



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 : 1639

2014
Interim Report

HIGHLIGHTS

- For the six months ended 30 June 2014, the unaudited turnover increased to approximately HK\$301.91 million, representing an increase of approximately 11.18% as compared to the corresponding period of last year. The profit attributable to the owners of the Company amounted to approximately HK\$7.23 million, representing a decrease of approximately 12.67% as compared to the corresponding period of last year.
- Basic earnings per share of the Group was approximately HK0.79 cents and diluted earnings per share was approximately HK0.78 cents for the six months ended 30 June 2014.

THE FINANCIAL STATEMENTS

Interim 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 six months ended 30 June 2014 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 ended 30 June 2014 and 30 June 2013

	Notes	For the six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Turnover	3	301,912	271,550
Cost of sales		(260,310)	(234,870)
Gross profit		41,602	36,680
Other income		4,312	2,449
Distribution costs		(6,647)	(4,831)
Administrative expenses		(16,355)	(11,597)
Research and development expenses		(13,575)	(11,080)
Finance costs		(1,709)	(2,512)
Profit before taxation	4	7,628	9,109
Taxation	5	(211)	(411)
Profit for the period		7,417	8,698
Other comprehensive (expenses) income:			
Exchange differences arising on translation of foreign operations		(10,902)	4,510
Total comprehensive (loss) income for the period		(3,485)	13,208
Profit for the period attributable to:			
Owners of the Company		7,229	8,278
Minority interests		188	420
		7,417	8,698
Comprehensive (expenses) income attributable to:			
Owners of the Company		(3,673)	12,788
Minority interests		188	420
		(3,485)	13,208
Earnings per share (HK cents)	7		
Basic		0.79	1.53
Diluted		0.78	1.53

Condensed Consolidated Statement of Financial Position

At 30 June 2014 and 31 December 2013

	Notes	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	350,089	306,265
Prepaid lease payments for land		55,909	57,994
Available-for-sale investments		18,713	–
Deposits for acquisition of property, plant and equipment		18,070	2,461
		442,781	366,720
Current assets			
Inventories		63,632	74,828
Trade and other receivables	9	124,730	156,032
Bills receivables	9	24,910	11,562
Prepaid lease payments for land		1,319	1,353
Amount due from related companies		18,822	–
Pledged bank deposits		2,355	2,355
Bank balances and cash		62,526	42,177
		298,294	288,307
Current liabilities			
Trade and other payables	10	85,113	135,212
Bills payables	10	20,017	32,691
Deferred income		834	855
Taxation payable		5,369	5,377
Bank borrowings	11	81,291	111,518
Loan from ultimate holding company		–	1,023
Bank overdrafts		6,141	–
		198,765	286,676
Net current assets		99,529	1,631
Total assets less current liabilities		542,310	368,351

	<i>Notes</i>	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Capital and reserves			
Share capital	12	333,161	54,990
Reserves		162,075	224,430
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Equity attributable to owners of the Company		495,236	279,420
Minority interests		3,611	3,423
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Total equity		498,847	282,843
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Non-current liabilities			
Deferred income		30,034	31,218
Loans from an intermediate holding company		–	38,775
Bank borrowings	11	12,715	14,801
Deferred taxation		714	714
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		43,463	85,508
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		542,310	368,351
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Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014 and 30 June 2013

	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 2014	54,990	57,412	69,487	1,270	96,261	279,420	3,423	282,843
Exchange differences arising on translation of foreign operations	-	-	(10,902)	-	-	(10,902)	-	(10,902)
Profit for the period	-	-	-	-	7,229	7,229	188	7,417
Total comprehensive income (expenses) for the period	-	-	(10,902)	-	7,229	(3,673)	188	(3,485)
Transfer upon abolition of par value under the new Companies Ordinance (note 12)	57,412	(57,412)	-	-	-	-	-	-
Share options exercised and lapsed	6,826	-	-	(1,270)	-	5,556	-	5,556
Issue of new shares	213,933	-	-	-	-	213,933	-	213,933
At 30 June 2014	333,161	-	58,585	-	103,490	495,236	3,611	498,847
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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014 and 30 June 2013

