



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

A detailed, high-angle photograph of a microchip on a printed circuit board (PCB). The chip is a dark, square component with a textured surface, positioned centrally. The PCB is a complex network of fine, golden-brown traces and various components, including small capacitors and resistors. The lighting is dramatic, with bright, radial beams of light emanating from behind the chip, creating a sense of depth and highlighting the intricate details of the board. The overall color palette is dominated by blues and yellows, giving it a high-tech, futuristic appearance.

INTERIM REPORT
2016



HIGHLIGHTS

- For the six months ended 30 June 2016, the unaudited revenue decreased to approximately HK\$284,453,000, representing a decrease of approximately 7.36% as compared to the corresponding period of last year. The loss attributable to the owners of the Company amounted to approximately HK\$11,297,000, while the profit attributable to the owners of the Company amounted to approximately HK\$866,000 for the corresponding period of last year.
- For the six months ended 30 June 2016, basic loss per share of the Group was approximately HK1.14 cents, and diluted loss per share was approximately HK1.14 cents.

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 2016 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 2016

	Notes	For the six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	3	284,453	307,063
Cost of sales		(239,166)	(268,097)
Gross profit		45,287	38,966
Other income		5,018	12,792
Distribution costs		(6,915)	(7,828)
Administrative expenses		(12,512)	(11,759)
Research and development expenses		(36,617)	(29,143)
Finance costs		(2,331)	(1,603)
(Loss) profit before taxation	4	(8,070)	1,425
Taxation	5	(3,271)	(345)
(Loss) profit for the period		(11,341)	1,080
Other comprehensive (expenses) income: Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		(12,385)	6,996
Total comprehensive (expenses) income for the period		(23,726)	8,076
(Loss) profit for the period attributable to:			
Owners of the Company		(11,297)	866
Non-controlling interests		(44)	214
		(11,341)	1,080
Total comprehensive (expenses) income attributable to:			
Owners of the Company		(23,682)	7,862
Non-controlling interests		(44)	214
		(23,726)	8,076
(Loss) earnings per share (HK cents)	7		
Basic		(1.14)	0.09
Diluted		(1.14)	0.09

Condensed Consolidated Statement of Financial Position

At 30 June 2016

	<i>Notes</i>	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	442,854	462,072
Prepaid lease payments		49,827	51,600
Available-for-sale investments		17,503	17,904
Deposits for acquisition of property, plant and equipment		16,365	7,284
		526,549	538,860
Current assets			
Inventories		84,487	63,772
Trade and other receivables	9	194,919	192,440
Prepaid lease payments for land		1,234	1,262
Pledged bank deposits		2,356	2,356
Bank balances and cash		27,531	32,851
		310,527	292,681
Current liabilities			
Trade and other payables	10	191,220	176,855
Deferred income		983	822
Taxation payable		2,549	1,981
Bank borrowings	11	125,881	119,410
		320,633	299,068
Net current liabilities		(10,106)	(6,387)
Total assets less current liabilities		516,443	532,473

	<i>Notes</i>	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Capital and reserves			
Share capital	12	333,161	333,161
Reserves		135,125	158,808
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Equity attributable to owners of the Company		468,287	491,969
Non-controlling interests		925	3,219
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Total equity		469,212	495,188
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Non-current liabilities			
Deferred income		26,532	27,539
Bank borrowings	11	17,809	6,856
Deferred taxation		2,890	2,890
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		47,231	37,285
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		516,443	532,473
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Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to owners of the Company					
	Share capital	Translation reserve	Retained profits	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2016	333,161	32,803	126,005	491,969	3,219	495,188
Exchange differences arising on translation of foreign operations	-	(12,385)	-	(12,385)	-	(12,385)
Loss for the period	-	-	(11,297)	(11,297)	(44)	(11,341)
Total comprehensive expenses for the period	-	(12,385)	(11,297)	(23,682)	(44)	(23,726)
Dividends	-	-	-	-	(2,250)	(2,250)
At 30 June 2016	333,161	20,418	114,708	468,287	925	469,212
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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Net cash from operating activities	15,393	7,434
Net cash used in investing activities	(35,218)	(61,278)
Net cash from financing activities	15,174	34,439
Net decrease in cash and cash equivalents	(4,651)	(19,405)
Cash and cash equivalents at 1 January	32,851	33,836
Effect of foreign exchange rate changes	(669)	1,108
Cash and cash equivalents at 30 June, represented by	27,531	15,539
Bank balances and cash	27,531	18,897
Bank overdraft	–	(3,358)
	27,531	15,539

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

1. GENERAL

The Company is a public limited company incorporated in Hong Kong with limited liability on 9 December 1993.

