

2015

Interim Report



AKM

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

HIGHLIGHTS

- For the six months ended 30 June 2015, the unaudited turnover increased to approximately HK\$307,063,000, representing an increase of approximately 1.71% as compared to the corresponding period of last year. The profit attributable to the owners of the Company amounted to approximately HK\$866,000, representing a decrease of approximately 88.02% as compared to the corresponding period of last year.
- Basic earnings per share of the Group was approximately HK0.09 cents and diluted earnings per share was approximately HK0.09 cents for the six months ended 30 June 2015.

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 2015 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 2015 and 30 June 2014

		For the six months ended 30 June 2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
	Notes		
Turnover	3	307,063	301,912
Cost of sales		(268,097)	(260,310)
Gross profit		38,966	41,602
Other income		12,792	4,312
Distribution costs		(7,828)	(6,647)
Administrative expenses		(11,759)	(16,355)
Research and development expenses		(29,143)	(13,575)
Finance costs		(1,603)	(1,709)
Profit before taxation	4	1,425	7,628
Taxation	5	(345)	(211)
Profit for the period		1,080	7,417
Other comprehensive income (expenses):			
Exchange differences arising on translation of foreign operations		6,996	(10,902)
Total comprehensive income (loss) for the period		8,076	(3,485)
Profit for the period attributable to:			
Owners of the Company		866	7,229
Minority interests		214	188
		1,080	7,417
Comprehensive income (expenses) attributable to:			
Owners of the Company		7,862	(3,673)
Minority interests		214	188
		8,076	(3,485)
Earnings per share (<i>HK cents</i>)	7		
Basic		0.09	0.79
Diluted		0.09	0.78

Condensed Consolidated Statement of Financial Position

At 30 June 2015 and 31 December 2014

	Notes	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	479,823	399,215
Prepaid lease payments for land		55,475	55,249
Available-for-sale investments		19,016	18,712
Deposits for acquisition of property, plant and equipment		7,621	17,017
		561,935	490,193
Current assets			
Inventories		72,225	60,218
Trade and other receivables	9	181,802	192,310
Bills receivables	9	14,470	12,611
Prepaid lease payments for land		1,341	1,319
Pledged bank deposits		2,356	2,356
Bank balances and cash		18,897	48,143
		291,091	316,957
Current liabilities			
Trade and other payables	10	141,447	126,783
Bills payables	10	18,763	27,687
Deferred income		1,485	4,103
Taxation payable		4,467	4,285
Bank borrowings	11	114,205	66,858
Bank overdrafts		3,358	14,307
		283,725	244,023
Net current assets		7,366	72,934
Total assets less current liabilities		569,301	563,127

		30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
	<i>Notes</i>		
Capital and reserves			
Share capital	12	333,161	333,161
Reserves		191,927	184,065
Equity attributable to owners of the Company		525,088	517,226
Minority interests		4,007	3,793
Total equity		529,095	521,019
Non-current liabilities			
Deferred income		29,673	29,616
Bank borrowings	11	8,512	10,471
Deferred taxation		2,021	2,021
		40,206	42,108
		569,301	563,127

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2015 and 30 June 2014

	Attributable to owners of the Company							Total HK\$'000 (Unaudited)
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Translation reserve HK\$'000 (Unaudited)	Share options reserve HK\$'000 (Unaudited)	Retained profits HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Minority interests HK\$'000 (Unaudited)	
At 1 January 2015	333,161	-	58,245	-	125,820	517,226	3,793	521,019
Exchange differences arising on translation of foreign operations	-	-	6,996	-	-	6,996	-	6,996
Profit for the period	-	-	-	-	866	866	214	1,080
Total comprehensive income for the period	-	-	6,996	-	866	7,862	214	8,076
At 30 June 2015	333,161	-	65,241	-	126,686	525,088	4,007	529,095
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 per value under new Companies Ordinance	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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2015 and 30 June 2014

	For the six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	7,434	(17,941)
Net cash used in investing activities	(61,278)	(110,395)
Net cash from financing activities	34,439	149,643
(Decrease) Increase in cash and cash equivalents	(19,405)	21,307
Cash and cash equivalents at beginning of the year	33,836	42,177
Effect of foreign exchange rate changes	1,108	(958)
Cash and cash equivalents at end of the period representing	15,539	56,385
Bank balances and cash	18,897	62,526
Bank overdraft	(3,358)	(6,141)
	15,539	56,385

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

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 2014.