	For the six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Net cash (used in) from operating activities	(17,941)	7,822
Net cash used in investing activities	(110,395)	(82,593)
Net cash from financing activities	149,643	49,029
Increase (decrease) in cash and cash equivalents	21,307	(25,742)
Cash and cash equivalents at beginning of the year	42,177	50,175
Effect of foreign exchange rate changes	(958)	(649)
Cash and cash equivalents at end of the period representing	56,385	23,784
Bank balances and cash	62,526	31,172
Bank overdraft	(6,141)	(7,388)
	56,385	23,784

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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. On 18 June 2014, the Company transferred the listing of its shares from GEM to the Main Board of the Stock Exchange.

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 the Main Board 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.

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") 34 "Interim Financial Reporting" and the 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 2013.

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 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. 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	–	provide sourcing and sale of electronic components
Flexible packaging substrates business	–	the manufacture and sale of flexible packaging substrates

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	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
FPC business	237,834	221,104	76,536	84,885	(76,536)	(84,885)	10,431	13,008
Sourcing and sale of electronic components business	55,635	44,113	20,734	25,740	(20,734)	(25,740)	4,067	3,080
Flexible packaging substrates business	8,443	6,333	–	–	–	–	4,652	3,286
Total	301,912	271,550	97,270	110,625	(97,270)	(110,625)	19,150	19,374
Interest income							358	64
Unallocated corporate (expenses)							(10,171)	(7,817)
Finance costs							(1,709)	(2,512)
Profit before taxation							7,628	9,109

(b) Geographical segments

The Group operates in two principal geographical areas, i.e. the People's Republic of China (excluding Hong Kong) (the "PRC") and Hong Kong (country of domicile). The following table provides an analysis of the Group's revenue from external customers by geographical location:

	Turnover	
	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC (other than Hong Kong)	228,337	196,408
Hong Kong	25,822	34,801
Others	47,753	40,341
Total	301,912	271,550

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)

Profit before taxation has been arrived at after charging:

Allowance for bad and doubtful debts	(265)	(203)
Allowance for obsolete inventories	1,515	409
Depreciation of property, plant and equipment	19,069	13,787
Amortisation of prepaid lease payments	668	663

and after crediting:

Interest income	358	64
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5. TAXATION

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	78	233
PRC Enterprise Income Tax	133	178
	211	411
Deferred tax:		
Current period	-	-
	211	411

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.

In 2013, AKM Electronics Industrial (Panyu) Ltd. ("AKM Panyu") and AKM Electronics Technology (Suzhou) Ltd. ("AKM Suzhou") were awarded the Foreign Invested Advanced-Technology Enterprise Certificate. AKM Panyu and AKM Suzhou are entitled to tax rate reduction from 25% to 15% for three years commenced from 1 January 2013.

6. DIVIDEND

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2014 (2013: 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	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic and diluted earnings per share (earnings for the period attributable to owners of the Company)	7,229	8,278
	Number of shares	
	2014	2013
Weighted average number of ordinary shares for the purpose of basic earnings per share	912,678,177	542,078,453
Effect of dilutive potential ordinary shares from share options	9,577,754	164,865
Number of ordinary shares for the purpose of diluted earnings per share	922,255,931	542,243,318

On 27 January 2014, the Group completed the subscription ("Shares Subscription") of 290,920,000 shares of the Company by Goertek (HongKong) Co., Limited ("HK Goertek"), a nominee of 歌爾聲學股份有限公司 (GoerTek Inc.) ("GoerTek"), and the placement ("Placing") of 132,150,000 shares of the Company to not less than six places. The number of issued and fully paid shares of the Company increased from 549,900,000 shares to 972,970,000 shares.

On 25 June 2014, an aggregate of 14,500,000 shares 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 shares of the Company is therefore increased from 972,970,000 shares to 987,470,000 shares.

