



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

2013
INTERIM REPORT

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 2013, the unaudited turnover increased to approximately HK\$271.55 million, representing an increase of approximately 17.89% as compared to the corresponding period of last year. The profit attributable to the owners of the Company amounted to approximately HK\$8.28 million, representing an increase of approximately 47.09% as compared to the profit for the corresponding period of last year.
- Basic and diluted earnings per share of the Group was approximately HK1.53 cents for the six months ended 30 June 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 six months ended 30 June 2013 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 2013 and 30 June 2012

	Notes	Six months ended 30 June		Three months ended 30 June	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Turnover	3	271,550	230,351	159,474	123,860
Cost of sales		(234,870)	(198,536)	(136,936)	(106,695)
Gross profit		36,680	31,815	22,538	17,165
Other income		2,449	1,637	1,086	1,165
Distribution costs		(4,831)	(4,456)	(2,794)	(2,783)
Administrative expenses		(11,597)	(11,587)	(6,048)	(6,197)
Research and development expenses		(11,080)	(5,197)	(6,179)	(2,849)
Share of result of a jointly controlled entity		-	(3,301)	-	(1,105)
Finance costs		(2,512)	(3,322)	(1,492)	(1,806)
Profit before taxation	4	9,109	5,589	7,111	3,590
Taxation	5	(411)	(608)	(307)	(291)
Profit for the period		8,698	4,981	6,804	3,299
Other comprehensive income (expenses):					
Exchange differences arising on translation of foreign operations		4,510	(3,074)	3,073	(2,303)
Total comprehensive income for the period		13,208	1,907	9,877	996
Profit (loss) for the period attributable to:					
Owners of the Company		8,278	5,628	6,441	3,446
Minority interests		420	(647)	363	(147)
		8,698	4,981	6,804	3,299
Comprehensive income (expenses) attributable to:					
Owners of the Company		12,788	2,597	9,514	1,183
Minority interests		420	(690)	363	(187)
		13,208	1,907	9,877	996
Earnings per share (HK cents)					
Basic	7	1.53	1.04	1.17	0.64
Diluted		1.53	N/A	N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013 and 31 December 2012

	Notes	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	287,070	218,118
Prepaid lease payments		57,958	57,708
Deposits for acquisition of property, plant and equipment		8,153	2,687
		353,181	278,513
Current assets			
Inventories		79,034	69,239
Trade and other receivables	9	142,376	148,959
Bills receivables	9	14,947	15,441
Prepaid lease payments		1,336	1,316
Amount due from intermediate holding company		–	300
Pledged bank deposits		2,355	2,354
Bank balances and cash		28,817	47,821
		268,865	285,430
Current liabilities			
Trade and other payables	10	123,865	130,888
Bills payables	10	21,827	27,751
Deferred income		5,368	4,413
Amount due to ultimate holding company		1,011	995
Amount due to a fellow subsidiary		122	121
Taxation payable		4,882	4,461
Bank borrowings	11	122,536	72,863
Loan from ultimate holding company		1,011	995
Bank overdrafts		7,388	–
		288,010	242,487
Net current (liabilities) assets		(19,145)	42,943
Total assets less current liabilities		334,036	321,456

	Notes	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Capital and reserves			
Share capital	12	54,990	54,000
Reserves		197,287	187,502
Equity attributable to owners of the Company		252,277	241,502
Minority interests		2,645	2,225
Total equity		254,922	243,727
Non-current liabilities			
Deferred income		31,262	31,188
Loans from an intermediate holding company		44,780	44,760
Loan from ultimate holding company		–	995
Bank borrowings	11	2,286	–
Deferred taxation		786	786
		79,114	77,729
		334,036	321,456

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013 and 30 June 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	2,225	243,727
Exchange differences arising on translation of foreign operations	-	-	4,510	-	-	4,510	-	4,510
Profit for the period	-	-	-	-	8,278	8,278	420	8,698
Total comprehensive income for the period	-	-	4,510	-	8,278	12,788	420	13,208
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 June 2013	54,990	56,442	64,444	1,270	75,131	252,277	2,645	254,922
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	-	-	(3,031)	-	-	(3,031)	(43)	(3,074)
Profit (loss) for the period	-	-	-	-	5,628	5,628	(647)	4,981
Total comprehensive income (expenses) for the period	-	-	(3,031)	-	5,628	2,597	(690)	1,907
At 30 June 2012	54,000	53,868	58,817	2,475	40,555	209,715	2,636	212,351

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2013 and 30 June 2012*

	For the six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Net cash from operating activities	7,822	8,890
Net cash used in investing activities	(82,593)	14,498
Net cash from financing activities	49,029	(26,638)
Decrease in cash and cash equivalents	(25,742)	(3,250)
Cash and cash equivalents at beginning of the year	50,175	13,943
Effect of foreign exchange rate changes	(649)	(167)
Cash and cash equivalents at end of the period representing	23,784	10,526
Bank balances and cash	31,172	17,076
Bank overdraft	(7,388)	(6,550)
	23,784	10,526

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

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 the manufacture and sale of flexible packaging substrates (including the 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 2012.

