瑞聲科技控股有限公司

AAC TECHNOLOGIES HOLDINGS INC.

(incorporated in the Cayman Islands with limited liability)

Stock Code： 02018

2015 Annual Report

AAC Technologies has been successful in achieving significant business growth and diversity. Our vision was to become the global leader in miniaturized acoustic technology and customers' first choice business partner in such acoustic components – and we believe we have achieved that. Today, AAC Technologies continues to strive for growth and evolvement. This year, we re-designed the existing logo with some minor changes. Our new logo marks the next phase and reflects our relentless aspiration to be the leading integrated technology company in miniaturized components.

The up-pointing arrow (looking like a varying letter "**A**") at the center represents focused growth and moving forward. The closed-loop (like a letter "**C**") represents the organic strength derives from the entire organization working in harmony to optimize business flow via scientific management. The silver and blue colors are chosen to symbolise high-tech, progressive and trust, reliability, respectively. The linkage implies people in AAC Technologies joining forces in togetherness. Overall, the design suggests an atmosphere of evolving action and progress.

This Annual Report is printed on environmentally friendly paper.

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Benjamin Zhengmin Pan
(Chief Executive Officer)
Mr. Mok Joe Kuen Richard

Non-executive Director

Ms. Ingrid Chunyuan Wu

Independent Non-executive Directors

Mr. Koh Boon Hwee (Chairman)
Mr. Poon Chung Yin Joseph
Dato' Tan Bian Ee
Ms. Chang Carmen I-Hua

AUDIT COMMITTEE

Mr. Poon Chung Yin Joseph (Chairman)
Mr. Koh Boon Hwee
Ms. Ingrid Chunyuan Wu

REMUNERATION COMMITTEE

Mr. Koh Boon Hwee (Chairman)
Dato' Tan Bian Ee
Ms. Chang Carmen I-Hua

NOMINATION COMMITTEE

Dato' Tan Bian Ee (Chairman)
Mr. Poon Chung Yin Joseph
Ms. Chang Carmen I-Hua

AUTHORIZED REPRESENTATIVES

Mr. Benjamin Zhengmin Pan
Mr. Mok Joe Kuen Richard

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

COMPANY SECRETARY

Mr. Lo Tai On

LEGAL ADVISOR FOR LISTING MATTERS

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central, Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square, Hutchins Drive
P.O. Box 2681, George Town
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2003, 20th Floor
100 Queen's Road Central
Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
Boundary Hall, Cricket Square
P.O. Box 1093, Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of Communications
Bank of China
The Hongkong and Shanghai Banking Corporation Limited
DBS Bank Ltd.

STOCK CODE

02018

WEBSITE

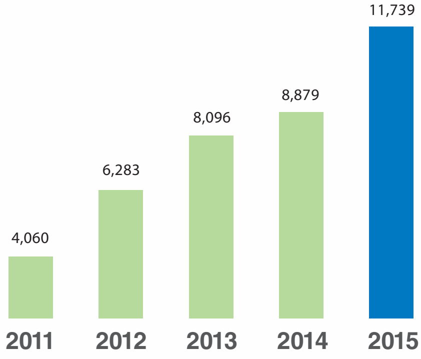
www.aactechnologies.com

FINANCIAL HIGHLIGHTS

(detailed financial summary of results and of the assets and liabilities of the Group for 2011-2015 on page 107)

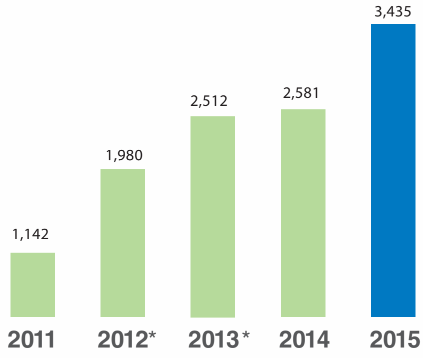
REVENUE

(RMB million)