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 business segments 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 segments are the basis on which the Group reports its principal 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	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
FPC business	247,851	237,834	268	76,536	(268)	(76,536)	10,828	10,431
Sourcing and sale of electronic components business	41,341	55,635	20,364	20,734	(20,364)	(20,734)	2,290	4,067
Flexible packaging substrates business	17,871	8,443	–	–	–	–	536	4,652
Total	307,063	301,912	20,632	97,270	(20,632)	(97,270)	13,654	19,150
Interest income							42	358
Central administration costs							(10,668)	(10,171)
Finance costs							(1,603)	(1,709)
Profit before taxation							1,425	7,628

(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	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC (other than Hong Kong)	155,036	228,337
Hong Kong	60,117	25,822
Others	91,910	47,753
Total	307,063	301,912

4. PROFIT BEFORE TAXATION

Six months ended 30 June	
2015	2014
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

Profit before taxation has been arrived at after charging:

Allowance for bad and doubtful debts	(215)	(265)
Allowance for obsolete inventories	5,839	1,515
Depreciation of property, plant and equipment	16,755	19,069
Amortisation of prepaid lease payments	666	668

and after crediting:

Interest income	42	358
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5. TAXATION

	Six months ended 30 June	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	190	78
PRC Enterprise Income Tax	155	133
	345	211
Deferred tax:		
Current period	–	–
	345	211

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.

AKM Electronics Technology (Suzhou) Ltd. ("AKM Suzhou") was awarded the Foreign Invested Advanced-Technology Enterprise Certificate. AKM Suzhou is 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 2015 (2014: 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	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	866	7,229
	Number of shares	
	2015	2014
Weighted average number of ordinary shares for the purpose of basic earnings per share	987,470,000	912,678,177
Effect of dilutive potential ordinary shares from share options	–	9,577,754
Number of ordinary shares for the purpose of diluted earnings per share	987,470,000	922,255,931

The calculation of the basic earnings per share is based on the profit attributable to shareholders of the Company of HK\$866,000 (the corresponding period of 2014: HK\$7,229,000) and the weighted average number of ordinary shares issued during the period of 987,470,000 shares (the corresponding period of 2014: 912,678,177 shares).

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$61,165,000 (2014: HK\$92,060,000) on the acquisition of property, plant and equipment, including equipments which were inspected and commissioned for production of approximately HK\$45,919,000 (2014: HK\$3,978,000) and construction in progress of approximately HK\$15,246,000 (2014: HK\$88,082,000).

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 2015 <i>HK\$'000</i> (Unaudited)	At 31 December 2014 <i>HK\$'000</i> (Audited)
Within 30 days	69,200	72,423
31 – 60 days	38,899	42,855
61 – 90 days	30,386	33,270
91 – 120 days	28,253	23,068
121 days – 1 year	18,377	9,588
Over 1 year	844	851
	185,959	182,055

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

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

	At 30 June 2015 <i>HK\$'000</i> (Unaudited)	At 31 December 2014 <i>HK\$'000</i> (Audited)
Within 30 days	59,185	98,607
31 – 60 days	30,754	23,880
61 – 90 days	30,286	4,307
91 – 120 days	13,861	1,109
121 days – 1 year	10,211	1,322
Over 1 year	881	53
	145,178	129,278

11. BANK BORROWINGS

	At 30 June 2015 <i>HK\$'000</i> (Unaudited)	At 31 December 2014 <i>HK\$'000</i> (Audited)
Borrowings which are repayable within one year (included in current liabilities):		
Loans from banks – secured	95,752	66,858
Trust receipts loans – secured	18,453	–
	114,205	66,858
Bank borrowings which are repayable after 1 year (included in non-current liabilities):		
After 1 year but within 2 years – secured	8,159	–
After 2 years but within 5 years – secured	353	10,471
	122,717	77,329

12. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
<i>Issued and fully paid:</i>		
At 30 June 2015		
– Ordinary shares with no par value	987,470,000	333,161

13. CAPITAL COMMITMENTS

	At 30 June 2015 <i>HK\$'000</i> (Unaudited)	At 31 December 2014 <i>HK\$'000</i> (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment		
– contracted for but not provided in financial statements	64,051	102,207

14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June 2015 <i>HK\$'000</i> (Unaudited)	2014 <i>HK\$'000</i> (Unaudited)
Transactions with a shareholder/an intermediate holding company:		
Interest paid by the Group	–	107
Transactions with a shareholder:		
Sales of goods by the Group	10,177	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 2015 (the “Period”), the turnover of the Group amounted to approximately HK\$307,063,000, representing an increase of approximately 1.71% as compared to the corresponding period of last year. The increase in turnover was contributed by the growth in the sales of FPC and the sales of flexible packaging substrates. The gross profit margin for the Period decreased slightly to approximately 12.69% (the corresponding period of 2014: 13.78%), which was mainly due to the decrease in the gross profit margin for both of the sales of FPC and flexible packaging substrates. The profit attributable to the owners of the Company for the Period was approximately HK\$866,000, while the profit attributable to the owners of the Company for the corresponding period of last year was approximately HK\$7,229,000, representing a decrease of approximately 88.02%. The decrease in profit for the Period was mainly attributed to: (a) the incurrence of substantial operating costs for Phase II of Suzhou Factory of the Group, which commenced trial production of flexible packaging substrates in the first quarter of this year and had not yet achieved the benefit of economy of scale at its initialization; and (b) the significant increase in research and development (“R&D”) expenses incurred for: (i) additional and/or relatively complicated R&D projects; and (ii) testing of newly constructed production lines and trial production of flexible packaging substrates in Phase II of Suzhou Factory.

Other income of the Group for the Period amounted to approximately HK\$12,792,000, representing an increase of approximately 196.66% as compared to the corresponding period of last year. The increase in other income was mainly due to the increase in government grants/subsidies for R&D, including, a supplementary grant/subsidy of RMB6,060,000 (equivalent to approximately HK\$7,600,000) received by the Group from Jiangsu provincial government in January 2015, pursuant to an application filed by the Group in November 2014 to the local government for supplementary funding support for the “02” Major Project under National Science and Technology Major Project (國家科技重大專項).

The distribution costs of the Group for the Period amounted to approximately HK\$7,828,000, representing an increase of approximately 17.77% as compared to the corresponding period of last year. The increase in distribution expenses was mainly due to the increase in salary expenses.

The administrative expenses of the Group for the Period amounted to approximately HK\$11,759,000, representing a decrease of approximately 28.10% as compared to the corresponding period of last year. If the one-off costs of approximately HK\$2,563,000 for the transfer of listing from GEM to the Main Board in the corresponding period of 2014 was not taken into account, then the administrative expenses for the Period recorded a decrease of approximately 14.74% as compared to the corresponding period of last year. The decrease in administrative expenses was mainly due to the decrease in exchange losses during the Period.

The research and development expenses of the Group for the Period amounted to approximately HK\$29,143,000, representing an increase of approximately 114.68% as compared to the corresponding period of last year. The increase in research and development expenses was mainly due to the significant increase in R&D expenses incurred for: (i) additional and/or relatively complicated R&D projects; and (ii) testing of newly constructed production lines and trial production of flexible packaging substrates in Phase II of Suzhou Factory.

The finance costs of the Group for the Period amounted to approximately HK\$1,603,000, representing a decrease of approximately 6.2% as compared to the corresponding period of last year. The decrease in finance costs was mainly due to the decrease in interest rate of bank borrowings.

Business Review and Prospects

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 modules, car electronics and cameras. The Group is also engaged in the sourcing and sale of electronic components and the manufacture and sale of flexible packaging substrates.

