

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

HIGHLIGHTS

- For the year ended 31 December 2016, the turnover of the Company and its subsidiaries (collectively, the “Group”) amounted to approximately HK\$821,662,000, representing an increase of approximately 30.29% as compared to the turnover of last year, and the profit attributable to the owners of the Company for the year amounted to approximately HK\$27,944,000, while the profit attributable to the owners of the Company of last year was approximately HK\$185,000.
- Earnings per share of the Group was approximately HK2.72 cent for the year ended 31 December 2016.
- The board of Directors do not recommend the payment of final dividend for the year ended 31 December 2016 (2015: nil).

THE FINANCIAL STATEMENTS

Results

The board (the “Board”) of directors (the “Directors”) of the Company hereby announces the audited consolidated results of the Group for the year ended 31 December 2016 (the “year”), together with the comparative audited figures for the year 2015, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<i>Notes</i>	2016 HK\$'000	2015 HK\$'000
Revenue	4	821,662	630,631
Cost of sales		<u>(646,373)</u>	<u>(551,392)</u>
Gross profit		175,289	79,239
Other income	5	15,037	36,321
Distribution costs		(15,897)	(16,360)
Administrative expenses		(31,852)	(25,234)
Research and development expenses		(92,122)	(70,324)
Finance costs	6	<u>(5,198)</u>	<u>(3,598)</u>
Profit before taxation	7	45,257	44
Taxation	8	<u>(17,567)</u>	<u>(366)</u>
Profit (loss) for the year		<u>27,690</u>	<u>(322)</u>
Other comprehensive expense:			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		<u>(36,571)</u>	<u>(25,509)</u>
Total comprehensive expense for the year		<u>(8,881)</u>	<u>(25,831)</u>
Profit (loss) for the year attributable to:			
Owners of the Company		27,944	185
Non-controlling interests		<u>(254)</u>	<u>(507)</u>
		<u>27,690</u>	<u>(322)</u>
Total comprehensive expense attributable to:			
Owners of the Company		(8,543)	(25,257)
Non-controlling interests		<u>(338)</u>	<u>(574)</u>
		<u>(8,881)</u>	<u>(25,831)</u>
		2016	2015 (Restated)
Earnings per share – basic	9	<u>HK2.72 cents</u>	<u>HK0.02 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

		2016	2015
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		474,339	462,072
Prepaid lease payments		47,147	51,600
Available-for-sale investment		16,769	17,904
Deposits for property, plant and equipment		15,363	7,284
		<u>553,618</u>	<u>538,860</u>
Current assets			
Inventories		79,771	63,772
Trade and other receivables	10	318,121	192,440
Prepaid lease payments		1,182	1,262
Pledged bank deposits		2,356	2,356
Bank balances and cash		26,603	32,851
		<u>428,033</u>	<u>292,681</u>
Current liabilities			
Trade and other payables	11	321,807	176,855
Deferred income		2,395	822
Taxation payable		6,829	1,981
Bank borrowings		134,391	119,410
		<u>465,422</u>	<u>299,068</u>
Net current liabilities		<u>(37,389)</u>	<u>(6,387)</u>
Total assets less current liabilities		<u><u>516,229</u></u>	<u><u>532,473</u></u>

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves		
Share capital	333,161	333,161
Reserves	150,265	158,808
	<hr/>	<hr/>
Equity attributable to owners of the Company	483,426	491,969
Non-controlling interests	631	3,219
	<hr/>	<hr/>
Total equity	484,057	495,188
	<hr/>	<hr/>
Non-current liabilities		
Deferred income	25,045	27,539
Bank borrowings	–	6,856
Deferred taxation	7,127	2,890
	<hr/>	<hr/>
	32,172	37,285
	<hr/>	<hr/>
	516,229	532,473
	<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company			Non-controlling interests	Total
	Share capital	Translation reserve	Retained profits		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	333,161	58,245	125,820	3,793	521,019
Profit (loss) for the year	–	–	185	(507)	(322)
Other comprehensive expense	–	(25,442)	–	(67)	(25,509)
Total comprehensive (expense) income for the year	–	(25,442)	185	(574)	(25,831)
At 31 December 2015	333,161	32,803	126,005	3,219	495,188
Profit (loss) for the year	–	–	27,944	(254)	27,690
Other comprehensive expense	–	(36,487)	–	(84)	(36,571)
Total comprehensive (expense) income for the year	–	(36,487)	27,944	(338)	(8,881)
Dividend paid	–	–	–	(2,250)	(2,250)
At 31 December 2016	333,161	(3,684)	153,949	631	484,057