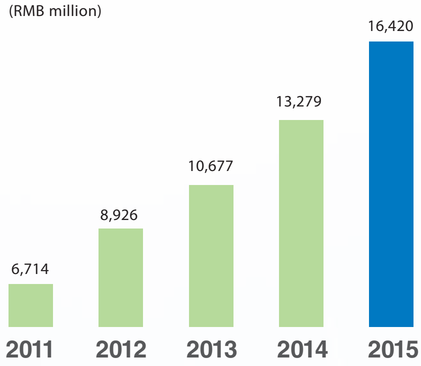
PRE-TAX PROFIT

(RMB million)



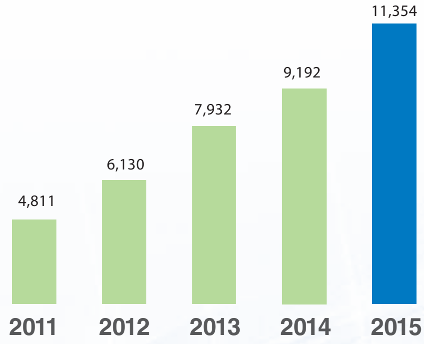
TOTAL ASSETS

(RMB million)



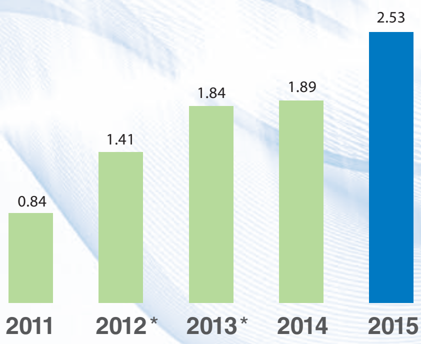
NET ASSETS

(RMB million)



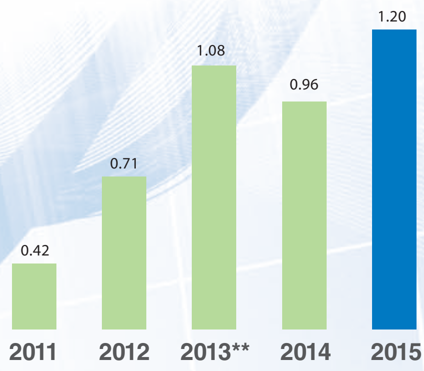
BASIC EARNINGS PER SHARE

(RMB)



FULL YEAR DIVIDEND

(HK$)



* The figures of year 2012/2013 were adjusted for one off items

** Full year dividend of year 2013 includes one off items equivalent to HK$0.14

CHAIRMAN'S STATEMENT

Dear Shareholders,

As we step into the first year of our second decade of listing on the Mainboard of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), we are pleased with the growth of AAC Technologies Holdings Inc. ("AAC Technologies" or the "Company").

2015 was the sixth consecutive year of record breaking sales for the Company. For the year ended 31st December, 2015, revenue rose to RMB11,738.9 million, 32.2% higher than that of 2014, and gross profit to RMB4,872.1 million, an increase of 32.5%. Net profit for the year climbed by 34.1% reaching RMB3,106.9 million. We delivered a better gross margin of 41.5% and net profit margin of 26.5%. The Company exercised prudence in managing its financial position, ending 31st December, 2015 with net cash of RMB416.0 million, after another year of continued investment for the acoustic segment and capacity expansion in non-acoustic segments.

Based upon this set of results, the Board is recommending the payment of a final dividend for the year ended 31st December, 2015 of HK$0.95 per ordinary share. This proposed final dividend, together with the interim dividend of HK$0.25, amount to total dividends of HK$1.20, representing a stable payout ratio of about 40% of the profit attributable to owners of the Company for the year.