During the first half of 2015, the turnover of the Group amounted to approximately HK\$307,063,000, representing an increase of approximately 1.71% 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\$247,851,000, approximately HK\$41,341,000 and approximately HK\$17,871,000 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\$237,834,000, approximately HK\$55,635,000 and approximately HK\$8,443,000 respectively. During the first half of 2015, the profit attributable to the owners of the Company amounted to approximately HK\$866,000, representing a decrease of approximately 88.02% as compared to the corresponding period of last year. The decrease in profit was mainly attributed to: (a) the incurrence of substantial operating costs for Phase II of Suzhou Factory of the Group, which commenced trial production of flexible packaging substrates in the first quarter of this year and had not yet achieved the benefit of economy of scale at its initialization; and (b) the significant increase in R&D expenses incurred for: (i) additional and/or relatively complicated R&D projects; and (ii) testing of newly constructed production lines and trial production of flexible packaging substrates in Phase II of Suzhou Factory.

During the first half of 2015, the Group's sales of FPC increased by approximately 4.21% as compared to the corresponding period of last year, and its gross profit margin slightly decreased to approximately 12.45% (the corresponding period of 2014: approximately 13.45%). The turnover from sourcing and sales of electronic components decreased by approximately 25.69% as compared to the corresponding period of last year, while its gross profit margin increased to approximately 9.83% (the corresponding period of 2014: approximately 8.83%). The sales of flexible packaging substrates increased by approximately 111.67% as compared to the corresponding period of last year, and its gross profit margin slightly decreased to approximately 33.53% (the corresponding period of 2014: approximately 55.74%).

During the Period, the turnover for the sales of FPC business and the flexible packaging substrates business of the Group had all recorded growth as compared to the corresponding period last year, of which the flexible packaging substrates business increased by 111.67% as compared to the corresponding period of last year. However, since the quantity of mass production, production yield and production stability remained far short of the expectations of the Company, given the significant upfront investment, the slow effect had dragged down its gross profit margin.

During the Period, Phase II of Suzhou Factory of the Group had basically completed the installation testing of equipment and preparations for production, and had entered the stage of trial production. Nevertheless, due to the adverse effects brought by factors such as equipment testing and adjustment for production lines, the current output of Phase II of Suzhou Factory is rather limited and is yet to achieve its estimated production capacity.

During the Period, the Group continued to step up its efforts on the research and development of flexible packaging substrates; and most of the laboratory experiments for 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》) as a "02" Major Project under National Science and Technology Major Project (國家科技重大專項) for year 2014 undertaken by the Group were completed and is in the process of ascertaining the production techniques for mass production.


The Group mainly used its research and development expenses to support the development of National Science and Technology Major Project, recruit domestic and foreign technical experts, renew and renovate the testing and inspection equipment in the R&D center, and research and develop FPC production techniques to exceed the current capabilities. Research and development expenses for the Period increased significantly by 114.68% to HK\$29,143,000 as compared to the corresponding period of last year.

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\$10,177,000 to GoerTek pursuant to the New Purchase Agreement.

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 major international customers by the provision of FPC and its 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 environment in the electronic end-product market and the increasing reliance placed on electronic end-users by the FPC industry, the FPC industry is becoming increasingly volatile and uncertain, resulting in great fluctuations in orders from our clients. As new clients are continuously introduced to the Group, the Group's FPC business still achieved slight growth as compared to the corresponding period of last year. With the introduction of new production line for flexible packaging substrates to Phase II of Suzhou Factory, the flexible packaging substrates business recorded greater growth as compared to the corresponding period of last year despite a significant drop in operation efficiency of the Group due to the incurrence of substantial operating costs at its initialization. In the second half of the year, while it is expected that the market will still face great uncertainty and decrease in orders from foreign customers due to market shrank in their respective businesses, nevertheless, with the increasing demands from local customers, the Group estimated that its FPC business will maintain a stable growth, while the flexible packaging substrates business will face difficulty in achieving economies of scale as the production line for flexible packaging substrates at Phase II of Suzhou Factory is still at the initialization stage.

