



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

3rd Quarterly Report

2013



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.



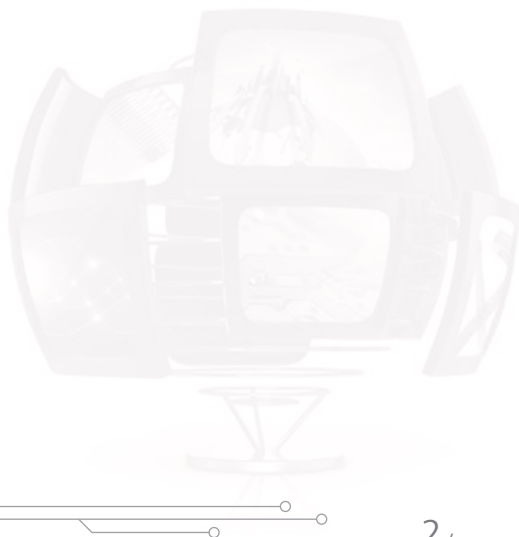
HIGHLIGHTS

- For the nine months ended 30 September 2013, the unaudited turnover increased to approximately HK\$463.66 million, representing an increase of approximately 9.07% as compared to the corresponding period of last year. The profit attributable to the owners of the Company amounted to approximately HK\$21.2 million, representing a decrease of approximately 6.58% as compared to the profit of approximately HK\$22.7 million for the corresponding period of last year.
- Basic and diluted earnings per share of the Group was approximately HK3.89 cents for the nine months ended 30 September 2013.

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 2013 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 2013 and 30 September 2012

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Turnover	2	463,655	425,092	192,105	194,741
Cost of sales		(396,971)	(359,857)	(162,101)	(161,321)
Gross profit		66,684	65,235	30,004	33,420
Other income		3,830	2,173	1,381	536
Distribution costs		(7,992)	(7,844)	(3,161)	(3,388)
Administrative expenses		(19,469)	(19,083)	(7,872)	(7,496)
Research and development expenses		(16,141)	(8,581)	(5,061)	(3,384)
Share of result of a jointly controlled entity		–	(3,301)	–	–
Gain on disposal of a subsidiary		–	173	–	173
Finance costs		(4,167)	(5,141)	(1,655)	(1,819)
Profit before taxation		22,745	23,631	13,636	18,042
Taxation	3	(775)	(1,256)	(364)	(648)
Profit for the period		21,970	22,375	13,272	17,394
Other comprehensive income (expenses):					
Exchange differences arising on translation of foreign operations		5,580	(2,766)	1,070	308
Total comprehensive income for the period		27,550	19,609	14,342	17,702
Profit (loss) for the period attributable to:					
Owners of the Company		21,204	22,698	12,926	17,070
Minority interests		766	(323)	346	324
		21,970	22,375	13,272	17,394
Comprehensive income (expenses) attributable to:					
Owners of the Company		26,784	21,002	13,996	18,405
Minority interests		766	(1,393)	346	(703)
		27,550	19,609	14,342	17,702
Earnings per share (HK cents)					
Basic	5	3.89	4.20	2.35	3.16
Diluted		3.89	N/A	2.35	N/A

Condensed Consolidated Statement of Changes in Equity*For the nine months ended 30 September 2013 and 30 September 2012*