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 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.

Six months ended 30 June

	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	221,104	194,902	84,885	108,854	(84,885)	(108,854)	13,008	16,359
Sourcing and sale of electronic components business	44,113	34,689	25,740	24,840	(25,740)	(24,840)	3,080	3,422
Flexible packaging substrates business	6,333	760	-	25	-	(25)	3,286	(706)
Total	271,550	230,351	110,625	133,719	(110,625)	(133,719)	19,374	19,075
Interest income							64	245
Share of result of a jointly controlled entity							-	(3,301)
Unallocated corporate (expenses) income							(7,817)	(7,108)
Finance costs							(2,512)	(3,322)
Profit before taxation							9,109	5,589

Three months ended 30 June

	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	127,609	103,376	53,961	49,286	(53,961)	(49,286)	9,627	8,227
Sourcing and sale of electronic components business	28,668	20,005	15,827	16,285	(15,827)	(16,285)	2,201	1,944
Flexible packaging substrates business	3,197	479	-	2	-	(2)	1,489	(365)
Total	159,474	123,860	69,788	65,573	(69,788)	(65,573)	13,317	9,806
Interest income							25	216
Share of result of a jointly controlled entity							-	(1,105)
Unallocated corporate (expenses) income							(4,739)	(3,521)
Finance costs							(1,492)	(1,806)
Profit before taxation							7,111	3,590

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		Turnover	
	Six months ended 30 June		Three months ended 30 June	
	2013 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)
PRC (other than Hong Kong)	196,408	158,701	112,168	92,695
Hong Kong	34,801	57,461	21,332	18,625
Others	40,341	14,189	25,974	12,540
Total	271,550	230,351	159,474	123,860

4. PROFIT BEFORE TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2013 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)
Profit before taxation has been arrived at after charging:				
Allowance for bad and doubtful debts	(203)	60	(240)	14
Allowance for obsolete inventories	409	788	593	173
Depreciation of property, plant and equipment	13,787	11,675	7,177	5,839
Amortisation of prepaid lease payments	663	649	333	323
and after crediting:				
Interest income	64	245	25	216

5. TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Current tax:				
Hong Kong Profits Tax	233	220	201	86
PRC Enterprise Income Tax	178	718	106	316
	411	938	307	402
Deferred tax:				
Current period	–	(330)	–	(111)
	411	608	307	291

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit of the Group companies incorporated in Hong Kong for both years. 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. The 50% reduction of enterprise income tax enjoyed by AKM Electronic Technology (Suzhou) Company Limited expired on 31 December 2012.

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.

6. DIVIDEND

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

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Earnings for the purpose of basic and diluted earnings per share (earnings for the period attributable to owners of the Company)	8,278	5,628

	Number of shares	
	2013	2012
Weighted average number of ordinary shares for the purpose of basic earnings per share	542,078,453	540,000,000
Effect of dilutive potential ordinary shares from share options	164,865	N/A
Number of ordinary shares for the purpose of diluted earnings per share	542,243,318	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 2,078,453 shares to 542,078,453 shares, thus earnings per share was adjusted accordingly.

No diluted earnings per share for the period ended 30 June 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.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$85,688,000 (2012: HK\$7,510,000) on the acquisition of property, plant and equipment, including equipments which were inspected and commissioned for production of approximately HK\$25,836,000 (2012: HK\$7,100,000) and construction in progress of approximately HK\$59,852,000 (2012: HK\$410,000).

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 2013 HK\$'000 (Unaudited)	At 31 December 2012 HK\$'000 (Audited)
Within 30 days	62,821	66,458
31 – 60 days	37,016	31,572
61 – 90 days	19,618	26,867
91 – 120 days	19,663	13,568
121 days – 1 year	12,334	14,732
over 1 year	–	512
	151,452	153,709

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

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

	At 30 June 2013 HK\$'000 (Unaudited)	At 31 December 2012 HK\$'000 (Audited)
Within 30 days	24,525	33,421
31 – 60 days	28,841	25,105
61 – 90 days	57,244	25,882
91 – 120 days	10,719	25,133
121 days – 1 year	665	16,630
over 1 year	112	4,917
Total	122,106	131,088

11. BANK BORROWINGS

	At 30 June 2013 HK\$'000 (Unaudited)	At 31 December 2012 HK\$'000 (Audited)
Borrowings which are repayable within one year and included in current liabilities:		
Loan from a bank – unsecured	–	298
Loans from banks – secured	122,536	72,565
Trust receipts loans – secured	–	–
	122,536	72,863
Bank borrowings which are repayable after 1 year and included in non-current liabilities:		
After 1 year but within 2 years – unsecured	2,286	–
After 2 years but within 5 years – unsecured	–	–
	124,822	72,863

12. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Authorised:		
At 1 January 2013 and 30 June 2013	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2013	540,000,000	54,000
Issued and exercised share options at 23 May 2013	9,900,000	990
At 30 June 2013	549,900,000	54,990

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 Group is therefore increased from 540,000,000 shares to 549,900,000 shares, and the share capital is increased from HK\$54,000,000 to HK\$54,990,000 accordingly.