During the Year, the Group will continue to focus on the following aspects: to place more efforts in identifying and developing major international customers, to persist in uplifting the core competencies of Guangzhou Factory and Suzhou Factory, to implement total budget management and cost saving schemes and to optimise internal control. As a result of internal improvement, the management standard and competitive edges of the Group 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 demand in general. With the enhancement of the Group's market exploration ability, the introduction of strategic investors 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 to bring about 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 2015, net current assets were approximately HK\$7,366,000 (as at 31 December 2014: net current assets of approximately HK\$72,934,000).

As at 30 June 2015, there were bank balances, cash on hand and bank deposits of approximately HK\$21,253,000 (as at 31 December 2014: approximately HK\$50,499,000).

As at 30 June 2015, there were bank borrowings of approximately HK\$122,717,000 (as at 31 December 2014: approximately HK\$77,329,000) and bank overdraft of approximately HK\$3,358,000 (as at 31 December 2014: HK\$14,307,000).

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2015, bank deposits of approximately HK\$2,360,000 (as at 31 December 2014: approximately HK\$2,360,000) 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 2015, land use rights, buildings and machinery with carrying amounts of approximately HK\$20,018,000, HK\$61,303,000 and HK\$60,190,000 respectively (as at 31 December 2014: approximately HK\$19,698,000, HK\$60,324,000 and HK\$59,061,000 respectively) were pledged to secure the general banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2015, the Group had outstanding capital commitments of approximately HK\$64,051,000 (as at 31 December 2014: approximately HK\$102,207,000).

GEARING RATIO

As at 30 June 2015, the gearing ratio (calculated as total liabilities over total assets as at the respective balance sheet dates) of the Group was approximately 37.97% (as at 31 December 2014: approximately 35.45%).

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 2015.

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 2015, the Group had a total of 1,910 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 2015.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2015.

SIGNIFICANT INVESTMENT HELD

Save as disclosed in this report, the Group did not have any significant investment as at 30 June 2015.

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 30 June 2015, 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	6,320,000 ordinary shares	Beneficial owner	Long	0.64
Mr. Chai Zhi Qiang	5,580,000 ordinary shares	Beneficial owner	Long	0.57
Ms. Li Ying Hong	5,300,000 ordinary shares	Beneficial owner	Long	0.54

(b) The associated corporation

As at 30 June 2015, 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 2015, 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	343,750,000 ordinary shares	Long	34.81
Silver City International (Holdings) Ltd. ("Silver City") (Note 1)	Interest in controlled corporation	343,750,000 ordinary shares	Long	34.81
China North Industries Corporation ("CNIC") (Note 1)	Interest in controlled corporation	343,750,000 ordinary shares	Long	34.81
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 2015, 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"). The Scheme lapsed on 17 August 2014. There are no outstanding options under the Pre-IPO Scheme and the Scheme.

During the year ended 31 December 2014, an aggregate of 8,400,000 shares were issued by the Company on 25 June 2014 pursuant to the exercise of options granted under the Pre-IPO Scheme by certain directors and employees of the Company at the exercise price of HK\$0.4 per share. Further, an aggregate of 6,100,000 shares were issued by the Company on the same date pursuant to the exercise of options granted under the Scheme by certain employees of the Company at the exercise price of HK\$0.36 per share. The weighted average closing price of the shares of the Company immediately before the date on which the options under the Pre-IPO Scheme and the Scheme were exercised was HK\$1.24 per share.

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 2015, the Company complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the 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 the Model Code of the 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 2015.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the period was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

COMPETING INTERESTS

None of the Directors nor their respective associates (as defined under the 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 16 February 2015, Mr. Zhao Xiao was appointed as an independent non-executive Director of the Company. Details of the appointment of Mr. Zhao were disclosed in the announcement of the Company dated 16 February 2015.

On 12 March 2015, Mr. Gao Xiaoguang was appointed as a non-executive Director of the Company. Details of the appointment of Mr. Gao were disclosed in the announcement of the Company dated 12 March 2015.

REMUNERATION COMMITTEE

The Company has established a remuneration committee, which comprises three non-executive Directors. The chairman of the committee is Mr. Zhao Xiao, 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. Bi Keyun and Mr. Zhao Xiao. 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. Zhao Xiao. As such, majority of the members are independent non-executive Directors.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2015.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The interim financial report for the year 2015 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, 7 August 2015

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