	Attributable to owners of the Company							
	Share capital	Share premium	Translation reserve	Share options reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2013	54,000	53,868	59,934	2,318	71,382	241,502	2,224	243,726
Exchange differences arising on translation of foreign operations	-	-	5,580	-	-	5,580	-	5,580
Profit for the period	-	-	-	-	21,204	21,204	766	21,970
Total comprehensive income for the period	-	-	5,580	-	21,204	26,784	766	27,550
Share options exercised and lapsed	990	2,574	-	(1,048)	970	3,486	-	3,486
Paid dividends	-	-	-	-	(5,499)	(5,499)	-	(5,499)
At 30 September 2013	54,990	56,442	65,514	1,270	88,057	266,273	2,990	269,263
At 1 January 2012	54,000	53,868	61,848	2,475	34,927	207,118	3,326	210,444
Exchange differences arising on translation of foreign operations	-	-	(288)	-	-	(288)	-	(288)
Disposal of a subsidiary	-	-	(3,928)	-	2,520	(1,408)	(1,070)	(2,478)
Profit (loss) for the period	-	-	-	-	22,698	22,698	(323)	22,375
Total comprehensive (expenses) income for the period	-	-	(4,216)	-	25,218	21,002	(1,393)	19,609
At 30 September 2012	54,000	53,868	57,632	2,475	60,145	228,120	1,933	230,053



Notes to the Condensed Consolidated Statement of Comprehensive Income

For the nine months ended 30 September 2013

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 2012.

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 FPC, sourcing and sale of electronic components and sale of flexible packaging substrates (including the 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) the manufacture and sale of flexible packaging substrates (including the encapsulation of COF modules). These divisions are the basis on which the Group reports its segment information.



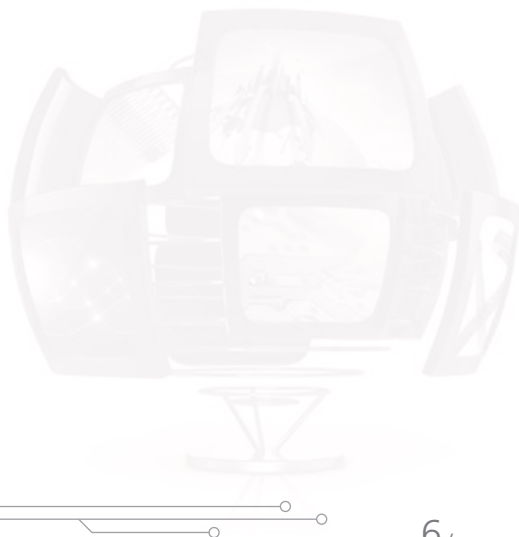
Principal activities are as follows:

FPC business	–	the manufacture and sale of FPC
Sourcing and sale of electronic components business	–	sourcing and sale of electronic components
Flexible packaging substrates business (<i>Note</i>)	–	the manufacture and sale of flexible packaging substrates (including the encapsulation of COF modules)

Note: The flexible packaging substrates business includes (i) encapsulation of COF modules; (ii) COF films; and (iii) flexible integrated circuits and module packaging substrates. Since the first quarter of 2013, orders for other flexible packaging substrates, including COF films and flexible integrated circuits and module packaging substrates were received by the Group. As such new products of the Group adopt similar production technology and share substantially same production lines with the encapsulation of COF modules, the encapsulation of COF modules, COF films and flexible integrated circuits and module packaging substrates are regarded as same series of products of the Group and are therefore re-named as a segment of “flexible packaging substrates” to include the original business of encapsulation of COF modules and to reflect the expansion of new product lines accordingly.

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	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
FPC business	384,428	360,256	85,887	109,193	(85,887)	(109,193)	28,846	39,876
Sourcing and sale of electronic components business	67,629	63,336	48,074	40,817	(48,074)	(40,817)	5,591	5,406
Flexible packaging substrates business	11,598	1,500	-	25	-	(25)	4,501	(964)
Total	463,655	425,092	133,961	150,035	(133,961)	(150,035)	38,938	44,318
Interest income							89	274
Share of result of								
a jointly controlled entity							-	(3,301)
Gain on disposal of a subsidiary							-	173
Unallocated corporate expenses							(12,115)	(12,692)
Finance costs							(4,167)	(5,141)
Profit before taxation							22,745	23,631

