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**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)**

## **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the announcement of the Company dated 6 December 2016 and the circular of the Company dated 29 December 2016 in respect of the sale of parts, components and other products (including but not limited to flexible printed circuits (“FPC”) products) (“**Subject Transactions**”) by the Group to GoerTek Group under the Existing Purchase Agreement. As the term of the Existing Purchase Agreement had expired on 31 December 2019, 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 by entering into the Renewed Purchase Agreement in relation to the Subject Transactions for a further term of three years commenced from 1 January 2020 and expiring on 31 December 2022.

As at the date of this announcement, Goertek HongKong, a wholly-owned subsidiary of GoerTek, holds 363,650,000 Shares of the Company, representing approximately 23.64% of the issued shares of the Company. Accordingly, GoerTek is a substantial shareholder and a connected person of the Company under the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) for each of the Proposed Annual Caps for each of the year ending 31 December 2020, 31 December 2021 and 31 December 2022 exceed 5%, the Subject Transactions contemplated under the Renewed Purchase Agreement constitute non-exempt continuing connected transactions of the Company (“**Continuing Connected Transactions**”) and are therefore subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. The Renewed Purchase Agreement, the Continuing Connected Transactions and the Proposed Annual Caps are therefore subject to the approval of the Independent Shareholders at the EGM.

An Independent Board Committee comprising the independent non-executive Directors (namely Mr. Hung Chi Yuen Andrew, Mr. Cui Zheng and Mr. Yang Zhaoguo) has been established to advise the Independent Shareholders, and the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions and the Proposed Annual Caps.

## **DESPATCH OF CIRCULAR**

A circular (“**Circular**”) containing, among others, (i) further details of the Renewed Purchase Agreement, the Continuing Connected Transactions and the Proposed Annual Caps; (ii) a recommendation letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the EGM, will be despatched to the Shareholders on or before 5 February 2020.

As the Continuing Connected Transactions are subject to the compliance of Independent Shareholders’ approval requirement, no Subject Transactions will be conducted between the Group and GoerTek Group unless and until the Continuing Connected Transactions and the Proposed Annual Caps are approved by the Independent Shareholders of the Company at the EGM.

## **INTRODUCTION**

Reference is made to the announcement of the Company dated 6 December 2016 and the circular of the Company dated 29 December 2016 in respect of the sale of parts, components and other products (including but not limited to FPC products) by the Group to GoerTek Group under the Existing Purchase Agreement. As the term of the Existing Purchase Agreement had expired on 31 December 2019, 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 by entering into the Renewed Purchase Agreement in relation to the Subject Transactions for a further term of three years commenced from 1 January 2020 and expiring on 31 December 2022 with the following principal terms:

## **THE RENEWED PURCHASE AGREEMENT**

Date: 13 January 2020

Parties:

- (i) the Company (for itself and on behalf of its Subsidiaries) (as supplier)
- (ii) GoerTek (for itself and on behalf of its Subsidiaries) (as purchaser)

Contract Period:	1 January 2020 to 31 December 2022
Subject:	The Company (for itself and on behalf of its Subsidiaries) agreed to supply, and GoerTek (for itself and on behalf of its Subsidiaries) agreed to purchase, parts, components and other products (including but not limited to FPC products) by separate orders during the contract period.
Price determination:	Price for individual products is to be determined by the parties with reference to the prevailing market price of products of similar nature and to be agreed by the parties in writing under separate contract(s), order(s) and/or price quotation(s) in writing.
Payment terms:	Within 60 to 90 days from the date of receipt of invoice(s) by the purchaser. The specific term of payment to be agreed by the parties in the respective contract(s), order(s) and/or price quotation(s).

The validity of the Renewed Purchase Agreement is subject to the approval of the Independent Shareholders of the Company at the EGM.

### **Proposed Annual Caps**

The annual caps proposed by the Company (“**Proposed Annual Caps**”) for the Continuing Connected Transactions (exclusive of value-added tax) for the relevant periods are set out below:

	<b>1 January 2020 to 31 December 2020 RMB</b>	<b>1 January 2021 to 31 December 2021 RMB</b>	<b>1 January 2022 to 31 December 2022 RMB</b>
Proposed Annual Caps	200,000,000	250,000,000	300,000,000

The Proposed Annual Caps have been prepared by the Company primarily based on the following major factors and assumptions:

- (i) the historical transaction amounts under the Existing Purchase Agreement for each of the year ended 31 December 2017, 31 December 2018 and 31 December 2019;