During the past fiscal year, we demonstrated our strengths and capabilities in the new non-acoustic business segments through achieving impressive growth of 165.8% year-on-year, contributing 37.9% of total revenue, up from 18.8% of 2014. Today, AAC Technologies has evolved into a more diverse company in terms of solutions and customers portfolios. The strengthening of new growth drivers makes our business stronger than ever before.

The following were some of the major achievements during the year:

- Continued to stay ahead of development trends in the acoustic area. We now offer "high, mid, low" three-tier solutions to our customers;
- Riding on our mechanical know-how and strong patent portfolio, we were able to offer more complicated solutions of haptic vibrators with good production yield;
- Demonstrated strong design and production capabilities on RF technologies and extended to high-end CNC metallic solutions;
- Completed acquisition and continual integration of WiSpry, Inc. ("WiSpry") to boost our position as a unique RF solutions provider; and
- Started shipment of front camera lenses.

In the second half of 2015, we reinvigorated the corporate logo which emphasises our vision of becoming a leading integrated miniature component technologies solution provider. The new corporate logo celebrates our evolvement in the technologies segment, signifying our company culture and our focused values.

We promote a management culture of continuous learning, improvement, and innovation. In 2015, we successfully obtained 284 additional patents, of which 126 are for the non-acoustic segments, bringing our intellectual property portfolio to a total of 1,726 patents. We filed another 474 patents pending, which bring us to a total of 480 patents pending by the end of the year.

CHAIRMAN'S STATEMENT

While we endeavor to be the leader in the technology segments we operate, we are mindful of our social responsibility and commitment in engaging our stakeholders to build a greener future. Discussions on the Company's environmental, social, and governance practices, relationships with stakeholders and compliance with relevant laws and regulations which have a significant impact on the Company are contained in the Sustainability review in the Corporate Governance Report on page 29 to 46.

In 2015, the Company has already published its second annual Sustainability Report that highlighted our initiatives in the year 2014. We are pleased that our continuous efforts in promoting sustainability and upholding high standards in environmental, social and corporate governance aspects are recognised; the Company has been selected again as a constituent member of the Hang Seng Corporate Sustainability Index in August 2015.

In the 10-year period since IPO, we have achieved significant business growth and diversity. Our revenue has leapt almost ten-fold from RMB1.1 billion to RMB11.7 billion in 2015. Through acquisitions and organic growth within our existing operations, the Company has diversified its business segments. We now have a range of technology solutions on offer, spanning acoustic, RF Mechanical, Haptics and Optics, to drive growth for the future.

Technology is evolving fast, so are our innovation capabilities. We will continue to stay focused on technology development to support smart devices makers to improve and create new user experiences. We have well-planned strategies with a clear solutions roadmap to further develop our technology platforms for miniaturized solutions to deliver long-term profitable growth and enable us to extend our reach to different applications.

On behalf of the Board, I would like to take this opportunity to express my sincere appreciation to all our staff and management for their contribution to a good set of results. We are grateful to our stakeholders who support and trust in us. And, finally, my sincere thanks to my fellow Board members for their guidance and wise counsel during the year.

Koh Boon Hwee
Chairman

23rd March, 2016

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

AAC Technologies is a total solution-provider utilising the latest miniaturized technology components across acoustic, haptic, radio frequency and optical segments. The Company is already an established leading global supplier of miniaturized acoustic components including a broad range of speakers, receivers and Micro Electro-Mechanical System ("MEMS") microphones. The Company delivers integrated solutions across multiple segments incorporating advanced proprietary technology haptics vibrators, RF antennas and optical components. The Company serves a large number of geographically diverse customers in the mobile electronics market and the Company's products are found in devices such as smartphones, tablets, wearables and PC notebooks. The Company is global in scope with research and development centers in the People's Republic of China (the "PRC"), Singapore, Japan and Denmark, testing laboratories in Singapore and South Korea, manufacturing facilities in the PRC, Vietnam and the Philippines, and sales offices throughout the world.