The calculation of the basic earnings per share is based on the profit attributable to shareholders of the Company of HK\$7,229,000 (the corresponding period of 2013: HK\$8,278,000) and the weighted average number of ordinary shares issued during the period of 912,678,177 shares (the corresponding period of 2013: 542,078,453 shares).

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$92,060,000 (2013: HK\$85,688,000) on the acquisition of property, plant and equipment, including equipments which were inspected and commissioned for production of approximately HK\$3,978,000 (2013: HK\$25,836,000) and construction in progress of approximately HK\$88,082,000 (2013: HK\$59,852,000).

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 2014 <i>HK\$'000</i> (Unaudited)	At 31 December 2013 <i>HK\$'000</i> (Unaudited)
Within 30 days	64,367	61,050
31 – 60 days	34,733	48,513
61 – 90 days	34,048	25,522
91 – 120 days	9,443	6,633
121 days – 1 year	15,113	16,596
Over 1 year	–	81
	157,704	158,395

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

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

	At 30 June 2014 <i>HK\$'000</i> (Unaudited)	At 31 December 2013 <i>HK\$'000</i> (Unaudited)
Within 30 days	48,645	58,853
31 – 60 days	24,488	45,254
61 – 90 days	16,222	31,336
91 – 120 days	7,632	9,952
121 days – 1 year	599	1,598
Over 1 year	703	75
	<hr/> 98,289	<hr/> 147,068

11. BANK BORROWINGS

	At 30 June 2014 <i>HK\$'000</i> (Unaudited)	At 31 December 2013 <i>HK\$'000</i> (Unaudited)
Borrowings which are repayable within one year (included in current liabilities):		
Loans from banks – secured	65,684	107,340
Trust receipts loans – secured	15,607	4,178
	<hr/> 81,291	<hr/> 111,518

Bank borrowings which are repayable after 1 year
(included in non-current liabilities):

After 1 year but within 2 years – secured	3,874	4,008
After 2 years but within 5 years – secured	8,841	10,793
	<hr/> 94,006	<hr/> 126,319

12. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
<i>Authorised:</i>		
At 1 January 2014		
– Ordinary shares of HK\$0.1 each	2,000,000,000	200,000
At 30 June 2014 (<i>Note</i>)	N/A	N/A
<i>Issued and fully paid:</i>		
At 1 January 2014		
– Ordinary shares of HK\$0.1 each	549,900,000	54,990
Transfer upon abolition of par value under the new Companies Ordinance (<i>Note</i>)	–	57,412
Shares Subscription and Placing on 27 January 2014	423,070,000	213,933
Issued and exercised share options at 25 June 2014	14,500,000	6,826
At 30 June 2014		
– Ordinary shares with no par value	987,470,000	333,161

Note: Pursuant to the new Companies Ordinance (Cap. 622 of the Laws of Hong Kong) effective from 3 March 2014, the concept of authorised share capital no longer exists and the Company's shares no longer have a par value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition.

On 27 January 2014, upon completion of the Shares Subscription and the Placing by the Group, the number of issued and fully paid shares of the Company increased from 549,900,000 shares to 972,970,000 shares.

On 25 June 2014, an aggregate of 14,500,000 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 shares of the Company is increased from 972,970,000 shares to 987,470,000 shares.

13. CAPITAL COMMITMENTS

	At 30 June 2014 <i>HK\$'000</i> (Unaudited)	At 31 December 2013 <i>HK\$'000</i> (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment		
– contracted for but not provided in financial statements	107,138	19,466

14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June 2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)
Transactions with an intermediate holding company:		
Interest paid by the Group	107	806
Transactions with a related company:		
Sales of goods by the Group	22,452	–
Transactions with fellow subsidiaries:		
Rentals for office charged to the Group	60	60