13. CAPITAL COMMITMENTS

	At 30 June 2013 HK\$'000 (Unaudited)	At 31 December 2012 HK\$'000 (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment		
– contracted for but not provided in financial statements	37,231	41,152

14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June		Three months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Transactions with an intermediate holding company:				
Interest paid by the Group	806	451	403	54
Transactions with fellow subsidiaries:				
Rentals for office charged to the Group	60	60	30	30
Transactions with a jointly controlled entity:				
Subcontracting fee paid by the Group	–	4	–	–
Expense in respect of leasing equipments	–	74	–	–

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2013 (the “period”), the turnover of the Group amounted to approximately HK\$271.55 million, representing an increase of approximately 17.89% as compared to the corresponding period of last year. The increase in turnover was mainly due to the increase in sales to major international customers of the Group. The gross profit margin for the period slightly decreased to approximately 13.51% (the corresponding period of 2012: 13.81%), which was mainly due to the decrease in the gross profit margin for both the sales of FPC and sourcing and sales of electronic components. The profit attributable to the owners of the Company for the period was approximately HK\$8.28 million, while the profit attributable to the owners of the Company was approximately HK\$5.63 million for the corresponding period of last year, representing an increase of approximately 47.09%. The increase in profit was mainly due to the relatively significant growth in the income and gross profit margin from the 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), and there was no further need to share the loss of a jointly controlled entity during the period as a result of the completion of the disposal of a loss making non-core business in December last year.

Other income of the Group for the six months ended 30 June 2013 amounted to approximately HK\$2.45 million, representing an increase of approximately 49.60% 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 six months ended 30 June 2013 amounted to approximately HK\$4.83 million, representing an increase of approximately 8.41% as compared to the corresponding period of last year. The increase in distribution expenses was mainly due to the increase in expenses for the operation of a branch company in Korea.

The administrative expenses of the Group for the six months ended 30 June 2013 amounted to approximately HK\$11.60 million, remaining stable and in line with approximately HK\$11.59 million of the corresponding period of last year.

The research and development expenses of the Group for the six months ended 30 June 2013 amounted to approximately HK\$11.08 million, representing an increase of approximately 113.19% 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 six months ended 30 June 2013 amounted to approximately HK\$2.51 million, representing a decrease of approximately 24.38% as compared to the corresponding period of last year. The decrease in finance costs was mainly due to the decrease in interest rates of bank loans.

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 the manufacture and 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).

During the first half of 2013, the turnover of the Group amounted to approximately HK\$271.55 million, representing an increase of approximately 17.89% as compared to the corresponding period of last year. The increase in turnover was mainly due to the increase in sales to major international customers of the Group. 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\$221.10 million, HK\$44.11 million and HK\$6.33 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\$194.90 million, HK\$34.69 million and HK\$0.76 million respectively. During the first half of 2013, the profit attributable to the owners of the Company amounted to approximately HK\$8.28 million, representing an increase of approximately 47.09% as compared to the corresponding period of last year. The increase in profit was mainly due to the relatively significant growth in the income and gross profit margin from the 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), and there was no further need to share the loss of a jointly controlled entity during the period as a result of the completion of the disposal of a loss making non-core business in December last year.

During the first half of 2013, the Group's sales of FPC increased by approximately 13.44% as compared to the corresponding period of last year, and the gross profit margin of FPC decreased to approximately 13.48% (the corresponding period of 2012: approximately 14.27%). The turnover from sourcing and sales of electronic components increased by approximately 27.17% as compared to the corresponding period of last year, while its gross profit margin decreased to approximately 7.73% (the corresponding period of 2012: approximately 13.18%). 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. During the first half of 2013, income from the flexible packaging substrates business (including both of the income from the 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 733% as compared to the corresponding period of last year of approximately HK\$0.76 million (which represented the income from the original encapsulation of COF modules only) due to its apparent outcome of market expansion, and its gross profit margin (taken into account all of the above-mentioned original business and new product lines) increased to approximately 54.58%, while the gross loss margin for the above-mentioned original business for the corresponding period of 2012 was approximately 75.38%.