As a technology company, the Company recognizes the importance of continuous and focused research and development. We will continue to develop and strengthen our research and development capabilities and our intellectual property portfolio. Our management team is committed to identifying and evaluating appropriate opportunities to invest or to form alliances with other global technology companies that will create synergy with the Company's existing technology capabilities.

MARKET REVIEW

The macro-economy and global markets remained challenging. These factors affected overall consumer demand which led to a slower growth of the worldwide smartphone market. According to an independent industry research, worldwide smartphone shipments grew 10% year-on-year to reach 1.29 billion units in 2015 compared with 1.17 billion units in 2014 while China smartphone shipments increased 16% in 2015 to 539 million units.

After a fierce price war in 2014, smartphones moved towards a new stage of competition in 2015. In this new stage, smartphones featured new technologies and innovative functions and were more personalized and user-friendly. Major handset manufacturers brought consumers a variety of products that emphasized style and personality. The year of 2015 was characterized by different themes including metallic cover, larger screen with slimmer design, and a new distinct feature of pressure sensitive screen with better tactile feedback.

High-tier handsets continued to pursue appealing industrial design with disruptive features as its selling points, while mid and low-tier smartphones tried to steal the spotlight by adopting high specifications but with an affordable price.

These new trends posed opportunities and challenges for the Company. With greater efforts, we demonstrated proven extensive abilities and production readiness to develop customized solutions for different tiers of customers and enable us to increase dollar content per device. As a result, the Company outperformed the smartphone market by delivering a good set of results.

BUSINESS REVIEW

For the year ended 31st December, 2015, the Group's total revenue reached a record-high RMB11,738.9 million, representing an increase of 32.2%, compared with 2014. Gross profit of RMB4,872.1 million was 32.5%, higher than 2014. Gross profit margin was 41.5%, 0.1 percentage points higher than the corresponding period of last year. Operating expenses increased RMB469.4 million by 39.4% to RMB1,662.1 million. Profit attributable to owners of the Company amounted to RMB3,106.9 million, representing a rise of 34.1% from RMB2,317.7 million reported in the corresponding period of 2014. Basic earnings per share amounted to RMB2.53, up 34.1% from RMB1.89 for 2014 accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE OF BUSINESS SEGMENTS

The Company is operating in the technology component industry which is characterized by rapid technological developments and evolving specifications upgrade. In becoming an innovative solution provider, the Company has always worked closely with customers throughout the design, manufacturing and distribution processes, and responded to changing customers' design specifications and production requirements. As such, there will be periodic variations of performance of each business segment due to specific products' launches, market and industry environments.

During the year under review, AAC Technologies continued to build a diversified product portfolio and each of its key business segments achieved yearly revenue growth.

Dynamic Components

Dynamic components are components that actively produce sound, including speaker boxes, speakers and receivers. Revenue of the dynamic components segment was RMB6,152.4 million, representing 52.4% of the total revenue of the Company, and a year-on-year increase of 3.1% despite the lingering impact of tablet market slowdown on speaker boxes sales. Overall for dynamic components, gross margin stood at 40.1%.

Overall sales revenue of the three major product lines among dynamic components have mixed year-on-year results reflecting different stages of products specifications upgrade cycles and penetration market shares of individual customers: speaker boxes and speakers grew 13.8% and 20.7% respectively compared to 2014, while receivers declined 22.1%. The increasing adoption of speaker boxes by Chinese customers and migration to advanced solutions of an international customer contributed to the growth of speaker boxes sales, and further miniaturized and upgraded solutions of speakers' design, including for wearables devices, resulted in higher selling price and stimulated growth of speakers.

Haptics and RF Mechanical

There are two distinct contributing 'non-acoustic' businesses, namely Haptics and RF Mechanical.