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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, the People’s Republic of China (the “PRC”).

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) while the functional currency of the Company is HK\$. The reason for selecting Hong Kong dollars as its presentation currency is because the Company is a public limited company in Hong Kong.

The Company is an investment holding company and is engaged in sourcing of raw materials and equipment for its subsidiaries and trading of flexible printed circuits (“FPC”). Its subsidiaries are principally engaged in manufacture and sale of FPC, sourcing and sale of electronic components and manufacture and sale of flexible packaging substrates.

The financial information relating to the years ended 31 December 2016 and 2015 included in this preliminary announcement of annual results 2016 do not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those consolidated 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 and will deliver the financial statements for the year ended 31 December 2016 in due course.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for the sales of FPC, electronic components, manufacture and sale of flexible packaging substrates to external customers, net of discounts and sales related taxes.

Segment information

Information reported to the Executive Directors of the Company, being the chief operating decision makers (“CODM”), for the purpose of resource allocation and assessment of segment performance focuses on type of goods delivered.

For management purposes, the Group is currently organised into three operating divisions, namely the manufacture and sale of FPC, sourcing and sale of electronic components and manufacture and sale of flexible packaging substrates. These divisions are the basis on which the Group reports its segment information to the CODM.

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 revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

	Segment revenue						Segment results	
	– external sales		Inter-segment sales		Eliminations		2016	2015
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
FPC business	779,019	548,959	2,120	78,110	(2,120)	(78,110)	115,893	36,141
Sourcing and sale of electronic components business	23,036	55,403	–	38,014	–	(38,014)	33	1,372
Flexible packaging substrates business	19,607	26,269	4,562	824	(4,562)	(824)	(42,826)	(12,965)
Total	<u>821,662</u>	<u>630,631</u>	<u>6,682</u>	<u>116,948</u>	<u>(6,682)</u>	<u>(116,948)</u>	<u>73,100</u>	<u>24,548</u>
Interest income							88	65
Central administration costs							(22,733)	(20,971)
Finance costs							(5,198)	(3,598)
Profit before taxation							<u>45,257</u>	<u>44</u>

Revenue reported above represents revenue generated from external customers.

Geographical information

The Group operates in two principal geographical areas – the PRC (excluding Hong Kong) and Hong Kong (country of domicile). The following table provides an analysis of the Group's revenue from external customers by the geographical location of the customer:

	Revenue from external customers	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
PRC other than Hong Kong	450,841	277,657
Hong Kong	279,598	248,254
Others	91,223	104,720
	<u>821,662</u>	<u>630,631</u>

Substantially all of the Group's non-current assets, including property, plant and equipment, prepaid lease payments, are located in the PRC.

5. OTHER INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Release of government grant for construction of factory on existing land	781	829
Release of government grant for research and development projects	5,608	18,651
Government subsidies	2,657	15,806
Interest income	88	65
Rental income	172	21
Scrap income	1,166	536
Net exchange gain	4,362	–
Others	203	413
	<u>15,037</u>	<u>36,321</u>

6. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interests on bank borrowings	<u>5,198</u>	<u>3,598</u>

7. PROFIT BEFORE TAXATION

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting) include:		
Allowance (reversal of allowance) for doubtful debts	1,096	(71)
Amortisation of prepaid lease payments	1,236	1,311
Cost of inventories recognised as an expense (note)	646,373	551,392
Depreciation of property, plant and equipment	46,224	38,141
Loss on disposal of property, plant and equipment	<u>4,498</u>	<u>505</u>

Note: The amount includes allowance for obsolete inventories of HK\$1,546,000 (2015: HK\$3,346,000).