During the period under review, the turnover of the Group increased as compared to the corresponding period of last year, and the gross profit margin of both the sale of FPC and sourcing and sales of electronic components decreased under the pressure of costs and expenses, while 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 plant construction is expected to be completed by the end of this year. Following the utilization of the gradually introduced equipments, the production capacities of Nansha Factory and Suzhou Factory are expected to continuously increase from the third quarter.

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 changes in market competition and the adjustment to its 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. 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.

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 their personalized needs. Despite the downturn and increasing competition in the industry, as well as the continuous increase in labour costs and other operating expenses in Mainland China, the Group is confident that it will be able to expand its operation scale, achieve economies of scale and bring satisfactory results and promising return to its shareholders in future, through effective market development, enhancing its cooperation relationship with large international clients and improving its internal management and business synergies.

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. Although net current liabilities of the Group were approximately HK\$19.15 million during the period under review, the Group commenced to adjust the financing structure after the period under review, and it is expected that the long-term assets investments in the second half year will also be well below than that of the first half year. Therefore, it is anticipated that the Group has sufficient working capital to meet its present funding requirements.

As at 30 June 2013, net current liabilities were approximately HK\$19.15 million (as at 31 December 2012: net current assets of approximately HK\$42.94 million).

As at 30 June 2013, there were bank balances, cash on hand and bank deposits of approximately HK\$31.17 million (as at 31 December 2012: approximately HK\$50.18 million).

As at 30 June 2013, there were bank borrowings of approximately HK\$124.82 million (as at 31 December 2012: approximately HK\$72.86 million) and bank overdraft of approximately HK\$7.39 million (as at 31 December 2012: approximately HK\$Nil).

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2013, bank deposits of approximately HK\$2.36 million (as at 31 December 2012: approximately HK\$2.36 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 2013, land use rights, buildings and machinery with carrying amounts of approximately HK\$20.66 million, HK\$64.36 million and HK\$55.66 million respectively (as at 31 December 2012: approximately HK\$20.56 million, HK\$63.35 million and HK\$54.79 million respectively) were pledged to secure the general banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2013, the Group had outstanding capital commitments of approximately HK\$37.23 million (as at 31 December 2012: approximately HK\$41.15 million).

GEARING RATIO

As at 30 June 2013, the gearing ratio (calculated as total liabilities over total assets as at the respective balance sheet dates) of the Group was approximately 59.02% (as at 31 December 2012: approximately 56.78%).

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in this report, the Group did not have any material acquisitions or disposals during the six months ended 30 June 2013.

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 and sale of electronic components and the manufacture and sale of flexible packaging substrates. 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 2013, the Group had a total of 1,886 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 2013.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2013.

SIGNIFICANT INVESTMENT HELD

The Group did not have any significant investment as at 30 June 2013.

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 30 June 2013, 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)	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 shares of the Company were issued and allotted 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 shares of the Company were issued and allotted 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 shares of the Company were issued and allotted 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 shares of the Company were issued and allotted 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	Capacity (Notes)	Long/short position	Approximate percentage of total issued share capital in the Company	
Mr. Xiong Zheng Feng	2,000,000 ordinary shares	1 & 2	Beneficial owner	Long	0.36
Mr. Chai Zhi Qiang	2,800,000 ordinary shares	1 & 3	Beneficial owner	Long	0.51
Ms. Li Ying Hong	600,000 ordinary shares	1 & 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 June 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 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 2013, 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	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 of the Company 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.

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 <i>(Note 1)</i>	Exercisable period <i>(Notes 1 & 2)</i>	Exercise price per share <i>HK\$</i>	Number of share options			
				Outstanding at 1.1.2013	Exercised during the period <i>(Note 3)</i>	Lapsed during the period	Outstanding at 30.6.2013
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. 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)	-
<i>(resigned on 4 February 2013)</i>							
				7,600,000	(6,800,000)	(800,000)	-
Employees	9.7.2007	10.7.2007 to 9.7.2017	0.36	9,200,000	(3,100,000)	-	6,100,000
Total				16,800,000	(9,900,000)	(800,000)	6,100,000

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.
3. On 23 May 2013, an aggregate of 9,900,000 shares of the Company were issued by the Company to such Directors and employees pursuant to their exercises of the relevant share options.

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 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 six months ended 30 June 2013.

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.

RESIGNATION AND APPOINTMENT OF DIRECTORS

On 4 February 2013, Mr. Wang Heng Yi resigned as an independent non-executive Director, a member of audit committee and a member of remuneration committee of the Company, and Mr. Bi Keyun was appointed as an independent non-executive Director, a member of audit committee and a member of remuneration committee of the Company on the same day.

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 systems 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. Since Mr. Wang Heng Yi resigned on 4 February 2013, Mr. Bi Keyun was appointed as a member of the audit committee on the same date.

PURCHASE, SALE OR REDEMPTION OF SHARES

Save as disclosed above, 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 2013.

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

8 August 2013, Hong Kong