During the fiscal year under review, Haptics and RF Mechanical business continued to deliver strong growth driven through market expansion and share gain. Combined sales of Haptics and RF Mechanical jumped 165.8% to RMB4,440.9 million from 2014 and contributed 37.9% of the total revenue of the Company. Gross margin of this combined segment stood at 50.8%. Once again, the Company has successfully demonstrated both design and production capabilities on delivering more complicated and sophisticated solutions.

For Haptics, as a technology leader with a strong intellectual property portfolio, the Company has proved itself to be a supplier capable of meeting the most demanding technological specifications and requirements from our customers. Together with good execution in production, the Company has secured its position as one of the major suppliers in this new area.

For RF Mechanical, the Company extended its offerings by supplying metal frame and metal housing with antenna solutions. The Company has enjoyed a unique position because of its knowhow in integrating the capabilities of acoustic, mechanical, antenna design and production plus RF MEMS tuner. With cross platform technologies, the Company could provide integrated and unique solutions that stand out from other industry peers.

MEMS Components: MEMS Microphone

In 2015, these generated 16.2% year-on-year growth to RMB990.5 million, accounting for 8.4% of total sales. Market share gain and the increasing number of units per device required to give better quality and features drove volume growth in the segment. Gross margin achieved was 18.7%.

MANAGEMENT DISCUSSION AND ANALYSIS

Other products

Optics sales contribution in 2015 together with some non-core components such as traditional microphone and headsets are included under this category. The total amounted to RMB155.1 million, or 1.3% of total sales during the year under review.

FINANCIAL REVIEW

2015 was another record year for AAC Technologies. The Company achieved solid financial results in 2015 and generated RMB3,760.3 million in net cash flow from operations. For the year ended 31st December, 2015, the Group's total revenue reached RMB11,738.9 million, representing an increase of RMB2,859.6 million, or 32.2%, compared with 2014. The acoustic segment continued to deliver modest growth with higher shipment volumes while new non-acoustic business segments achieved strong advances as the Company captures market shares. Gross profit of RMB4,872.1 million was RMB1,194.1 million, or 32.5%, higher than 2014. Gross profit margin was 41.5%, 0.1 percentage point higher than the corresponding period of last year, reflecting positive impact of changes in products mix despite pricing pressure in established traditional products and increasing labour costs. Profit attributable to owners of the Company amounted to RMB3,106.9 million, representing a rise of 34.1% from RMB2,317.7 million reported in the corresponding period of 2014. In addition, the Company continued to exert a strong financial discipline in managing operating costs in proportion to our expansion, leading to a slight improvement in net margin by 0.4 percentage points. Basic earnings per share amounted to RMB2.53, up 34.1% from RMB1.89 for 2014, in line with the growth in profit attributable to owners of the Company.

The turnover days of trade receivables was 107 days, 7.8% less compared with 2014. Aging of trade receivables (net of allowance for doubtful debts) based on invoice dates between 0-90 days, 91-180 days and over 180 days were RMB3,188.4 million (2014: RMB3,015.8 million), RMB311.6 million (2014: RMB282.1 million) and RMB33.1 million (2014: RMB30.6 million) respectively. Although the allowance for bad and doubtful debts made this year was RMB2.5 million (2014: RMB1.4 million), the amounts were for specific exception circumstances. The quality of receivables remained sound, and total subsequent settlement received up till 29th February, 2016 amounted to RMB2,778.9 million representing 78.7% of the total amount outstanding, net of allowances, as at the end of the reporting period.

As for tax, the Group's major operating subsidiaries fall under different tax regimes in Hong Kong, the PRC, Singapore and Vietnam where different laws and regulations, and specific concessionary incentives apply for some specific locations. During the year, there have been no major changes in these taxation laws and regulations which have impacted tax expenses for the Group.

GEARING RATIO AND INDEBTEDNESS

The Group was in a net cash position as at both 31st December, 2015 and 2014. The gearing ratio of the Group, computed by dividing total loans and borrowings by total assets, was 11.0% as at 31st December, 2015 (31st December, 2014: 10.8%).