8. TAXATION

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	314	–
PRC Enterprise Income Tax	<u>15,332</u>	<u>3,300</u>
	<u>15,646</u>	<u>3,300</u>
Under(over)provision in prior years:		
Hong Kong Profits Tax	63	53
PRC Enterprise Income Tax	<u>(2,761)</u>	<u>(3,979)</u>
	<u>(2,698)</u>	<u>(3,926)</u>
	<u>12,948</u>	<u>(626)</u>
Deferred tax:		
Current year	<u>4,619</u>	<u>992</u>
	<u>17,567</u>	<u>366</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. 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") and AKM Electronics Technology (Suzhou) Ltd. ("AKM Suzhou") were awarded the Foreign Invested Advanced-Technology Enterprise Certificate in prior years. AKM Panyu and AKM Suzhou are entitled to tax rate reduction from 25% to 15% for three years commenced from 1 January 2015 and 1 January 2016 respectively.

9. EARNINGS PER SHARE

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings	<u>27,944</u>	<u>185</u>
	Number of shares	
	2016	2015 (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,026,727,217</u>	<u>1,026,727,217</u>

The weighted average number of ordinary shares in issue during the year and the comparative period were adjusted to affect the effect of bonus element of the rights issue which was completed on 13 March 2017.

There were no potential ordinary share in existence for the two years ended 31 December 2016. Accordingly, no diluted earnings per share has been presented.

10. TRADE AND OTHER RECEIVABLES

Trade and other receivables include the following balances of trade and bills receivables:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade and bills receivables	297,354	168,431
<i>Less:</i> Allowance for doubtful debts	<u>(41)</u>	<u>(6,666)</u>
	297,313	161,765
Other tax recoverable	6,854	14,259
Other receivables and prepayments (<i>note</i>)	<u>13,954</u>	<u>16,416</u>
	<u>318,121</u>	<u>192,440</u>

Note: The amount mainly represents the prepayments which in the opinion of the directors, the amount is expected to be utilised within the next 12 months.

The Group allows a credit period normally ranging from 30 to 90 days to its trade customers. At the discretion of the directors, after assessing credit quality of particular customers, several major customers were allowed to settle their balances beyond the credit terms up to 120 days.

Before accepting any new customer, the management assesses the potential customer's credit quality and defines credit limits by customer. Approximately 90% (2015: 73%) of the Group's trade receivables are neither past due nor impaired.

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:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 30 days	160,575	75,023
31 – 60 days	87,311	35,736
61 – 90 days	24,621	17,759
91 – 120 days	17,184	19,878
121 days – 1 year	7,622	12,566
Over 1 year	<u>–</u>	<u>803</u>
	<u>297,313</u>	<u>161,765</u>

11. TRADE AND OTHER PAYABLES

Trade and other payables include the following balances:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade and bills payables	249,365	139,834
Payables for acquisition of property, plant and equipment	22,431	6,278
Accrued staff costs	30,897	13,020
Construction payables	8,893	12,809
Other taxation payables	915	674
Other payables and accruals	9,306	4,240
	<u>321,807</u>	<u>176,855</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 30 days	87,320	50,635
31 – 60 days	63,935	38,106
61 – 90 days	48,831	26,457
91 – 120 days	27,648	11,463
121 days – 1 year	19,679	12,601
Over 1 year	1,952	572
	<u>249,365</u>	<u>139,834</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2016, the turnover of the Group was approximately HK\$821,662,000, representing an increase of approximately 30.29% as compared to the turnover of last year. The increase in turnover was mainly due to the staggering growth in demand from the domestic mobile phone customers, which resulted in significant increase in the sales of FPC. As the gross profit margin for the sales of FPC increased significantly, the overall gross profit margin for the year increased to approximately 21.33% (2015: approximately 12.57%).