Three months ended 30 September

	Segment revenue		Inter-segment sales		Eliminations		Segment results	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
FPC business	163,324	165,353	1,002	339	(1,002)	(339)	15,838	23,517
Sourcing and sale of electronic components business	23,516	28,648	22,334	15,977	(22,334)	(15,977)	2,511	1,984
Flexible packaging substrates business	5,265	740	-	-	-	-	1,215	(258)
Total	192,105	194,741	23,336	16,316	(23,336)	(16,316)	19,564	25,243
Interest income							25	29
Share of result of								
a jointly controlled entity							-	-
Gain on disposal of a subsidiary							-	173
Unallocated corporate (expenses) income							(4,298)	(5,584)
Finance costs							(1,655)	(1,819)
Profit before taxation							13,636	18,042

(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		Turnover	
	Nine months ended		Three months ended	
	30 September		30 September	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC (other than Hong Kong)	320,629	280,749	124,221	122,048
Hong Kong	75,926	92,486	41,125	35,025
Others	67,100	51,857	26,759	37,668
Total	463,655	425,092	192,105	194,741

3. TAXATION

	Nine months ended		Three months ended	
	30 September		30 September	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
Hong Kong Profits Tax	516	576	283	356
PRC Enterprise Income Tax	259	1,010	81	292
	775	1,586	364	648
Deferred tax:				
Current period	-	(330)	-	-
	775	1,256	364	648

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 "Income Tax Law") and Implementation Regulation of the Income Tax Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to a notification announced by the relevant government authorities on 27 April 2013, AKM Electronics Industrial (Panyu) Ltd. ("AKM Panyu") has been recognised as a Foreign Advanced-Technology Enterprise, pursuant to which AKM Panyu will be entitled to a tax reduction from 25% to 15% for the period commenced from 1 January 2012 and expiring on 31 December 2014. Since the assessable profit of AKM Panyu for the year ended 31 December 2012 was fully offset with the unused tax loss brought forward in prior years, no overprovision in PRC Enterprise Income Tax is required and the financial figures reported by the Company for the year ended 31 December 2012 remained unchanged.

According to the relevant laws and regulations of the PRC, the 50% reduction of enterprise income tax enjoyed by AKM Electronic Technology (Suzhou) Company Limited ("AKM Suzhou") expired on 31 December 2012.

4. DIVIDEND

The Directors do not recommend payment of an interim dividend for the nine months ended 30 September 2013 (2012: Nil).



5. EARNINGS PER SHARE

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

	Nine months ended 30 September	
	2013 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)
Earnings for the purpose of basic and diluted earnings per share (earnings for the period attributable to owners of the Company)	21,204	22,698
	Number of shares	
	2013	2012
Weighted average number of ordinary shares for the purpose of basic earnings per share	544,714,286	540,000,000
Effect of dilutive potential ordinary shares from share options	439,040	N/A
Number of ordinary shares for the purpose of diluted earnings per share	545,153,326	N/A

On 23 May 2013, an aggregate of 9,900,000 shares of the Company were issued by the Company pursuant to the exercise of share options by certain optionholders of the Company. The number of issued and fully paid-up shares of the Company is therefore increased from 540,000,000 shares to 549,900,000 shares, and the weighted ordinary shares for the period under review also increased by 4,714,286 shares to 544,714,286 shares, thus earnings per share was adjusted accordingly.

No diluted earnings per share for the period ended 30 September 2012 has been presented as the exercise prices of the outstanding share 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 2013 (the “period”), the turnover of the Group amounted to approximately HK\$463.66 million, representing an increase of approximately 9.07% as compared to the corresponding period of last year. The increase in turnover was mainly due to the increase in the sales of FPC, sourcing and sales of electronic components and the flexible packaging substrates businesses. The gross profit margin for the period decreased to approximately 14.12% (the corresponding period of 2012: 15.35%), which was mainly due to the decrease in the gross profit margin for the sales of FPC. The profit attributable to the owners of the Company for the period was approximately HK\$21.2 million, while the profit for the corresponding period of last year was approximately HK\$22.7 million. The decrease in profit for the period was mainly due to the increase in wage costs and the decrease in the gross profit margin for FPC business of the Group resulted from the increase in minimum wage standard as required by the local governments in Mainland China.