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 registered office of the Company is situated at Rooms 2708-11, 27th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, and the principal place of business of the Company is situated at 63 Huan Shi Road South, Information Technology Park, Nansha District, Guangzhou City, Guangdong Province, the People's Republic of China (the "PRC").

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 condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by HK\$10,106,000 as at 30 June 2016 and the Group incurred a loss for the period of HK\$11,341,000.

The directors of the Company are of the opinion that, taking into account the presently available banking facilities and internal financial resources of the Group, the Group has sufficient working capital to meet in full its financial obligations as they fall due in the foreseeable future. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

The financial information relating to the year ended 31 December 2015 included in the condensed consolidated interim financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Cap.622) of the Laws of Hong Kong ("Companies Ordinance") is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The Interim Financial Statements are unaudited but have been reviewed by the audit committee of the Company.

3. REVENUE AND SEGMENTS INFORMATION

Revenue 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	–	the 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 – external sales		Inter-segment sales		Eliminations		Segment results	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
FPC business	267,979	247,851	517	268	(517)	(268)	25,068	10,828
Sourcing and sale of electronic components business	10,901	41,341	–	20,364	–	(20,364)	165	2,290
Flexible packaging substrates business	5,573	17,871	–	–	–	–	(19,187)	536
Total	284,453	307,063	517	20,632	(517)	(20,632)	6,046	13,654
Interest income							37	42
Central administration costs							(11,822)	(10,668)
Finance costs							(2,331)	(1,603)
(Loss) profit before taxation							(8,070)	1,425

(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:

	Revenue	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC (other than Hong Kong)	204,188	155,036
Hong Kong	39,500	60,117
Others	40,765	91,910
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Total	284,453	307,063
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4. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss) profit before taxation has been arrived at after charging (crediting):		
Reversal of allowance for bad and doubtful debts	–	(215)
Allowance for obsolete inventories	3,932	5,839
Depreciation of property, plant and equipment	22,996	16,755
Amortisation of prepaid lease payments	629	666
Interest income	(37)	(42)
	<hr/>	<hr/>

5. TAXATION

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	–	190
PRC Enterprise Income Tax	3,271	155
	3,271	345
Deferred tax:		
Current period	–	–
	3,271	345

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit of the Group companies incorporated in Hong Kong for both periods. The income of the 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 Industrial (Panyu) Ltd. ("AKM Panyu") was awarded the Foreign Invested Advanced-Technology Enterprise Certificate, it is entitled to tax rate reduction from 25% to 15% for three years commenced from 1 January 2015.

AKM Electronics Technology (Suzhou) Ltd. ("AKM Suzhou") was awarded the Foreign Invested Advanced-Technology Enterprise Certificate, and was therefore entitled to tax rate reduction from 25% to 15% for three years commenced from 1 January 2013, and expired on 31 December 2015. AKM Suzhou has applied to the relevant PRC government authorities for the renewal of its qualification as advanced technology enterprise. If the renewal application is approved, AKM Suzhou will continue to be entitled to the tax reduction from 25% to 15% for three years commenced from 1 January 2016. If the application is not approved, AKM Suzhou shall be subject to the tax rate of 25% commenced from 1 January 2016.

6. DIVIDEND

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

7. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss) profit for the period attributable to owners of the Company for the purpose of (loss) earnings per share	(11,297)	866
	Number of shares	
	2016	2015
Weighted average number of ordinary shares for the purpose of (loss) earnings per share	987,470,000	987,470,000

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$15,995,000 (2015: approximately HK\$61,165,000) on the acquisition of property, plant and equipment, including equipments which were inspected and commissioned for production of approximately HK\$8,356,000 (2015: approximately HK\$45,919,000) and plant and construction in progress of approximately HK\$7,639,000 (2015: approximately HK\$15,246,000).