As at 31st December, 2015, the Group had RMB1,158.9 million of short-term bank loans (31st December, 2014: RMB1,417.8 million) and RMB648.7 million of long-term bank loans (31st December, 2014: nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's financial position remained strong and it continues to maintain a strong and steady cash inflow from operating activities. Free cash flow from operations to sales in 2015 stood at 35.5%, an improvement from 35.2% for 2014. As at 31st December, 2015, the Group had RMB2,223.9 million in cash and cash equivalents (31st December, 2014: RMB1,602.7 million), of which 45.9% (31st December, 2014: 44.0%) was denominated in RMB, 44.9% (31st December, 2014: 50.3%) was denominated in US dollar, 4.4% (31st December, 2014: 1.2%) was denominated in Hong Kong dollar, 2.4% (31st December, 2014: 1.4%) was denominated in Japanese Yen, 0.9% (31st December, 2014: 2.3%) was denominated in Euros and 1.5% (31st December, 2014: 0.8%) was denominated in other currencies. Management believes that the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current operational requirements of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURE

The Group incurred capital expenditure of RMB2,420.9 million during the year ended 31st December, 2015 (31st December, 2014: RMB2,224.7 million), mainly for the acquisition of property, plant and equipment for capacity expansion in both acoustic and non-acoustic business segments. Management believes that the Group's ability to invest in capital expenditure in timely anticipation of demand is a competitive advantage of the Group. In the foreseeable future a higher proportion of capital expenditure will likely be focused on the non-acoustics business segments. Capital expenditures are generally funded by internal resources.

FOREIGN EXCHANGE

Given our international operations and presence, the Group faces foreign exchange exposure including transaction and translation exposure.

It is the Group's consistent policy to centralize foreign exchange management to monitor total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a natural hedge is not possible, the Group will mitigate foreign exchange risks via appropriate foreign exchange contracts.

The Group has not entered nor will it enter into any derivative transactions for speculative trading purposes.

CHARGES ON GROUP ASSETS

Apart from bank deposits amounting to RMB0.06 million that were pledged to banks in order to support new subsidiary start-up operations as at 31st December, 2015 (31st December, 2014: RMB4.0 million), no other Group assets were charged to any financial institutions.

EMPLOYEE INFORMATION

As at 31st December, 2015, the Group employed 35,687 permanent employees, an increase from 32,172 as at 31st December, 2014, brought about by the Company's ongoing business development in the PRC and in other regions in Asia, especially for new projects in all product segments. Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. Management regularly reviews the Group's remuneration policy and appraises the work performance of its staff. Employee remuneration includes salaries, allowances, bonuses, social insurance and mandatory pension fund contribution. As required by the relevant regulations in the PRC, the Group participates in the social insurance schemes operated by the relevant local government authorities. The Group also participates in the mandatory pension fund and social insurance schemes for our employees in Hong Kong, Taiwan, Singapore, South Korea, Vietnam, Philippines, USA and various countries in Europe.

PROSPECTS

The top players in the consumer mobile devices industry are endeavoring to innovate with new features and deliver smarter devices, while others are chasing closely behind to ride a tailwind. "What's the next big thing" is the major question in the technology sector. The whole smart devices market is full of vitality. A fiercely competitive landscape drives non-stop technological upgrades. Apart from a faster and slimmer smartphone, consumers now want such devices to be versatile in functionalities, water-resistant, globally usable and much more. Manufacturers will continue to invest in design and technological innovation to reinvent the smartphone experience. Meanwhile, smart connected devices and wearable devices closely associated with smartphones will keep evolving.

MANAGEMENT DISCUSSION AND ANALYSIS

Building technology platforms for miniaturized solutions to deliver long-term profitable growth has always been the paramount strategy of the Company. We aim to extend our reach to different applications, to be featured in all different mobile devices. As a hardware solutions provider, our resources are focused on helping our customers to improve user experience. Better audio quality is essential when media, entertainment and gaming become more popular in smart devices. As a market leader in acoustics, we have competitive advantages and are able to produce further miniaturized products with better audio performance. We expect to drive more technology upgrades in the acoustic segment to reinforce our competitiveness and strengthen our position in the coming years.