Profit attributable to owners of the Company in 2016 was approximately HK\$27,944,000, while profit attributable to owners of the Company in 2015 was approximately HK\$185,000, representing an increase of approximately 15,004.86%. The significant increase in profit was mainly due to the significant increase in the sales volume of FPC business. The cumulative revenue from FPC business of the Group for the year recorded a year-on-year growth of approximately 41.91%. The increase in sales revenue demonstrated the gradual achievement of economies of scale in FPC business, with the gross profit margin for FPC products increased from approximately 13.41% in last year to approximately 22.39% in 2016. The profit of FPC business not only covered operation losses of flexible packaging substrates business, but also contributed to significant increase in profit.

For the year ended 31 December 2016, the other income of the Group amounted to approximately HK\$15,037,000, representing a decrease of approximately 58.60% as compared to that of last year. The decrease in other income was mainly attributed to (i) no supplementary grant/subsidy for “02” major project titled “Development and Industrialization of Tape High-Density and Ultra-Thin Flexible Packaging Substrates Technology” under National Science and Technology Major Project for year 2014 (“02 Major Project”) was received by the Group in 2016 from Jiangsu provincial government and the local government of Gaoxin District in Suzhou City of Jiangsu Province, while supplementary grant/subsidy in the aggregate amount of RMB11,877,000 (equivalent to approximately HK\$14,719,000) for the 02 Major Project was received by the Group in 2015; and (ii) the decrease in other government subsidies as compared to that of last year.

For the year ended 31 December 2016, the distribution costs of the Group amounted to approximately HK\$15,897,000, representing a decrease of approximately 2.83% as compared to that of last year. The decrease in distribution costs was mainly due to the decrease in export of products and trade business during the year under review, which resulted in decrease in transportation expense and express fee as compared to that of last year.

For the year ended 31 December 2016, the administrative expenses of the Group were approximately HK\$31,852,000, representing an increase of approximately 26.23% as compared to that of last year. The increase in administrative expenses was mainly due to increase in depreciation and loss of disposal of fixed asset during the year under review.

For the year ended 31 December 2016, the research and development expenses of the Group amounted to approximately HK\$92,122,000, representing an increase of approximately 31.00% as compared to that of last year. The increase in research and development expenses was mainly attributed to the significant increase in research and development expenses for development of new products, new production techniques and automation development for factories as well as the testing and trial production of the flexible packaging substrates production lines at Phase II of Suzhou Factory.

For the year ended 31 December 2016, the finance cost of the Group amounted to approximately HK\$5,198,000, representing an increase of approximately 44.47% as compared to that of last year. The increase in finance cost was mainly due to the increase in bank borrowings and the rise of interest rate of borrowings.

Business Review

The Group is principally engaged in the manufacturing and sale of FPC and flexible packaging substrates, which are mainly used for communication, LCD and consumer electronic products (such as mobile phone, liquid crystal display module, automobile electronics and camera) and high-end application of electronic products. The Group is also engaged in the sourcing and sale of electronic components, and other businesses.

For the year ended 31 December 2016, the turnover of the Group amounted to approximately HK\$821,662,000, representing an increase of approximately 30.29% as compared to that of 2015. The increase in turnover was mainly due to the staggering growth in demand from the domestic mobile phone customers, which resulted in significant increase in the sales of FPC. During the year under review, the turnover of the Group for the sales of FPC, the sourcing and sales of electronic components, and the sales of flexible packaging substrates were approximately HK\$779,019,000, HK\$23,036,000 and HK\$19,607,000 respectively, while the turnover for sales of FPC, the sourcing and sales of electronic components and the sales of flexible packaging substrates for the year ended 31 December 2015 were approximately HK\$548,959,000, HK\$55,403,000 and HK\$26,269,000 respectively. In 2016, the profit attributable to the owners of the Group amounted to approximately HK\$27,944,000, representing an increase of approximately 15,004.86% as compared to HK\$185,000 of 2015. The significant increase in profit was mainly due to significant increase in the sales volume of FPC business. The increase in sales revenue demonstrated the gradual achievement of economies of scale in FPC business, with the gross profit margin of FPC products increased from approximately 13.41% in last year to approximately 22.39% in 2016.