9. TRADE AND OTHER 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 presented based on the invoice dates (other than bills receivables which are presented based on the issuance date of relevant bills) at the end of the reporting period, which approximated the respective revenue recognition dates:

	At	At
	30 June	31 December
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 30 days	90,079	75,023
31 – 60 days	42,290	35,736
61 – 90 days	17,704	17,759
91 – 120 days	9,930	19,878
121 days – 1 year	5,680	12,566
Over 1 year	780	803
	166,463	161,765

10. TRADE AND OTHER PAYABLES

The following is an aged analysis by invoice date/bills issued date of trade and bills payables at the end of the reporting period:

	At	At
	30 June	31 December
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 30 days	77,146	50,635
31 – 60 days	38,849	38,106
61 – 90 days	21,064	26,457
91 – 120 days	2,240	11,463
121 days – 1 year	2,100	12,601
Over 1 year	3,417	572
	144,816	139,834

11. BANK BORROWINGS

	At	At
	30 June	31 December
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Borrowings which are repayable within one year (included in current liabilities):		
Loans from banks – unsecured	45,508	13,206
Loans from banks – secured	80,373	104,818
Trust receipts loans – secured	–	1,386
	125,881	119,410
Bank borrowings which are repayable after 1 year (included in non-current liabilities):		
After 1 year but within 2 years – secured	17,809	4,068
After 2 years but within 5 years – secured	–	2,788
	143,690	126,266

12. SHARE CAPITAL

	Number of	Share capital
	shares	HK\$'000
<i>Issued and fully paid:</i>		
At 30 June 2016		
– Ordinary shares with no par value	987,470,000	333,161

13. CAPITAL COMMITMENTS

	At 30 June 2016 <i>HK\$'000</i> (Unaudited)	At 31 December 2015 <i>HK\$'000</i> (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment		
– contracted for but not provided in financial statements	49,880	19,810

14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June 2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Transactions with a shareholder		
Sales of goods by the Group	33,334	10,177
Transactions with related party:		
Rentals for office charged to the Group	60	60

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2016 (the "Period"), the revenue of the Group amounted to approximately HK\$284,453,000, representing a decrease of approximately 7.36% as compared to the corresponding period of last year. The decrease in revenue in the Period was mainly due to the decrease in the sales of electronic components and the sales of flexible packaging substrates. The gross profit margin for the Period increased slightly to approximately 15.92% (the corresponding period of 2015: 12.69%), which was mainly due to the increase in gross profit margin for the sales of FPC. The loss attributable to the owners of the Company for the Period was approximately HK\$11,297,000, while the profit attributable to the owners of the Company for the corresponding period of last year was approximately HK\$866,000. The loss for the Period was mainly attributable to the fact that as the newly set up flexible packaging substrates production lines at Phase II of Suzhou Factory of the Group were still at the stage of trial production and were under continuous development and investment, the sales volume was small, benefit of economy of scale has not yet been achieved, thus incurring higher operating costs and resulting in a relatively huge drop in profit margin.

Other income of the Group for the Period amounted to approximately HK\$5,018,000, representing a decrease of approximately 60.77% as compared to the corresponding period of last year. The decrease in other income was mainly due to the decrease in government grants/subsidies for research and development ("R&D"). The Group had received a supplementary grant/subsidy of RMB6,060,000 (equivalent to approximately HK\$7,600,000) for the "02" Major Project under National Science and Technology Major Project (國家科技重大專項) ("02" Major Project") from Jiangsu provincial government in January 2015. During the Period, the Group did not receive any government grant/subsidy for the "02" Major Project.

The distribution costs of the Group for the Period amounted to approximately HK\$6,915,000, representing a decrease of approximately 11.66% as compared to the corresponding period of last year. The decrease in distribution costs was mainly attributed to the decrease in electronic components business resulting in decrease in the corresponding distribution costs.

The administrative expenses of the Group for the Period amounted to approximately HK\$12,512,000, representing an increase of approximately 6.40% as compared to the corresponding period of last year. The slight increase in administrative expenses was due to the increase in depreciation charges during the Period.

The R&D expenses of the Group for the Period amounted to approximately HK\$36,617,000, representing an increase of approximately 25.65% as compared to the corresponding period of last year. The increase in R&D expenses was mainly due to (i) the increase in R&D expenses for the "02" Major Project; and (ii) the significant increase in R&D expenses incurred for testing of the newly set up production lines and trial production of flexible packaging substrates at Phase II of Suzhou Factory.

