	2012	2011	2012	2011	2012	2011	2011
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	Original	Restated
	(Unaudited)	Original (Unaudited)	Restated (Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
FPC business	165,353,324	90,685,471	90,685,471	338,911	-	(338,911)	-	23,517,929	10,062,970	10,062,970
Sourcing and sale of electronic components	28,647,611	22,008,240	22,008,241	15,976,480	5,909,092	(15,976,480)	(5,909,092)	1,984,438	2,146,468	2,146,468
COF modules business	739,805	4,352,874	646,481	131	-	(131)	-	(258,613)	(360,363)	(360,363)
Total	194,740,740	117,046,585	113,340,193	16,315,522	5,909,092	(16,315,522)	(5,909,092)	25,243,754	11,849,075	11,849,075
Interest income								28,985	47,564	47,564
Share of result of a jointly controlled entity								-	(771,703)	(771,703)
Gain on disposal of a subsidiary								172,587	-	-
Unallocated corporate expenses								(5,584,714)	(5,600,469)	(5,600,469)
Finance costs								(1,818,155)	(1,503,530)	(1,503,530)
Profit before taxation								18,042,457	4,020,937	4,020,937

Notes:

- (1) The LCM business was a business engaged in the manufacture and sales of electronic modules for liquid crystal display modules, which was discontinued in the first quarter of 2011. The segment revenues and results of LCM business for the nine months ended 30 September 2011, for the six months ended 30 June 2011 and for the three months ended 31 March 2011 had not been individually reported in the third quarterly results of 2011, interim results of 2011 and first quarterly results of 2011 as an individual segment revenues and results of the Group. During these periods, the revenues and results of the LCM business were accounted in the segment revenues and results of the COF business as the LCM business and the COF business shared substantially similar production technology and the LCM business had been discontinued by the Group in the first quarter of 2011. The relatively minimal revenue and results of the LCM business were mainly accrued during these periods from the account receivables for transitional period after discontinuation and the disposal of its inventories.
- (2) As mentioned in the further clarification announcement dated 31 August 2012, the recognition criteria for the revenue of COF modules business had been adjusted (the "Criteria Adjustment"), and therefore the segment revenue of the corresponding period of last year was restated as per the Criteria Adjustment.

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

	Turnover			Turnover		
	Nine months ended 30 September			Three months ended 30 September		
	2012	2011		2012	2011	
HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
		Original	Restated		Original	Restated
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC (other than Hong Kong)	280,748,757	216,731,233	213,780,277	122,048,356	74,706,914	75,459,463
Hong Kong	92,485,667	85,337,354	71,168,479	35,024,420	40,263,206	35,804,265
Others	51,857,243	17,669,114	17,669,114	37,667,964	2,076,465	2,076,465
Total	425,091,667	319,737,701	302,617,870	194,740,740	117,046,585	113,340,193

Note: the segment revenue of the corresponding period of last year was restated as per the Criteria Adjustment as mentioned in the further clarification announcement dated 31 August 2012.

3. Disposal of a subsidiary

The Group entered into a transfer agreement (“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”), which in turn holds 53% interests in Shenzhen Smart and a shareholder’s loan due from Ever Proven to the Company to the independent third party. By the disposal of the subsidiary, the Group exited from the relevant business of surface mount technology service. Details of the disposal were disclosed in the announcement of the Company dated 21 June 2012. During the period under review, the Company had duly received the first deposit and the second deposit according to the terms of the Transfer Agreement.

During the period, the Group disposed the said subsidiary and details of the disposal are as follows:

	<i>HK\$</i>
NET ASSETS DISPOSED OF	
Interest in a jointly controlled entity	14,941,844
Amount due from a jointly controlled entity	843,141
Bank balance	14,547
Amount due to a fellow subsidiary	(860,000)
Loan from a non-controlling shareholder of a subsidiary	(2,247,500)
Amount due to a fellow subsidiary	(6,742,500)
	5,949,532
Less: Non-controlling interest	(1,070,354)
	4,879,178
Assignment of amount due to a fellow subsidiary	6,742,500
Gain on disposal	172,587
	11,794,265
Net cash inflow arising on disposal	
Cash consideration received	3,040,957
Consideration receivable	8,753,308
Less: Bank balance disposed of	(14,547)
	11,779,718

Note: The consideration stipulated in the Transfer Agreement was HK\$12,139,802 which had been subsequently adjusted to HK\$11,794,265 according to the terms of the Transfer Agreement.