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2014 (the "Period"), the turnover of the Group amounted to approximately HK\$301.91 million, representing an increase of approximately 11.18% as compared to the corresponding period of last year. The increase in turnover was contributed by the growth in all business segments of the Group, i.e. the sales of FPC, the sourcing and sales of electronic components and the sales of flexible packaging substrates. The gross profit margin for the Period increased slightly to approximately 13.78% (the corresponding period of 2013: 13.51%), which was mainly due to the increase in the gross profit margin for both the sourcing and sales of electronic components and the sales of FPC. The profit attributable to the owners of the Company for the Period was approximately HK\$7.23 million, while the profit attributable to the owners of the Company for the corresponding period of last year was approximately HK\$8.28 million, representing a decrease of approximately 12.67%. The decrease in profit for the Period was mainly attributed to (i) the substantial increase in administrative expenses incurred mainly for the transfer of listing of the Company from GEM to the Main Board which were entirely booked to the Period and the increase in exchange losses during the Period; and (ii) the increase in research and development expenses due to the increase in R&D projects and activities, especially for those related to the flexible packaging substrates business.

Other income of the Group for the Period amounted to approximately HK\$4.31 million, representing an increase of approximately 76.07% as compared to the corresponding period of last year. The increase in other income was mainly due to the increase in government grants for research and development.

The distribution costs of the Group for the Period amounted to approximately HK\$6.65 million, representing an increase of approximately 37.59% as compared to the corresponding period of last year. The increase in distribution expenses was mainly due to the increase in salary expenses and business commissions.

The administrative expenses of the Group for the Period amounted to approximately HK\$16.36 million, representing an increase of approximately 41.03% as compared to the corresponding period of last year. The increase in administrative expenses was mainly due to the incurrence of the costs for the transfer of listing of the Company from GEM to the Main Board which were entirely booked to the Period and the increase in exchange losses during the Period.

The research and development expenses of the Group for the Period amounted to approximately HK\$13.58 million, representing an increase of approximately 22.52% 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 Period amounted to approximately HK\$1.71 million, representing a decrease of approximately 31.97% as compared to the corresponding period of last year. The decrease in finance costs was mainly due to the decrease in bank borrowings.

Business Review and Prospect

Business Review

The Group is principally engaged in the manufacture and sale of FPC, which are used in communication, LCD, consumer electronic products such as mobile phones, LCD, car electronics and cameras. The Group is also engaged in sourcing and sale of electronic components and the manufacture and sale of flexible packaging substrates.

During the first half of 2014, the turnover of the Group amounted to approximately HK\$301.91 million, representing an increase of approximately 11.18% as compared to the corresponding period of last year. The increase in turnover was mainly due to the increase in sales to major domestic customers of the Group. During the Period, the turnover for the sales of FPC, the sourcing and sales of electronic components and the sale of flexible packaging substrates were approximately HK\$237.83 million, approximately HK\$55.64 million and approximately HK\$8.44 million respectively, while the turnover for the sales of FPC, the sourcing and sales of electronic components and the sale of flexible packaging substrates for the corresponding period of last year were approximately HK\$221.10 million, approximately HK\$44.11 million and approximately HK\$6.33 million respectively. During the first half of 2014, the profit attributable to the owners of the Company amounted to approximately HK\$7.23 million, representing a

decrease of approximately 12.67% as compared to the corresponding period of last year. The decrease in profit was mainly attributed to (i) the substantial increase in administrative expenses incurred mainly for the transfer of listing of the Company from GEM to the Main Board which were entirely booked to the Period and the increase in exchange losses during the Period; and (ii) the increase in research and development expenses due to the increase in R&D projects and activities, especially for those related to the flexible packaging substrates business.

During the first half of 2014, the Group's sales of FPC increased by approximately 7.57% as compared to the corresponding period of last year, and its gross profit margin slightly decreased to approximately 13.45% (the corresponding period of 2013: approximately 13.48%). The turnover from sourcing and sales of electronic components increased by approximately 26.12% as compared to the corresponding period of last year, while its gross profit margin increased to approximately 8.83% (the corresponding period of 2013: approximately 7.73%). The sales of flexible packaging substrates increased by approximately 33.32% as compared to the corresponding period of last year, and its gross profit margin slightly increased to approximately 55.74% (the corresponding period of 2013: approximately 54.58%).