Other income of the Group for the nine months ended 30 September 2013 amounted to approximately HK\$3.83 million, representing an increase of approximately 76.25% as compared to the corresponding period of last year. The increase in other income was mainly due to the release of part of government grants for research and development from deferred income to other income following the progress of the relevant research and development projects.

The distribution costs of the Group for the nine months ended 30 September 2013 amounted to approximately HK\$7.99 million, representing an increase of approximately 1.89% as compared to the corresponding period of last year. The increase in distribution costs was mainly due to the corresponding increase in freight charges, customs clearing charges, labour costs and hospitality charges following the increase in sales volume.

The administrative expenses of the Group for the nine months ended 30 September 2013 amounted to approximately HK\$19.47 million, representing an increase of 2.02% as compared to the corresponding period of last year. The increase in administrative expenses was mainly due to the increase in wages and social insurance expenses resulted from the increase in the minimum wage standard in Mainland China.

The research and development expenses of the Group for the nine months ended 30 September 2013 amounted to approximately HK\$16.14 million, representing an increase of approximately 88.1% as compared to the corresponding period of last year. The increase in research and development expenses was mainly due to the increase in R&D projects and activities, especially for those related to the flexible packaging substrates business.

The finance costs of the Group for the nine months ended 30 September 2013 amounted to approximately HK\$4.17 million, representing a decrease of approximately 18.95% as compared to the corresponding period of last year. The decrease in finance costs was mainly due to the decrease in interest rates of 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 and consumer electronic products such as mobile phones, LCD modules, car electronics and cameras. The Group is also engaged in sourcing and sale of electronic components and the manufacture and sale of flexible packaging substrates business (including both of the original business of the encapsulation of COF modules and the new product lines of COF films and flexible integrated circuits and module packaging substrates).

For the nine months ended 30 September 2013, the turnover of the Group amounted to approximately HK\$463.66 million, representing an increase of approximately 9.07% as compared to the corresponding period of last year. During the period, the turnover from the sales of FPC, sourcing and sales of electronic components and the sale of flexible packaging substrates (including both of the original business of the encapsulation of COF modules and the new product lines of COF films and flexible integrated circuits and module packaging substrates) were approximately HK\$384.43 million, HK\$67.63 million and HK\$11.60 million respectively. The turnover from the sales of FPC, sourcing and sales of electronic components and the original business of the encapsulation of COF modules during the corresponding period of last year were approximately HK\$360.26 million, HK\$63.34 million and HK\$1.5 million respectively. For the nine months ended 30 September 2013, the profit attributable to the owners of the Company amounted to approximately HK\$21.2 million, representing a decrease of approximately 6.58% as compared to the corresponding period of last year. The decrease in profit for the period was mainly due to the increase in wage costs and the decrease in the gross profit margin for FPC business resulted from the increase in minimum wage standard required by the local governments in Mainland China.

For the nine months ended 30 September 2013, the turnover of the Group from sales of FPC increased by approximately 6.71% as compared to the corresponding period of last year, and its gross profit margin decreased to approximately 14.12% (the corresponding period of 2012: approximately 16.09%). The turnover from sourcing and sales of electronic components increased by approximately 6.78% as compared to the corresponding period of last year, while its gross profit margin decreased to approximately 8.54% (the corresponding period of 2012: approximately 12.75%). Since the first quarter of 2013, orders for other flexible packaging substrates, including COF films and flexible integrated circuits and module packaging substrates were received by the Group. As such new products of the Group adopt similar production technology and share substantially same production lines with the encapsulation of COF modules, the encapsulation of COF modules, COF films and flexible integrated circuits and module packaging substrates are regarded as same series of products of the Group and are therefore re-named as a segment of “flexible packaging substrates” to include the original business of encapsulation of COF modules and to reflect the expansion of new product lines accordingly. For the nine months ended 30 September 2013, income from the flexible packaging substrates business (including both of the income from the original business of encapsulation of COF modules and the income from the new product lines of COF films and flexible integrated circuits and module packaging substrates) increased by approximately 673% as compared to the corresponding period of last year of approximately HK\$1.5 million (which represented the income from the original business of encapsulation of COF modules only) due to its apparent outcome of market expansion, and the gross profit margin of the flexible packaging substrates business (taken into account of all of the above-mentioned original business and new product lines) increased to approximately 57.09%, while the gross loss margin for the above-mentioned original business for the corresponding period of 2012 was approximately 53.68%.