- (ii) the capability in products development of the Group remains competitive;
- (iii) the expected increase in demand for the Group's products by GoerTek Group for each of the year ending 31 December 2020, 31 December 2021 and 31 December 2022 due to:
  - (a) the expected increase in the application of the Group's products for developing GoerTek Group's products for utilization in consumer electronics with augmented reality ("AR"), virtual reality ("VR"), true wireless stereos ("TWS") and/or artificial intelligence ("AI") technologies in the "post-mobile era";
  - (b) the expected increase in the development and commercialization of AR/VR market in the forthcoming years following the launch of 5G network and the increasingly mature of AR/VR technologies;
  - (c) the increase in co-operation between the Group and GoerTek Group in respect of FPCs and micro-electronic products (such as integrated circuit chips, micro electro-mechanical system chips and sensors), for the production of various kind of consumer electronics, such as speakers, smart phones, VR products, laptops, pads and wearable products, electronic bracelets, TWS earphones and smartwatches, for GoerTek Group's end customer(s) ("**GoerTek End Customers**");
  - (d) the continuous award and maintenance of qualified supplier recognition for the supply of the Group's products in manufacturing GoerTek Group's products to GoerTek End Customers;
  - (e) the continuous grant of product certification by GoerTek Group and GoerTek End Customers for adopting the Group's products in GoerTek Group's products manufactured for GoerTek End Customers; and
  - (f) further uplift of the Group's position in the supply chain of GoerTek Group; and
- (iv) the prices of the products supplied by the Group to GoerTek Group will remain relatively stable and competitive for each of the year ending 31 December 2020, 31 December 2021 and 31 December 2022.

Such projection is assumed solely for determining the Proposed Annual Caps and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group and/or GoerTek Group.

## Existing annual caps and historical transaction amounts

The existing annual caps and the historical transaction amounts under the Existing Purchase Agreement for each of the year ended 31 December 2017, 31 December 2018 and 31 December 2019 were as follows:

	<b>For the year ended 31 December 2017 RMB</b>	<b>For the year ended 31 December 2018 RMB</b>	<b>For the year ended 31 December 2019 RMB</b>
Existing annual caps	210,000,000	250,000,000	300,000,000

  

	<b>For the year ended 31 December 2017 (Audited) RMB</b>	<b>For the year ended 31 December 2018 (Audited) RMB</b>	<b>For the year ended 31 December 2019 (Unaudited) RMB</b>
Historical transaction amount ( <i>Note</i> )	103,988,000	119,440,000	93,030,000

*Note:*

For the three years ended 31 December 2019, the products supplied by the Group to GoerTek Group included FPC products (such as single-sided FPC, double-sided FPC and multi-layered FPC) and flexible packaging substrates, which were mainly used by GoerTek Group in the production of speakers, microphones, antennas and/or in the assembly of other products.

## **Pricing Policy**

As stated in the Renewed Purchase Agreement, price for individual products will be determined by the parties with reference to the prevailing market price of products of similar nature and to be agreed by the parties in writing under separate contract(s), order(s) and/or price quotation(s) in writing. Although the products of the Group supplied to GoerTek Group are tailored made in accordance with the technical specifications provided by GoerTek Group and no identical products with same specifications were produced for and sold to Independent Third Parties, save and except for the technical specifications and the model type of products which are intended to use for different applications by the Group's customers, the nature of the products sold to GoerTek Group and sold to Independent Third Parties are similar. To determine the price of different model of products with different technical specifications, various price determination factors will be taken into consideration by the management of the Group, such as production costs of products of similar nature; the production technique and costs required for meeting the specific technical specifications; the application of the products; and the prevailing market price of products of similar nature. The management of the Group will then undergo the pricing control procedures as set out in the paragraph headed "Internal Control" below so as to determine the price for products with different technical specifications supplied to GoerTek Group.

## **Implications under the Listing Rules**

As at the date of this announcement, Goertek HongKong, a wholly-owned subsidiary of GoerTek, holds 363,650,000 Shares of the Company, representing approximately 23.64% of the issued shares of the Company. Accordingly, GoerTek is a substantial shareholder and a connected person of the Company under the Listing Rules. The Subject Transactions contemplated under the Renewed Purchase Agreement constitute Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) for each of the Proposed Annual Caps for each of the year ending 31 December 2020, 31 December 2021 and 31 December 2022 exceed 5%, the Subject Transactions contemplated under the Renewed Purchase Agreement constitute non-exempt continuing connected transactions of the Company and are therefore subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Renewed Purchase Agreement, the Continuing Connected Transactions and the Proposed Annual Caps are therefore subject to the approval of the Independent Shareholders at the EGM.

As the Continuing Connected Transactions are subject to the compliance of Independent Shareholders' approval requirement, no Subject Transactions will be conducted between the Group and GoerTek Group unless and until the Continuing Connected Transactions and the Proposed Annual Caps are approved by the Independent Shareholders of the Company at the EGM.