During the Period, the turnover of sales of FPC business, the sourcing and sales of electronic components business and the flexible packaging substrates business of the Group had all recorded growth as compared to the corresponding period last year. In particular, for the flexible packaging substrates business, subsequent to the relatively substantial declines recorded in the fourth quarter of 2013 and the first quarter of 2014, it has demonstrated strong growth during the second quarter of 2014. The main reason for the growth was that during the fourth quarter of 2013, due to the adjustment of technical requirement to the products of one of our major clients of flexible packaging substrates business, corresponding modifications to the engineering design and production process route of such products had to be made which resulted in the temporary suspension of delivery of the products. Since the beginning of March in 2014, the relevant technical modifications had been completed and all requisite product testing had been passed. As products delivery resumed to normal status, the sales of the flexible packaging substrates products had thus turnaround to growth during the second quarter of 2014.

The Group has completed the factory buildings construction and external decoration of Phase II of Suzhou Factory at the end of 2013, in order to upgrade the production capacity of flexible packaging substrates business. During the Period, the interior decoration of Phase II of Suzhou Factory and part of the sourcing and installation of equipment for the production line for flexible packaging substrates had been completed. It is expected that Phase II of Suzhou Factory will commence production by the end of this year.

During the Period, the Group continued to place efforts on the research and development of flexible packaging substrates, and, in order to speed up the commercialization progress of the Group's flexible packaging substrates business and to obtain partial funding for its research and development, the Group is applying for government grant for research and development for the production techniques and commercialization of the flexible packaging substrates projects. As disclosed in the announcement of the Company dated 31 July 2014, AKM Suzhou received the notice issued by the Major Project Implementation and Management Office (專項實施管理辦公室) of the People's Republic of China for the "Manufacturing Equipment and Assembly Techniques for Ultra Large Scale Integrated Circuit" (《極大規模集成電路製造裝備及成套工藝》) ("02" Major Project). The application for the establishment of the project titled "Development and Industrialization of Tape High-Density and Ultra-Thin Flexible Packaging Substrates Technology" (《卷帶式高密度超薄柔性封裝基板工藝開發與產業化》) (the "Project") as a "02" Major Project under National Science and Technology Major Project (國家科技重大專項) for year 2014 made by AKM Suzhou (being the main responsible unit) and other joint responsible units (including AKM Panyu and other independent third parties) had been approved. The implementation period for the Project will be from 2014 to 2016.

During the Period, the Group had completed the subscription ("Shares Subscription") of 290,920,000 shares of the Company by Goertek (HongKong) Co., Limited, a nominee of 歌爾聲學股份有限公司 (GoerTek Inc.) ("GoerTek"), and the placement ("Placing") of 132,150,000 shares of the Company to not less than six placees on 27 January 2014. Mr. Gong Jiantang was nominated by GoerTek to join the Board as a non-executive Director with effect from the completion of the Shares Subscription. Details of the Shares Subscription and the Placing had been disclosed in the announcement of the Company dated 27 January 2014.

On 11 March 2014, the Company (for itself and on behalf of its subsidiaries) had signed a new framework purchase agreement (“New Purchase Agreement”) with GoerTek (for itself and on behalf of its subsidiaries) in relation to the transactions for selling of parts, components and other products (including but not limited to FPC products) by the Group to GoerTek, the contract period commenced from 3 April 2014 and expiring on 31 December 2016. Such transactions constituted non-exempt continuing connected transactions of the Company under the Listing Rules. The New Purchase Agreement and the transactions contemplated thereunder, as well as the proposed annual caps for the three years from 2014 were approved by the independent shareholders at the extraordinary general meeting of the Company held on 16 April 2014. Details about the terms of the New Purchase Agreement, the continuing connected transactions and the proposed annual caps had been disclosed in the Company’s announcement dated 11 March 2014 and the Company’s circular dated 1 April 2014. During the Period, the Group sold parts, components and other products of approximately HK\$22.45 million to GoerTek pursuant to the New Purchase Agreement.