4. TAXATION

	Nine months ended 30 September		Three months ended 30 September	
	2012 HK\$ (Unaudited)	2011 HK\$ (Unaudited)	2012 HK\$ (Unaudited)	2011 HK\$ (Unaudited)
Current tax:				
Hong Kong Profits Tax	576,149	586,718	356,511	56,101
PRC Enterprise Income Tax	1,009,942	214,396	291,462	5,794
	1,586,091	801,114	647,973	61,895
Deferred tax:				
Current period	(330,107)	(270,414)	–	(87,710)
	1,255,984	530,700	647,973	(25,815)

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 and AKM Electronics Technology (Suzhou) Co., Ltd. are exempted from PRC enterprise income tax for two years commenced from 1 January 2008, followed by a 50% reduction for the next three years.

5. DIVIDEND

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

6. EARNINGS PER SHARE

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

	2012	2011
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic earnings per share (earnings (loss) for the period attributable to owners of the Company)	22,698,201	(1,269,207)
	Number of shares	
	2012	2011
Number of ordinary shares for the purpose of basic earnings (loss) per share	540,000,000	540,000,000

No diluted earnings per share has been presented for the period ended 30 September 2012 and 30 September 2011 as the respective exercise prices of the outstanding options were higher than the average market price of the shares of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the nine months ended 30 September 2012 (the "period"), the turnover of the Group amounted to approximately HK\$425.09 million, representing an increase of approximately 40.47% as compared to the corresponding period of last year, which was mainly due to the increases in sales of FPC. The gross profit for the period increased to approximately 15.35% (the corresponding period of 2011:11.77%), which was mainly due to the increase in gross profit margin for the sales of FPC, the sourcing and sale of electronic components and the encapsulation of COF modules. The profit attributable to the owners of the company for the period was approximately HK\$22.70 million, while the loss for the corresponding period of last year was approximately HK\$1.27 million. The increase in profit for the period was mainly due to the substantial increases in the sales and gross profit for the FPC business, which is the core business of the Group. Further, the disposal of a loss making non-core business as disclosed in an announcement of the Company dated 21 June 2012 also enhanced the profitability of the Group.

Other income of the Group for the nine months ended 30 September 2012 amounted to approximately HK\$2.17 million, representing an increase of approximately 40% as compared to the corresponding period 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 nine months ended 30 September 2012 was approximately HK\$7.84 million, representing an increase in approximately 15.76% as compared to the corresponding period of last year. The increase in distribution cost was mainly due to the increase in sales scale and the corresponding increase in transportation costs, custom clearance fees, labor costs and entertainment expense.

The administrative expenses of the Group for the nine months ended 30 September 2012 was approximately HK\$19.08 million, representing an increase of 21.46% as compared to the corresponding period of last year. The increase in administrative expense was mainly due to the increase in taxes resulting from higher sales revenue and the increase in payrolls and social security expenses resulting from the rise in standard wages.

The research and development expense of the Group for the nine months ended 30 September 2012 was approximately HK\$8.58 million, representing an increase in approximately 6.90% as compared to the corresponding period of last year. The increase in research and development expense 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 2012 amounted to approximately HK\$5.14 million, representing an increase of approximately 23.46% as compared to the corresponding period of last year. The increase in finance costs was mainly due to the higher interest-bearing 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.

For the nine months ended 30 September 2012, the turnover of the Group amounted to approximately HK\$425.09 million, representing an increase of approximately 40.47% 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\$360.26 million, HK\$63.34 million, and HK\$1.50 million respectively. The turnover for sales of FPC, sourcing and sale of electronic components during the corresponding period of last year was approximately HK\$189.54 million and HK\$109.35 million respectively. For the nine months ended 30 September 2012, the profit attributable to the owners of the Company was approximately HK\$22.70 million, representing an increase in profit of approximately HK\$23.97 million as compared to the corresponding period of last year. The increase in profit was mainly attributed to the significant increase in sales and gross profit of of FPC, being the Group's core business, and the disposal of a loss making non-core business as disclosed in an announcement of the Company dated 21 June 2012 also enhanced the Group's profitability.