### **Reasons for the Continuing Connected Transactions**

The Group has maintained a stable and amicable business relationship with GoerTek in the past. As the term of the Existing Purchase Agreement had expired on 31 December 2019, the Directors (including the independent non-executive Directors) consider that to continue the Subject Transactions pursuant to the Renewed Purchase Agreement will increase/stabilise the Group's sales revenue and profits. As the development of consumer electronics entering into post-mobile era, the commercialization and application of VR, AR, TWS and AI technologies in consumer electronics are accelerating continuously. With the launch of 5G network, it is expected that there will be rapid growth of VR and AR products in the forthcoming years. To capture the business opportunities in the popularity of such consumer electronics, it will be conducive for the Group to maintain and increase its collaboration with GoerTek to promote their complementary strengths in the industries and to create synergistic effects for the businesses of the Group and GoerTek Group. It is anticipated that through the cooperation with GoerTek Group, the Group's products will gradually penetrate into the supply chain of additional international brands of consumer electronics. Barring unforeseen circumstances, the gross profit margin for the sale of products to GoerTek Group which is comparable to that of the sales of products in similar nature by the Group to the other Independent Third Parties can be maintained in the forthcoming years and is expected to bring the Group both of sales revenue and profits.

Given that the terms of the Renewed Purchase Agreement have been negotiated on an arm's length basis and the Renewed Purchase Agreement is entered into on normal commercial terms and in the ordinary and usual course of business of the Group, the Directors (excluding the independent non-executive Directors) are of the view that the terms and conditions of the Renewed Purchase Agreement, the Continuing Connected Transactions and the Proposed Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

As at the date of this announcement, Mr. Gao Xiaoguang, a non-executive Director of the Company, is a vice president of GoerTek. Mr. Jia Junan, another non-executive Director of the Company, is a vice president and the secretary to the board of directors of GoerTek. Mr. Gao Xiaoguang and Mr. Jia Junan are therefore considered to have material interests in the transactions contemplated under the Renewed Purchase Agreement. Each of Mr. Gao Xiaoguang and Mr. Jia Junan has abstained from voting on the board resolutions of the Company in relation to the Renewed Purchase Agreement, the Continuing Connected Transactions and the Proposed Annual Caps. Save as disclosed, there is no other Director who has a material interest in the transactions contemplated under the Renewed Purchase Agreement.



The views of the independent non-executive Directors, after considering the advice from the Independent Financial Adviser, will be set out in the Circular to be despatched to the Shareholders.

## **INTERNAL CONTROL**

The Company has adopted the following internal control measures for regulating the entering into of all transactions under the Renewed Purchase Agreement (including the relevant price determination mechanism):

1. Although all of the products sold by the Group to GoerTek Group are tailored made in accordance with the technical specifications provided by GoerTek Group and no identical products with same technical specifications sold to GoerTek Group were produced for and sold to other Independent Third Parties, the price for individual products sold to GoerTek Group is quoted by the Group at the stage of product sampling with reference to the prevailing market price and production costs of products of similar nature that are in similar production technique, the application of products and the production technique and costs required for meeting the specific technical specifications. The responsible officer(s) of the sales department will prepare the price quotation based on the production costs and production quantity in relation to the order(s) for joint approval by the production department and finance department. In the event that the gross profit margin for a particular price quotation falls within the pre-approved range of gross profit margin for a particular product of the Group (“**Pre-Approved Range of Profit Margin**”), the price quotation will be approved by the sales manager of the Group. The Pre-Approved Range of Profit Margin is determined and adjusted from time to time by the management of the Company with reference to the market conditions, such as the price movement of raw materials and technology development trend in the industry. In the event that the gross profit margin for a particular price quotation is lower than the Pre-Approved Range of Profit Margin, the price quotation will be jointly approved by the general manager of the Group and the head of finance department. In approving the price quotation fell below the Pre-Approved Range of Profit Margin, the general manager of the Group and the head of finance department will normally take into consideration of various factors, such as the nature of products to be supplied, the level of production technique required for the products, the payment terms of the particular order(s), the size of the order(s), the production capacity of the Group available at the time of order(s), the delivery time slot with the principle that the price quotation fell below the Pre-Approved Range of Profit Margin is economically and commercially viable to the Group. The price for individual products quoted by the Group will subsequently subject to be agreed by GoerTek Group after considering other offer(s).