On 18 June 2014, the Company transferred the listing of its shares from GEM to the Main Board. Details of the transfer of listing of the shares of the Company from GEM to the Main Board had been disclosed in the announcements of the Company dated 11 April 2014 and 6 June 2014.

During the Period, in order to enhance the development potential of the Group’s flexible packaging substrates business, to uplift the research and development ability of the Group, and to build up positive co-operative relationship with major manufacturers in the semi-conductor packaging industry in the PRC, the Group had signed an investment agreement in relation to capital investment in National Center for Advanced Packaging Co., Ltd. (“NCAP China”), with an investment amount of RMB 15 million. The capital contribution was completed in June 2014 and the Group currently holds approximately 9.32% equity interest in NCAP China.

During the Period, in order to enhance the Group’s management standard and strengthen its systematic management ability, the Group had entered into agreements with relevant information system suppliers to rebuild the management information system of the Group, so as to better achieve our goal of a centralized, standardized and digitalized system of management. It is expected that the new management information system will commence operation by the end of this year.

Outlook

The Group is dedicated to strengthen its core competence and achieve the Group's profit goal, thereby creating greater value for its shareholders, its staffs as well as the community. It is the Group's mission to become a major international supplier of FPC, flexible packaging substrates and electronic modules and to become an industry leader in the PRC market.

The Group principally provides services to international brand and domestic customers by the provision of FPC and electronic components, as well as high-end flexible packaging substrates products. At present, the Group has become a qualified supplier of a number of globally renowned electronic manufacturers.

With the changing competition landscape and increasing competition in the market, the development of FPC industry has become even more ever-changing during the first half of the year and the Group had recorded decrease in orders from major overseas clients. The performance of the FPC business of the Group had not met expectation and there was a drop in operation efficiency due to the fluctuating orders from clients and the rising costs. While it is expected that the market will still face great uncertainty in the second half of the year, the Group will strive to uplift the sales scale and operation efficiency by putting more efforts in market development.

The Group's flexible packaging substrates business has combined both of the advantages of FPC and packaging substrates. Following the increase in investment on the research and development, and the recruitment of talents with knowledge in advance technology and management, the Group will devote to enhancing the technological capabilities, resolving technical problem encountered throughout the bulk production process and increasing the production yield. With Phase II of Suzhou Factory which is expected to commence production by the end of 2014, the Directors believe that the flexible packaging substrates business will become one of the major sources of the Group's sales income and profit growth.

During the year, the Group will continue to focus on the following aspects: identifying and developing international brand customers and domestic customers, securing more sales orders, conducting research and development for new products, setting up new production lines and carrying out pre-development works with new clients for flexible packaging substrates business, improving automation level of FPC business at Nansha Factory and Suzhou Factory, and optimising internal corporate management. As a result, internal management and competitiveness will be continuously strengthened and our profitability is expected to be gradually uplifted.

The Board is of the opinion that, the Group is now capable of serving major international customers and fulfilling their personalized demands in general. Following the enhancement of the Group's market exploration ability, the introduction of strategic investor and the uplift of the ability to tap into the global supply chain system, the management of the Group is confident to deliver satisfactory results to its shareholders and bring favorable returns to its shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations primarily with internally generated funds from operating activities and banking facilities currently available. It is anticipated that the Group has sufficient working capital to meet its present funding requirements.

As at 30 June 2014, net current assets were approximately HK\$99.53 million (as at 31 December 2013: net current assets of approximately HK\$1.63 million).

As at 30 June 2014, there were bank balances, cash on hand and bank deposits of approximately HK\$64.88 million (as at 31 December 2013: approximately HK\$44.53 million).

As at 30 June 2014, there were bank borrowings of approximately HK\$94 million (as at 31 December 2013: approximately HK\$126.32 million) and bank overdraft of approximately HK\$6.14 million (as at 31 December 2013: Nil).