During the year under review, the turnover for the sales of FPC business of the Group increased by approximately 41.91% as compared to that of last year and its gross sales profit margin increased to approximately 22.39% (2015: approximately 13.41%). The turnover for the sourcing of electronic components business decreased by approximately 58.42% as compared to that of last year, while its gross profit margin decreased to approximately 1.49% (2015: approximately 6.65%). The turnover for the flexible packaging substrates business decreased by approximately 25.36% as compared to that of last year, while its gross profit margin decreased to approximately 2.57% (2015: approximately 7.39%).

During the year under review, the Group recorded a significant increase in the turnover of its FPC business due to staggering growth in demand from domestic customers, and the gradual achievement of economies of scale in FPC business. However, as the development of flexible packaging substrates business did not progress as expected, economies of scale was not achieved and significant operation loss was still recorded for the flexible packaging substrates business.

The Group has proactively reduced and adjusted the trading business of electronic components since 2015 in order to minimize the risks of its trading business. During the year under review, the sales revenue from the business of electronic components of the Group further decreased, and no longer had a material impact on the Group's business development and business risks.

During the year under review, the Group continued to increase investment in research and development. The research and development expenses increased to approximately HK\$92,122,000, representing an increase of approximately 31.00% as compared to that of last year. Due to the continuous increase of new application fields of FPC and flexible packaging substrates and the continuous uplift of requirements in product structure and complexity by downstream customers, the Group continued to increase investment in research and development to continuously uplift technology standard and technical capability, to conduct research and development in new materials, new products and new production techniques and automation transformation in equipment. During the year under review, the main development task undertaken by the Group for the 02 Major Project had been completed and all technical indicators had been achieved on schedule.

On 1 April 2014, the Company (for itself and on behalf of its subsidiaries) signed a framework purchase agreement (“Existing 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) (“Subject Transactions”). As the term of the Existing Purchase Agreement expired on 31 December 2016, the Company (for itself and on behalf of its Subsidiaries) and GoerTek (for itself and on behalf of its Subsidiaries) renewed the Existing Purchase Agreement on 6 December 2016, by entering into the Renewed Purchase Agreement (“Renewed Purchase Agreement”) in relation to the Subject Transactions for a further term of three years commenced from 1 January 2017 and expiring on 31 December 2019. Such transactions constituted non-exempt continuing connected transactions of the Company under the Listing Rules. The Renewed Purchase Agreement and the transactions contemplated thereunder, as well as the annual caps for each of the year ending 31 December 2017, 31 December 2018 and 31 December 2019 were approved by the independent shareholders at the extraordinary general meeting of the Company held on 16 January 2017. Details about the terms of the Renewed Purchase Agreement, the continuing connected transactions and the annual caps had been disclosed in the Company’s announcement dated 6 December 2016 and the circular dated 29 December 2016. In 2016, the Group sold FPC and flexible packaging substrates products of approximately RMB77,735,000 (equivalent to approximately HK\$90,822,000) (2015: approximately RMB23,374,000 (equivalent to approximately HK\$28,968,000)) to GoerTek and its subsidiaries, representing an increase of approximately 213.53% as compared to that of last year.

On 25 January 2017, the Company proposed to raise approximately HK\$133,600,000, net of expenses, by issuing 246,867,500 rights shares (“Rights Shares”) to the qualifying shareholders by way of rights (“Rights Issue”), at the subscription price of HK\$0.55 (“Subscription Price”) per Rights Share to (i) allow the Company to strengthen its financial position; (ii) increase the capital base of the Company for future development purposes; and (iii) provide funding to capture suitable development opportunities principally for the flexible packaging substrates products as and when they arise. The Rights Issue had been completed on 13 March 2017. Details about the Rights Issue were disclosed in the Company’s announcement dated 25 January 2017, 9 February 2017 and 13 March 2017 as well as the prospectus dated 20 February 2017.