2. The management of the Company will ensure that both of the price quotation made within the Pre-Approved Range of Profit Margin and price quotation fell below the Pre-Approved Range of Profit Margin mentioned in paragraph 1 above will not be less favourable than price quotation made in respect of similar products supplied to Independent Third Parties at the material time of such price quotation is made.
3. The management of the Company will ensure that neither the staff members preparing price quotation within the Pre-Approved Range of Profit Margin nor the senior management approving price quotation fell below the Pre-Approved Range of Profit Margin, i.e. the general manager of the Group and the head of finance department, is/are associated with GoerTek Group.
4. The independent non-executive Directors have reviewed and will continue to regularly review the Continuing Connected Transactions under the Renewed Purchase Agreement, and the auditors of the Company will also conduct an annual review on the pricing and annual caps of the Continuing Connected Transactions under the Renewed Purchase Agreement.

## **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The EGM will be convened and held to seek approval from the Independent Shareholders in relation to the Renewed Purchase Agreement, the Continuing Connected Transactions and the Proposed Annual Caps. GoerTek and its associates will be required to abstain from voting at the EGM.

An Independent Board Committee comprising the independent non-executive Directors (namely Mr. Hung Chi Yuen Andrew, Mr. Cui Zheng and Mr. Yang Zhaoguo) has been established to advise the Independent Shareholders, and the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Renewed Purchase Agreement, the Continuing Connected Transactions and the Proposed Annual Caps.

## **INFORMATION OF THE GROUP**

The Group is principally engaged in the businesses of the manufacture and sale of FPC, flexible packaging substrates and their respective components, which are used in electronic products.

## **INFORMATION OF GOERTEK GROUP**

GoerTek Group is principally engaged in the development, production, and sale of: acoustic, optic, wireless communication technologies and related products, robots and automation, intelligence mechanical and information products, molds for precision electronic products, precision metal hardwares, semi-conductor type micro electro-mechanical products, consumer electronics, LED packaging and related products, development and sale of software related to the aforesaid products; services related to the aforesaid technology and products; import and export of goods, import and export of technology.

## **DESPATCH OF CIRCULAR**

A Circular containing, among others, (i) further details of the Renewed Purchase Agreement, the Continuing Connected Transactions and the Proposed Annual Caps; (ii) a recommendation letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the EGM, will be despatched to the Shareholders on or before 5 February 2020.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	AKM Industrial Company Limited (stock code: 1639), a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened in compliance with the Listing Rules to approve the Renewed Purchase Agreement, the Continuing Connected Transactions and the Proposed Annual Caps

“Existing Purchase Agreement”	the existing framework purchase agreement dated 6 December 2016 entered into between GoerTek (for itself and on behalf of its Subsidiaries) and the Company (for itself and on behalf of its Subsidiaries) in relation to the Subject Transactions for a term commenced from 1 January 2017 and expired on 31 December 2019
“GoerTek”	歌爾股份有限公司 (GoerTek Inc.), a company incorporated in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange with the stock code of 002241
“GoerTek Group”	GoerTek and its subsidiaries
“Goertek HongKong”	Goertek (HongKong) Co., Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of GoerTek
“Group”	the Company and its Subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Board (consisting three independent non-executive Directors namely Mr. Hung Chi Yuen Andrew, Mr. Cui Zheng and Mr. Yang Zhaoguo) which has been formed to advise and give recommendations to the Independent Shareholders in respect of the terms of the Renewed Purchase Agreement, the Continuing Connected Transactions and the Proposed Annual Caps
“Independent Financial Adviser”	Lego Corporate Finance Limited, a licensed corporation licensed under the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong to conduct type 6 regulated activity (advising on corporate finance), appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Renewed Purchase Agreement, the Continuing Connected Transactions and the Proposed Annual Caps
“Independent Shareholders”	Shareholders who/which are not required to abstain from voting at the EGM
“Independent Third Party(ies)”	has the meaning ascribed there to under the Listing Rules

“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange
“PRC”	the People’s Republic of China
“Renewed Purchase Agreement”	the framework purchase agreement dated 13 January 2020 entered into between GoerTek (for itself and on behalf of its Subsidiaries) and the Company (for itself and on behalf of its Subsidiaries) in relation to the Subject Transactions for a further term of three years commenced from 1 January 2020 and expiring on 31 December 2022
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Subsidiaries”	has the same meaning as in Section 15 of the Companies Ordinance (Cap 622) of the Laws of Hong Kong and if the context requires, for the purpose of the Listing Rules only, has the meaning ascribed to it under Rule 1.01 of the Listing Rules
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

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

Hong Kong, 13 January 2020

*As at the date of this announcement, the executive Director is Xiong Zheng Feng; the non-executive Directors are Gao Xiaoguang, Jia Junan, Wang Chunsheng, Zhang Xiaoming and Yu Daochun; and the independent non-executive Directors are Hung Chi Yuen Andrew, Cui Zheng and Yang Zhaoguo.*