During the nine months ended 30 September 2012, the turnover for sales of FPC of the Group increased by approximately 90.07% as compared to the corresponding period of last year, and its gross profit margin increased to approximately 16.09% (the corresponding period of 2011: approximately 14.93%). The turnover for sourcing and sale of electronic components decreased by approximately 42.08% as compared to the corresponding period of last year, and its gross profit margin was approximately 12.75% (the corresponding period of 2011: approximately 8.25%). The business of encapsulation of COF module was still in the business expansion period, but its processing fee income increased by approximately 15.16% as compared to the corresponding period of last year.

In July 2012, the Group established a branch company in Korea, with aims to enhance the expansion of Korea market, to provide localised and efficient services for Korean customers, to establish close cooperation relationship with Korean customers at the research and development stage of new projects and to increase the Group's sales to customers in Korea.

During the period under review, as disclosed in the Company's announcement dated 21 June 2012, given that Shenzhen Smart Electronic Co., Ltd ("Shenzhen Smart") (a joint venture of the Group) suffered continuous loss in the business of surface mount technology, in order to optimize the structure of assets and liabilities of the Group, improve liquidity of assets, and focus on the development of the principal business, the Group entered into the 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"), which in turn holds 53% equity interest in Shenzhen Smart and a shareholder's loan due from Ever Proven to the Company to the independent third party. By the disposal of the subsidiary, the Group exited from the relevant business of surface mount technology service. During the period under review, the Company had duly received the first deposit and the second deposit according to the terms of the Transfer Agreement.

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 plans to start constructing the Phase II production plant in Suzhou by the end of this year, in order to meet the future need for capacity expansion of FPC and development of flexible IC carrier project.

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 drastic changes of the economic environment in China and the World, the intense competition in the industry and the continuous increase in labor costs, finance costs and other operating costs in the PRC, the Group is confident that it will be able to achieve scale operation and bring favorable 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 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 or 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

Note:

- On 5 April 2012, Mr. Xiong Zheng Feng acquired an aggregate of 12,000,000 ordinary shares of the Company at HK\$0.20 per share. Since 5 April 2012, Mr. Xiong Zheng Feng was the beneficial owner of an aggregate of 14,190,000 ordinary shares of the Company, representing approximately 2.63% of the total issued share capital of the Company.
- On 5 April 2012, Mr. Chai Zhi Qiang acquired an aggregate of 11,500,000 ordinary shares of the Company at HK\$0.20 per share. Since 5 April 2012, Mr. Chai Zhi Qiang was the beneficial owner of an aggregate of 11,500,000 ordinary shares of the Company, representing approximately 2.13% of the total issued share capital of the Company.
- On 5 April 2012, Ms. Li Ying Hong acquired an aggregate of 2,700,000 ordinary shares of the Company at HK\$0.20 per share. Since 5 April 2012, Ms. Li Ying Hong was the beneficial owner of an aggregate of 2,700,000 ordinary shares of the Company, representing 0.5% of the total issued share capital of 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	(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 and 6	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:

- 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 is, 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 is, in aggregate, interested in approximately 0.98% of the total issued share capital in the Company since 5 April 2012, such interest comprises his interests in 2,700,000 issued shares of the Company and 2,600,000 underlying shares held under equity derivatives.
6. Mr. Han Li Gang resigned as a non-executive Director of the Company on 2 November 2012 and the 1,600,000 share options of the Company held by him also lapsed at the same day.
7. None of Mr. Han Li Gang, Mr. Liang Zhi Li or 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 September 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 any interests or 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 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 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 ("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 of the Company which Silver City is deemed to be interested under Part XV of the SFO.
3. None of Alpha Luck, Silver City and CNIC is interested in any securities of the Company under equity derivatives.

CORPORATE GOVERNANCE

Throughout the nine months ended 30 September 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 nine months ended 30 September 2012.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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 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 comprised 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 2012.

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

8 November 2012, Hong Kong