With the continued growth of LTE-A and a demand for better performing mobile devices, antennas need to evolve from being a component to becoming a solution. We believe our integrated and smart antenna solutions can offer excellent RF performance under different protocols and bandwidths with faster downloading/uploading speed resulting in improved battery life. Given the growth potential of RF Mechanical, we will increase production capacity accordingly to cater to expected rising demand for our unique integrated RF solutions.

Touchscreens allow multi-touch gestures by default. Touchscreen technology continues to evolve and some allow the screen to tell the difference between varying degrees of pressure. The pressure-sensitive screen triggers different user Interface functions. This adds more interesting experience to touchscreen interaction and opens up possibilities for potential applications of advanced Haptics solutions.

We are well prepared for growth. We have a clear solutions roadmap and will stay focused on technology development to support smart devices makers in order to improve and create new user experiences. We believe our innovative and cross-platform integrated solutions will enable us to further penetrate the industry. Our focus on R&D should further boost our design and production capabilities across all business lines and help AAC Technologies maintain its leading position in miniaturization technologies.

KEY RISK FACTORS

The following section lists out some key risks and uncertainties facing the Group. It is a non-exhaustive list and there may be other risks and uncertainties in addition to the key risk areas outlined below which we have not foreseen. Besides, this final results announcement does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

Risks Pertaining to the Smartphones segment

A substantial part of the Group's revenue is derived in the smartphone segment of the consumer mobile devices market. As a result, the general state of the global economy, market conditions and consumer behaviour may have a significant impact on the Group's operating results and financial conditions.

Reliance on a small number of key customers

The Group's five largest customers, which accounted for 65.9% of the Group's total revenue, are all related to the consumer mobile devices industry. The Group has strong established relationship with these major customers; individually, all of them have been our customers for over 3 years. In addition, the customers who contributed over 10% of the Group's revenue are the same accounts in both 2015 and 2014.

The credit terms granted are in the range of 60- to 90-day periods and are in line with those granted to other customers. Subsequent settlements after the year-end of trade receivables from these major customers have been reviewed and are satisfactory requiring no provisions.

MANAGEMENT DISCUSSION AND ANALYSIS

Like many industries in today's globalized world, the consumer mobile devices market experiences continuous consolidation where a relatively small number of leading players tend to capture a relatively significant market share. As a supplier to this industry, our Company has proactively managed growth and concentration risk in healthy balance and we believe our results in the last decade are testimony to our ability to date to achieve this in the rapidly changing industry landscape.

Operational Risks

The Group's operation is subject to a number of risk factors specific to designing and providing technology solutions. Changes in technological design and performance specifications or other external factors may have various levels of negative impact on the results of operations. Additionally, production and quality issues may happen despite internal systems and policies set up for their prevention, which may lead to financial loss, litigation, or damage in reputation.

Past Performance and Forward Looking Statements

The performance and the results of operation of the Group as set out in this final results announcement are historical in nature and past performance is not a guarantee of future performance. This final results announcement may contain certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors of the Company regarding the industry and markets in which it operates. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. The Group, the Directors, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this final results announcement of the Company; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.

DIVIDENDS

The Company will consider the declaration of dividends based on its earnings, financial position, debt repayment requirements, capital expenditure plans, medium to long-term business strategies and other factors as the Board may deem appropriate. The Board may also from time to time pay to Shareholders such interim dividends to be justified by the profit of the Company and may recommend final dividends for approval by Shareholders in annual general meetings.

For the year ended 31st December, 2015, an interim dividend of HK$0.25 per ordinary share for the six months ended 30th June, 2015 (2014: HK$0.25 per ordinary share) was paid to Shareholders of the Company.