During the period under review, the turnover of the Group recorded an increase of approximately 9.07% as compared to the corresponding period of last year, and the gross profit margin of the sale of FPC decreased under the pressure of costs and expenses, while the gross profit margin of sourcing and sales of electronic components decreased more significantly due to intense competition, but both of the turnover and gross profit margin from the flexible packaging substrates (including both of the original business of the encapsulation of COF modules and the new product lines of COF films and flexible integrated circuits and module packaging substrates) significantly increased due to its apparent outcome of market expansion.

The structural construction of phase II of the Suzhou Factory of the Group has been completed at the end of the second quarter and is in the process of indoor and outdoor decoration. The outdoor decoration of the factory is expected to be completed by the end of this year. Barring unforeseen circumstances, phase II of the Suzhou Factory will commence production in coming year.

Outlook

The Group is dedicated to strengthening its core competence and achieving its profit goal, thereby creating greater value for its shareholders, staff as well as the community. It is the Group's mission to become a major international supplier of FPC and electronic modules and develop into an industry leader in the PRC market.

In light of intensifying market competition and increasing differentiation level of FPC products and the adjustment to the Group's competition strategies, the Group has shifted its focus to serve large international clients by offering them the high-density interconnect FPC, rigid-flex FPC and flexible packaging substrates products. At present, the Group has become a qualified supplier for various global leading electronic manufacturers. During the year, the Group will continue to focus on the following aspects: identifying and developing major international customers, securing more sales orders, developing the high-value-added businesses relating to the high-density interconnect FPC and the flexible packaging substrates, further expanding the production capacity of its Nansha Factory and Suzhou Factory and improving their automation level, enhancing the stability in the production of high-end FPC and further optimizing the corporate value chain. Internal management and competitiveness will be continuously strengthened and our profitability is expected to be gradually uplifted. Currently, such targets have achieved positive progresses.

The Board of Directors is of the opinion that, with its continuous investment in the FPC industry for the expansion of production capacity and the business of electronic components, the Group has become capable of serving large international clients and fulfilling "one-stop service" and personalized needs from our clients. Despite the increasing competition in the industry, frequent emergence of new products, increasing product differentiation level as well as the rapid increase in labour costs and increasing pressure in other operating expenses in Mainland China, the Group is confident that it will be able to achieve sustainable growth and better economic benefit and bring satisfactory results and promising return to its shareholders in future, through enhancing its close cooperation relationship with large international clients, effective market development, increasing its R&D investment, development of new high-end products and improving its internal management.

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 30 September 2013, none of the Directors and the chief executive and their respective associates had or was deemed to have any interest or short position 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"):

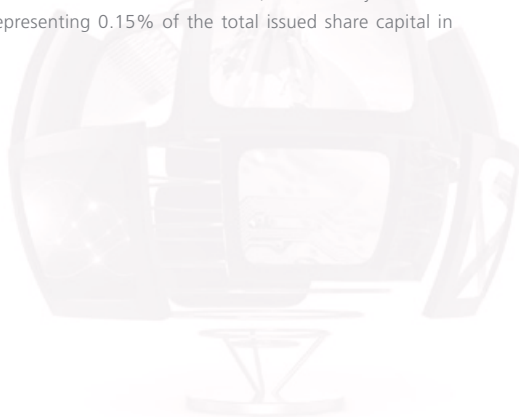
(a) The Company

(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)	16,750,000 ordinary shares	Beneficial owner	Long	3.05
Mr. Chai Zhi Qiang (Note 2)	13,500,000 ordinary shares	Beneficial owner	Long	2.45
Ms. Li Ying Hong (Note 3)	4,700,000 ordinary shares	Beneficial owner	Long	0.85
Mr. Liang Zhi Li (Note 4)	800,000 ordinary shares	Beneficial owner	Long	0.15