The finance costs of the Group for the Period amounted to approximately HK\$2,331,000, representing an increase of approximately 45.4% as compared to the corresponding period of last year. The increase in finance costs was mainly due to the increase in the amount and 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 2016, the revenue of the Group amounted to approximately HK\$284,453,000, representing a decrease of approximately 7.36% as compared to the corresponding period of last year. The decrease in revenue was mainly due to (i) the Group proactively reduced and adjusted the trading business of electronic components; and (ii) the flexible packaging substrates business was still at the stage of trial production, and the business development progress was slower than expected. During the Period, the revenue for the sales of FPC, the sourcing and sales of electronic components and the sales of flexible packaging substrates were approximately HK\$267,979,000, HK\$10,901,000 and HK\$5,573,000 respectively, while the revenue for the sales of FPC, the sourcing and sales of electronic components and the sales of flexible packaging substrates for the corresponding period of last year were approximately HK\$247,851,000, HK\$41,341,000 and HK\$17,871,000 respectively. During the first half of 2016, the loss attributable to the owners of the Company amounted to approximately HK\$11,297,000, while the profit attributable to the owners of the Company amounted to approximately HK\$866,000 for the corresponding period of last year. The loss for the Period was mainly attributed to the fact that as the newly set up flexible packaging substrates production lines at Phase II of Suzhou Factory of the Group were still at the stage of trial production and were under continuous development and investment, the sales volume was small, benefit of economy of scale has not yet been achieved, thus incurring higher operating costs and resulting in a relatively huge drop in profit margin.

During the first half of 2016, the Group's sales of FPC increased by approximately 8.12% as compared to the corresponding period of last year, and its gross profit margin increased to approximately 17.13% (the corresponding period of 2015: approximately 12.45%). The revenue from sourcing and sales of electronic components decreased by approximately 73.63% as compared to the corresponding period of last year, while its gross profit margin decreased to approximately 1.5% (the corresponding period of 2015: approximately 9.83%). The sales of flexible packaging substrates decreased by approximately 68.82% as compared to the corresponding period of last year, and its gross loss margin was approximately 14% (gross profit margin for the corresponding period of 2015: approximately 33.53%).

During the Period, the revenue for the sales of FPC business of the Group recorded a growth as compared to the corresponding period of last year, which was mainly attributed to positive effects gradually achieved by the Group's strategy for developing major customers, amongst which, the sales to one of the major customers specialized in mobile communication devices had recorded significant growth as compared to the corresponding period of last year, and it becomes the Group's largest customer.

The Group proactively reduced and adjusted the trading business of electronic components since 2015, in order to minimize the risks of its trading. Revenue for the sales of electronic components business for the Period thus further decreased, and no longer have a material impact on the business development and business risks of the Group.

The Group mainly used its R&D expenses to support the development of National Science and Technology Major Project, to recruit domestic and foreign technical experts, to renew and renovate the testing and inspection equipment in the R&D center, and to research and develop FPC production techniques to uplift the current capabilities. The "02" Major Project undertaken by the Group is currently in progress according to its schedule. During the Period, R&D expenses increased by approximately 25.65% to approximately HK\$36,617,000 as compared to that of 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 Inc. (“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\$33,334,000 (the corresponding period for 2015: approximately HK\$10,177,000) to GoerTek pursuant to the New Purchase Agreement, representing an increase of approximately 227.54% as compared to that of the corresponding period of last year.

Outlook

The Group’s mission is to become a major international supplier of FPC, flexible packaging substrates and electronic modules and to become an industry leader in the PRC market. To this end, the Group will further expand the businesses of FPC, and enhance its capability to provide “one-stop services” to its customers. The Group will also explore high-value-added flexible packaging substrates business, in order to improve its core competitiveness and to better cater for the demands of customers.

With the increasing competition in the global FPC market and the high reliance placed on electronic end-users by the FPC industry, the recession of the overall FPC industry aggravated, and enterprises in the FPC industry recorded mixed performances. The Group has become an authorised supplier for a number of world-renowned electronic manufacturers. Due to the increase in customer orders for the Period, the FPC business achieved satisfactory results. It is expected that the FPC business during the year will record an increase as compared to that of last year. As the Group’s flexible packaging substrates business was still at trial production stage and incurred substantial operating cost during the Period, the introduction of orders from customers remained slow. It is expected that the operation of the flexible packaging substrates business during the year will remain difficult.