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2014, bank deposits of approximately HK\$2.36 million (as at 31 December 2013: 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 2014, land use rights, buildings and machinery with carrying amounts of approximately HK\$20.16 million, HK\$61.94 million and HK\$69.97 million respectively (as at 31 December 2013: approximately HK\$20.67 million, HK\$63.5 million and HK\$71.73 million respectively) were pledged to secure the general banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2014, the Group had outstanding capital commitments of approximately HK\$107.138 million (as at 31 December 2013: approximately HK\$19.47 million).

GEARING RATIO

As at 30 June 2014, the gearing ratio (calculated as total liabilities over total assets as at the respective balance sheet dates) of the Group was approximately 32.69% (as at 31 December 2013: approximately 56.82%).

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 2014.

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 2014, the Group had a total of 1,817 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 2014.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2014.

SIGNIFICANT INVESTMENT HELD

Save as disclosed in this report, the Group did not have any significant investment as at 30 June 2014.

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 30 June 2014, 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 the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

(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)	18,750,000 ordinary shares	Beneficial owner	Long	1.90
Mr. Chai Zhi Qiang (Note 2)	16,300,000 ordinary shares	Beneficial owner	Long	1.65
Ms. Li Ying Hong (Note 3)	5,300,000 ordinary shares	Beneficial owner	Long	0.54
Mr. Liang Zhi Li (Note 4)	800,000 ordinary shares	Beneficial owner	Long	0.08

Notes:

1. On 25 June 2014, an aggregate of 2,000,000 ordinary 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 6 August 2004 by the Company, at an exercise price of HK\$0.40 per share. Since 25 June 2014, Mr. Xiong Zheng Feng has been the beneficial owner of an aggregate of 18,750,000 ordinary shares in the Company, representing approximately 1.90% of the total issued share capital in the Company.
2. On 25 June 2014, an aggregate of 2,800,000 ordinary 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 6 August 2004 by the Company, at an exercise price of HK\$0.40 per share. Since 25 June 2014, Mr. Chai Zhi Qiang has been the beneficial owner of 16,300,000 ordinary shares in aggregate in the Company, representing approximately 1.65% of the total issued share capital in the Company.
3. On 25 June 2014, an aggregate of 600,000 ordinary 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 6 August 2004 by the Company, at an exercise price of HK\$0.40 per share. Since 25 June 2014, Ms. Li Ying Hong has been the beneficial owner of 5,300,000 ordinary shares in aggregate in the Company, representing 0.54% of the total issued share capital in the Company.
4. Mr. Liang Zhi Li is the beneficial owner of 800,000 ordinary shares in aggregate in the Company, representing 0.08% of the total issued share capital in the Company.

(b) The associated corporation

As at 30 June 2014, 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 the Model Code.

(b) Substantial shareholders

Save as disclosed below, as at 30 June 2014, 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)	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	36.46
Silver City International (Holdings) Ltd. ("Silver City") (Note 1)	Interest in controlled corporation	360,000,000 ordinary shares	Long	36.46
China North Industries Corporation ("CNIC") (Note 1)	Interest in controlled corporation	360,000,000 ordinary shares	Long	36.46
Goertek (HongKong) Co., Limited ("HK Goertek")	Beneficial owner	290,920,000 ordinary shares	Long	29.46
Weifang Goertek Trading Co., Limited ("Weifang Goertek") (Note 2)	Interest in controlled corporation	290,920,000 ordinary shares	Long	29.46
GoerTek Inc. ("GoerTek") (Note 2)	Interest in controlled corporation	290,920,000 ordinary shares	Long	29.46

Notes:

1. As Alpha Luck is wholly and beneficially owned by Silver City, which in turn is wholly and beneficially owned by CNIC, both Silver City and CNIC are 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 HK Goertek is wholly and beneficially owned by Weifang Goertek, which in turn is wholly and beneficially owned by GoerTek, both Weifang Goertek and GoerTek are deemed to be interested in the same number of shares of the Company held by HK Goertek under Part XV of the SFO.
3. As at 30 June 2014, none of Alpha Luck, Silver City, CNIC, HK Goertek, Weifang Goertek nor GoerTek was 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 had 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 1.1.2014	Exercised during the period (Note 3)	Lapsed during the period	Outstanding at 30.6.2014
Directors							
Mr. Xiong Zheng Feng	6.8.2004	18.8.2005 to 6.8.2014	0.40	2,000,000	(2,000,000)	-	-
Mr. Chai Zhi Qiang	6.8.2004	18.8.2005 to 6.8.2014	0.40	2,800,000	(2,800,000)	-	-
Ms. Li Ying Hong	6.8.2004	18.8.2005 to 6.8.2014	0.40	600,000	(600,000)	-	-
				<hr/> 5,400,000	<hr/> (5,400,000)	-	-
Employees	6.8.2004	18.8.2005 to 6.8.2014	0.40	3,000,000	(3,000,000)	-	-
Total				<hr/> 8,400,000	<hr/> (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.
3. On 25 June 2014, an aggregate of 8,400,000 shares of the Company were issued by the Company to such directors and employees pursuant to their exercises of the relevant share options.

Details of the movements in the number of options during the Period which have been granted under the Scheme are as follows:

Name or category of participant	Date of grant (Note 1)	Exercisable period (Notes 1 & 2)	Exercise price per share HK\$	Number of share options			
				Outstanding at 1.1.2014	Exercised during the period (Note 3)	Lapsed during the period	Outstanding at 30.6.2014
Employees	9.7.2007	10.7.2007 to 9.7.2017	0.36	6,100,000	(6,100,000)	-	-
Total				6,100,000	(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 25 June 2014, an aggregate of 6,100,000 shares of the Company were issued by the Company to such 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

The shares of the Company were listed on GEM on 18 August 2004 and the listing of the shares of the Company were subsequently transferred from GEM to the Main Board on 18 June 2014. Details for the transfer of listing of the shares of the Company from GEM to the Main Board were disclosed in the announcements of the Company dated 11 April 2014 and 6 June 2014.

Throughout the six months ended 30 June 2014, the Company complied with the code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules (prior to 18 June 2014) and Appendix 14 of the Listing Rules (on and after 18 June 2014).

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 (prior to 18 June 2014) and the Model Code of the Listing Rules (on and after 18 June 2014). 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 2014.

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 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.

APPOINTMENT OF DIRECTORS

On 27 January 2014, Mr. Gong Jiantang was appointed as an independent non-executive Director of the Company. Details of the appointment of Mr. Gong were disclosed in the announcement of the Company dated 27 January 2014.

REMUNERATION COMMITTEE

The Company has established a remuneration committee, which comprises two non-executive Directors and one executive Director. The chairman of the committee is Mr. Liang Zhi Li, an independent non-executive Director, and other members are Ms. Li Ying Hong and Mr. Bi Keyun. As such, majority of the members are independent non-executive Directors.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the audit committee of the Company are to review and supervise the financial reporting process and internal control procedures of the Company and provide advice and comments to the Directors.

The audit committee comprises three members, Mr. Hung Chi Yuen Andrew, Mr. Liang Zhi Li and Mr. Bi Keyun. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Hung Chi Yuen Andrew.

NOMINATION COMMITTEE

The Company has established a nomination committee, which comprises two non-executive Directors and one executive Director. The chairman of the committee is Mr. Xiong Zheng Feng, the chairman of the Board, and other members are Mr. Hung Chi Yuen Andrew and Mr. Liang Zhi Li. As such, majority of the members are independent non-executive Directors.

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 2014.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The interim financial report for the year 2014 will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (<http://www.akmcompany.com>) in due course.

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

Hong Kong, 8 August 2014

As at the date of this report, the executive Directors are Xiong Zheng Feng, Chai Zhi Qiang and Li Ying Hong; the non-executive Directors are Meng Weiwei and Gong Jiantang; and the independent non-executive Directors are Hung Chi Yuen Andrew, Liang Zhi Li and Bi Keyun.