Notes:

1. On 23 May 2013, an aggregate of 2,000,000 ordinary shares were issued to Mr. Xiong Zheng Feng pursuant to his exercise of all of the share options granted to him on 9 July 2007 by the Company, at an exercise price of HK\$0.36 per share. Moreover, during the period from 15 May 2013 to 13 June 2013, Mr. Xiong Zheng Feng acquired an aggregate of 560,000 ordinary shares (representing approximately 0.1% of the total issued share capital in the Company) in open market at the prices ranging from HK\$0.315 to HK\$0.34 per share. Since 13 June 2013, Mr. Xiong Zheng Feng has been the beneficial owner of an aggregate of 16,750,000 ordinary shares in the Company, representing approximately 3.05% of the total issued share capital in the Company.
2. On 23 May 2013, an aggregate of 2,000,000 ordinary shares were issued to Mr. Chai Zhi Qiang pursuant to his exercise of all of the share options granted to him on 9 July 2007 by the Company, at an exercise price of HK\$0.36 per share. Since 23 May 2013, Mr. Chai Zhi Qiang has been the beneficial owner of 13,500,000 ordinary shares in aggregate in the Company, representing approximately 2.45% of the total issued share capital in the Company.
3. On 23 May 2013, an aggregate of 2,000,000 ordinary shares were issued to Ms. Li Ying Hong pursuant to her exercise of all of the share options granted to her on 9 July 2007 by the Company, at an exercise price of HK\$0.36 per share. Since 23 May 2013, Ms. Li Ying Hong has been the beneficial owner of 4,700,000 ordinary shares in aggregate in the Company, representing 0.85% of the total issued share capital in the Company.
4. On 23 May 2013, an aggregate of 800,000 ordinary shares were issued to Mr. Liang Zhi Li pursuant to his exercise of all of the share options granted to him on 9 July 2007 by the Company, at an exercise price of HK\$0.36 per share. Since 23 May 2013, Mr. Liang Zhi Li has been the beneficial owner of 800,000 ordinary shares in aggregate in the Company, representing 0.15% 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	(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 and 2	Beneficial owner	Long	0.36
Mr. Chai Zhi Qiang	2,800,000 ordinary shares	1 and 3	Beneficial owner	Long	0.51
Ms. Li Ying Hong	600,000 ordinary shares	1 and 4	Beneficial owner	Long	0.11

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. Mr. Xiong Zheng Feng is interested in 16,750,000 issued shares of the Company and 2,000,000 underlying shares held under equity derivatives.
3. Mr. Chai Zhi Qiang is interested in 13,500,000 issued shares of the Company and 2,800,000 underlying shares held under equity derivatives.
4. Ms. Li Ying Hong is interested in 4,700,000 issued shares of the Company and 600,000 underlying shares held under equity derivatives.



(b) The associated corporation

As at 30 September 2013, to the best knowledge of the Directors, none of the Directors nor chief executive of the Company had or was deemed to have any interest or short position 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 September 2013, no person other than certain Directors or chief executive of the Company had any interest or short position 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)</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	65.47
Silver City International (Holdings) Ltd. ("Silver City") <i>(Note 1)</i>	Interest in controlled corporation	360,000,000 ordinary shares	Long	65.47
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	65.47

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 or CNIC is interested in any securities of the Company under equity derivatives.

CORPORATE GOVERNANCE

Throughout the nine months ended 30 September 2013, 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 2013.

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 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 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. Bi Keyun. 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 2013.

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

8 November 2013, Hong Kong