Outlook

The Group has become an authorised supplier for a number of world-renowned electronic manufacturers. In order to meet the requirements of the supply chain system of such customers, the Group has established two production bases: Southern China Guangzhou Factory and Eastern China Suzhou Factory. With the gradual uplift of production capability and scale, the Group’s capability to satisfy the “one-stop demand” of such customers is also largely improved. Following the stable enhancement in the Group’s capability to serve major international customers, the Group is confident to maintain a reasonable customer structure through market exploration and to improve the share of supply to its major customers. Following the continuous increase of new application fields of FPC and flexible packaging substrates and the foreseeable achievement in the research and development of the production technologies of FPC

and flexible packaging substrates, the Group is confident to seize the market opportunities in the new application fields and to continuously improve the operation conditions of FPC and flexible packaging substrates.

The management of the Group is of the opinion that the FPC industry continues to grow despite the sluggish global economy and the slow down of China's economy. The main developing trend of the current FPC industry is "increasing technological complexity of products, more intense market competition and more new application fields". Looking ahead, the Group will strive to (i) intensify technology development and improvement in order to uplift key technology capabilities and increase product yield rate; (ii) develop new application fields of FPC and flexible packaging substrates and maintain and increase the supply for major customers; and (iii) uplift production and manufacturing capability with lean management. With more reasonable customer structure of FPC business and increase of application opportunities of flexible packaging substrates business, the Group expects to seize the development opportunities for the industry, to overcome the difficulties in the development of flexible packaging substrates business and to continue to increase the operation results, so as to present satisfactory results and provide favorable returns for its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its operations primarily with internally generated funds from operating activities and existing bank facilities. It is anticipated that the Group has sufficient working capital to meet its present funding requirements. As at 31 December 2016, the outstanding loan balance for the Group was approximately HK\$134,391,000.

EMPLOYEE

As at 31 December 2016, the Group had a total of 2,175 full-time employees based in Hong Kong and China (2015: 2,023 employees). For the year ended 31 December 2016, the total labor costs (including Director's remuneration) for the Group amounted to approximately HK\$177,387,000 (2015: approximately HK\$171,925,000). The Group determines and reviews the remunerations of its Directors and employees based on their respective qualifications, experiences, performances and the market rates, so as to maintain the remuneration of the Directors and employees at a competitive level. The Group participates in various defined contribution retirement plans and insurance schemes in compliance with the statutory obligations under the laws and regulations of China and Hong Kong. The Directors believe that being one of the most important assets of the Group, employees are important contributors to the success of the Group. The Group appreciates the importance of staff training, therefore, regular trainings are provided to the employees to enhance their technical and product knowledge. The majority of the Group's employees are stationed in China.

MATERIAL INVESTMENT

Save as disclosed in this announcement, the Group did not have any material investments during the year ended 31 December 2016.

SUBSEQUENT EVENT

On 25 January 2017, the Company proposed to raise approximately HK\$133,600,000, net of expenses, by issuing 246,867,500 Rights Shares to the qualifying shareholders by way of rights, at the Subscription Price of HK\$0.55 per Rights Share. The Rights Issue had been completed on 13 March 2017. Details about the Rights Issue were disclosed in the Company's announcement dated 25 January 2017, 9 February 2017 and 13 March 2017 as well as the prospectus dated 20 February 2017.

Save as disclosed in this announcement, there were no other important events affecting the Group that have occurred since 31 December 2016 and up to the date of this announcement.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in this announcement, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2016.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR PURCHASE OF CAPITAL ASSETS

Save as disclosed in this announcement, the Group did not have any future plans for material investment or purchase of capital asset as at 31 December 2016.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2016, bank deposits of approximately HK\$2,356,000 (as at 31 December 2015: approximately HK\$2,356,000) of the Group were pledged as collateral to secure bank facilities granted to the Group. Trade receivables of approximately HK\$8,677,000 were pledged as collateral to secure bank facilities granted to the Group (as at 31 December 2015: nil).