During the Year, the Group will continue to focus on the following aspects: (i) concentrating its resources, developing and maintaining major customers; (ii) commencing mass production of flexible packaging substrates; (iii) focus on uplifting the competency of the factories; (iv) strengthening human resources management, team building and building of leaders at various levels, uplifting the management standard; and (v) optimizing internal control measures, so as to continuously uplift the core competitiveness of the Group.

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 and the uplift of competency in factory management, 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 2016, net current liabilities were approximately HK\$10,106,000 (as at 31 December 2015: net current liabilities of approximately HK\$6,387,000).

As at 30 June 2016, there were bank balances, cash on hand and bank deposits of approximately HK\$29,887,000 (as at 31 December 2015: approximately HK\$35,207,000).

As at 30 June 2016, there were bank borrowings of approximately HK\$143,690,000 (as at 31 December 2015: approximately HK\$126,266,000) and bank overdraft of HK\$0 (as at 31 December 2015: HK\$0).

PLEDGE OF ASSETS OF THE GROUP

As at 30 June 2016, bank deposits of approximately HK\$2,356,000 (as at 31 December 2015: approximately HK\$2,356,000) 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 2016, land use rights, buildings and machinery with carrying amounts of approximately HK\$17,989,000, HK\$54,918,000 and HK\$23,598,000 respectively (as at 31 December 2015: approximately HK\$18,401,000, HK\$56,176,000 and HK\$24,139,000 respectively) were pledged to secure the general banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 30 June 2016, the Group had outstanding capital commitments of approximately HK\$49,880,000 (as at 31 December 2015: approximately 19,810,000).

GEARING RATIO

As at 30 June 2016, the gearing ratio (calculated as total liabilities over total assets as at the respective balance sheet dates) of the Group was approximately 43.95% (as at 31 December 2015: approximately 40.45%).

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 2016.

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 revenue 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 2016, the Group had a total of 2,108 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. 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 2016.

CONTINGENT LIABILITIES

The Group had no any material contingent liabilities as at 30 June 2016.

MATERIAL INVESTMENT

Save as disclosed in this report, the Group did not have any material investment for the six months ended 30 June 2016.

DISCLOSURE OF INTERESTS

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

Save as disclosed below, as at 30 June 2016, 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 2016, 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 2016, 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 2016, none of Alpha Luck, Silver City, CNIC, HK Goertek, Weifang Goertek nor GoerTek was interested in any securities of the Company under equity derivatives.

CORPORATE GOVERNANCE

Save as disclosed in this report, throughout the six months ended 30 June 2016, the Company complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

As Mr. Bi Keyun did not seek for renewal of his appointment as an independent non-executive Director, a member of the audit committee and a member of the remuneration committee upon the expiry of his term on 3 February 2016, the number of independent non-executive Directors and the number of members of the audit committee of the Company fall below the minimum number required under Rules 3.10(1) and 3.21 of the Listing Rules respectively since 4 February 2016. Further, the requirement that the remuneration committee should comprise a majority of independent non-executive Directors under Rule 3.25 of the Listing Rules could not be complied with since 4 February 2016. The Company appointed Mr. Cui Zheng as an independent non-executive Director, a member of the audit committee and a member of the remuneration committee of the Company with effect from 3 May 2016. Accordingly, Rules 3.10(1), 3.21 and 3.25 of the Listing Rules have been complied with since 3 May 2016.

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 2016.

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.

RETIREMENT AND APPOINTMENT OF DIRECTORS

On 3 February 2016, Mr. Bi Keyun did not seek for renewal of his appointment as an independent non-executive Director, a member of the audit committee and a member of the remuneration committee of the Company due to his retirement. Details of the retirement of Mr. Bi were disclosed in the announcement of the Company dated 3 February 2016.

On 3 May 2016, Mr. Cui Zheng was appointed as an independent non-executive Director, a member of the audit committee and a member of the remuneration committee of the Company. Details of the appointment of Mr. Cui were disclosed in the announcement of the Company dated 3 May 2016.

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. Cui Zheng. As such, the 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. Zhao Xiao and Mr. Cui Zheng. 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, the majority of the members are independent non-executive Directors.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

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 2016.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in the section headed "Business Review", there were no other important events affecting the Group that have occurred after 30 June 2016 and up to the date of this report.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The interim financial report for the year 2016 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 2016

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, Gao Xiaoguang and Jia Junan; and the independent non-executive Directors are Hung Chi Yuen Andrew, Zhao Xiao and Cui Zheng.