As at 31 December 2016, land use rights and buildings with carrying amounts of approximately HK\$16,818,000 and HK\$51,171,000 respectively (as at 31 December 2015: approximately HK\$18,401,000 and HK\$56,176,000) were pledged to secure the general bank facilities granted to the Group.

As at 31 December 2015, machinery and equipment with carrying amount of HK\$24,139,000 (as at 31 December 2016: HK\$ nil) was pledged to secure the general bank facilities granted to the Group.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2016.

GEARING RATIO

As at 31 December 2016, the net cash and cash equivalents of the Group amounted to approximately HK\$26,603,000. As at 31 December 2016, the gearing ratio of the Group was approximately 50.69% (as at 31 December 2015: approximately 40.45%), which was calculated based on the Group's total liabilities of approximately HK\$497,594,000 (as at 31 December 2015: HK\$336,353,000) and the Group's total assets of approximately HK\$981,651,000 (as at 31 December 2015: HK\$831,541,000).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The income and expenditure of the Group are mainly denominated in US dollars and RMB, while 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 operating results and the financial position of the Group may be affected by any changes in the exchange rates, the Group has not taken any hedging measures in this regard. Furthermore, the conversion of RMB denominated balances into foreign currencies is subject to the foreign exchange control rules and regulations promulgated by the Chinese government. However, taking into account the Group's current operation and capital requirements, the Directors do not consider the Group as a subject to any material foreign exchange risk.

DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2016 (2015: nil).

CLOSURE OF SHARE REGISTER FOR ANNUAL GENERAL MEETING

Persons who hold shares of the Company and whose names appear on the Register of Members of the Company as at 23 May 2017 shall be entitled to attend and vote at the AGM, which is to be held on 26 May 2017. To be qualified to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 22 May 2017. The Register of Members of the Company will be closed from 23 May 2017 to 26 May 2017 (both days inclusive) for the purposes of the AGM during which no transfer of shares will be effected.

CORPORATE GOVERNANCE

Save for the deviation as disclosed in this announcement, the Company had complied with all the code provisions set out in the Corporate Governance Code (collectively "Code") contained in Appendix 14 of the Listing Rules by establishing formal and transparent procedures to protect and maximize the interests of shareholders during the year under review.

AUDIT COMMITTEE

The Company established the 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 are to review and supervise the financial reporting process, risk management and internal control system of the Group and provide advice and comments on the Company's draft of annual reports and accounts and half-year reports. During the year under review, the audit committee comprised of three members, namely Mr. Hung Chi Yuen Andrew, Mr. Zhao Xiao and Mr. Cui Zheng. All of them were independent non-executive directors. The chairman of the audit committee was Mr. Hung Chi Yuen Andrew. As the term of office of Mr. Bi Keyun expired on 3 February 2016 and he did not seek for renewal of his appointment as a member of the audit committee with effect from 4 February 2016, the number of members of the audit committee fell below the minimum number required under Rule 3.21 of the Listing Rules since 4 February 2016 until the Company appointed Mr. Cui Zheng as a member of the audit committee of the Company with effect from 3 May 2016. Accordingly, Rule 3.21 of the Listing Rules have been complied with since 3 May 2016.

The Group's audited annual results for the year ended 31 December 2016 had been reviewed by the audit committee.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as at 31 December 2016, none of the Directors and the chief executive of the Company 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules:

(a) The Company

(i) Interest in shares of the Company

Name	Name of the Company in which interest is held	Class and number of securities of which interested (other than under equity derivatives)	Capacity	Long/short position	Approximate percentage of total number of issued shares in the Company as at 31 December 2016
Mr. Xiong Zheng Feng (Note 1)	the Company	6,320,000 ordinary shares	Beneficial owner	Long	0.64
Mr. Chai Zhi Qiang (Note 2)	the Company	5,580,000 ordinary shares	Beneficial owner	Long	0.57
Ms. Li Ying Hong (Note 3)	the Company	5,300,000 ordinary shares	Beneficial owner	Long	0.54

Note:

- On 25 January 2017, the Company proposed to issue 246,867,500 Rights Shares to the qualifying shareholders by way of rights, at the Subscription Price of HK\$0.55 per Rights Share. The Rights Issue had been completed on 13 March 2017, and the relevant Right Shares had been allotted and issued to the qualifying shareholders on 13 March 2017. After the completion of the Rights Issue and as at the date of this announcement, Mr. Xiong Zheng Feng beneficially owns 7,900,000 ordinary shares of the Company, representing approximately 0.64% of the total number of issued shares of the Company as at the date of this announcement.

2. After the completion of the Rights Issue and as at the date of this announcement, Mr. Chai Zhi Qiang beneficially owns 6,975,000 ordinary shares of the Company, representing approximately 0.57% of the total number of issued shares of the Company as at the date of this announcement.
3. After the completion of the Rights Issue and as at the date of this announcement, Ms. Li Ying Hong beneficially owns 6,625,000 ordinary shares of the Company, representing approximately 0.54% of the total number of issued shares of the Company as at the date of this announcement.

(ii) Interest in the underlying shares of the Company through equity derivatives

As at 31 December 2016, to the best knowledge of directors, none of the Directors nor chief executive of the Company had or was deemed to have any interest in the underlying shares the Company.

(b) The associated corporation

As at 31 December 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company, its holding companies, fellow subsidiaries or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at any time during the year under review or at the end of the year under review.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, to the best knowledge of the Directors and chief executive of the Company, shareholders (other than Directors) who had any interests or short positions in the shares and underlying shares of the Company 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 10% or more of all issued shares to vote in all circumstances at general meetings of any members of the Group are set out as below:

Name of substantial shareholder	Capacity	Class and number of securities in which interested (other than under equity derivatives) <i>(Note 5)</i>	Long/short position	Approximate percentage of total number of issued shares in the Company as at 31 December 2016
Alpha Luck Industrial Ltd. ("Alpha Luck") <i>(Note 1)</i>	Beneficial owner	360,000,000 ordinary shares	Long	36.46
Silver City International (Holdings) Ltd. ("Silver City") <i>(Note 2)</i>	Interest in controlled corporation	360,000,000 ordinary shares	Long	36.46
China North Industries Corporation ("CNIC") <i>(Note 2)</i>	Interest in controlled corporation	360,000,000 ordinary shares	Long	36.46
Goertek (HongKong) Co., Limited ("HK Goertek") <i>(Note 3)</i>	Beneficial owner	290,920,000 ordinary shares	Long	29.46
Weifang Goertek Trading Co., Limited ("Weifang Goertek") <i>(Note 4)</i>	Interest in controlled corporation	290,920,000 ordinary shares	Long	29.46
GoerTek <i>(Note 4)</i>	Interest in controlled corporation	290,920,000 ordinary shares	Long	29.46

Note:

1. After the completion of the Rights Issue and as at the date of this announcement, Alpha Luck beneficially owns 450,000,000 ordinary shares, representing approximately 36.46% of the total number of issued shares of the Company as at the date of this announcement.

2. 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.
3. After the completion of the Rights Issue and as at the date of this announcement, HK Goertek beneficially owns 363,650,000 ordinary shares, representing approximately 29.46% of the total number of issued shares of the Company as at the date of this announcement.
4. 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.
5. None of Alpha Luck, Silver City, CNIC, HK Goertek, Weifang Goertek nor GoerTek was interested in any securities of the Company under equity derivatives.

PURCHASE, SALE OR REDEMPTION OF 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 year ended 31 December 2016.

COMPETING INTERESTS

None of the Directors or their respective associates (as defined under the Listing Rules) had any interest in a business which causes or may cause significant competition with the business of the Group.

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

Hong Kong, 24 March 2017

As at the date of this announcement, the executive Directors of the Company are Xiong Zheng Feng and Chai Zhi Qiang; the non-executive Directors of the Company are Li Ying Hong, Gao Xiaoguang and Jia Junan; and the independent non-executive Directors of the Company are Hung Chi Yuen Andrew, Zhao Xiao and Cui Zheng.