The Board has declared a final dividend of HK$0.95 (2014: HK$0.71) per ordinary share in respect of the year ended 31st December, 2015. This proposed final dividend together with the interim dividend already paid amount to total dividends of HK$1.20 (2014: HK$0.96), an unchanged payout ratio of about 40% of the profit attributable to owners of the Company for the year.

Subject to Shareholders' approval at the forthcoming annual general meeting to be held on 30th May, 2016, the said final dividend will be payable to Shareholders of the Company, whose names appear on the register of members of the Company on 15th June, 2016. Payment will be made on or about 24th June, 2016.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Benjamin Zhengmin Pan ("Mr. Pan"), aged 47, is an executive Director and Chief Executive Officer ("CEO") of the Company. Mr. Pan co-founded the Group in 1993. Mr. Pan is responsible for providing strategic direction and leadership and for developing and implementing the Group's strategic objectives and business plans. Specifically, Mr. Pan is responsible for overseeing the coordination between sales and marketing, research and development, manufacturing, and other functions including quality assurance, finance and human resources. Mr. Pan has been instrumental in spearheading the Group's expansion outside the PRC. In 1996, he co-founded and was appointed President and CEO of American Audio Component Inc. ("AAC U.S."). Mr. Pan also co-founded Shenzhen Meiou Electronics Corporation ("Shenzhen Meiou") in 1998 and American Audio Components (Changzhou) Co., Ltd. ("Changzhou AAC") in 2000. In addition to his experience in sales and marketing, manufacturing and management, he has also been instrumental in leading our research and development strategy, and has developed a number of patents used in the design and manufacturing some of the Company's acoustic products. Mr. Pan graduated from the 江蘇省武進師範學校 (Jiangsu Province Wujin Teacher School) in 1987. Mr. Pan is the spouse of Ms. Ingrid Chunyuan Wu ("Ms. Wu"), the non-executive Director and a substantial Shareholder of the Company.

Save as disclosed above, Mr. Pan does not have any relationships with other Directors, senior management, substantial Shareholders or controlling Shareholders (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange) of the Group. Save as aforesaid, Mr. Pan did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years but he has directorship in a number of subsidiaries of the Company.

The term of appointment of Mr. Pan is set out in the "Directors and Service Contracts" section of the Directors' Report on page 21 of this annual report. Mr. Pan is subject to retirement by rotation and re-election in accordance with the article of association of the Company. He is entitled to a basic salary of approximately US$700,000 per year (effective from 1st July, 2015) (which is covered by the service agreement) and will be paid monthly in arrears which is determined upon negotiation between Mr. Pan and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions and which is subject to review periodically as determined by the Company.

The interests of Mr. Pan in the Shares (within the meaning of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)) (the "SFO"), were as follows:

Name of Director	Capacity/Nature of Interest	Number of Ordinary Shares	Approximate percentage of shareholding
Mr. Pan	Beneficial owner/interest of child under 18 and spouse/interest of controlled corporation	495,317,652 (Note)	40.34%

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Note:

Mr. Pan beneficially owns 69,512,565 shares. In addition, Mr. Pan is deemed or taken to be interested in the following shares for the purposes of the SFO:

(i) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company wholly-owned by Mr. Pan;

(ii) 262,820,525 shares which are beneficially owned by Ms. Wu and as Ms. Wu is his spouse, he is deemed to be interested in such 262,820,525 shares; and

(iii) 111,545,122 shares representing the aggregate of (a) 106,806,278 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005; and (b) 4,738,844 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Exempt Trust dated 10th May, 2005. Two children of Mr. Pan and Ms. Wu are over the age of 18. Two children have no discretion over distributions or investments in their trusts until distribution is made to them.

Save as disclosed above, Mr. Pan does not hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or 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") in the Listing Rules.

Mr. Mok Joe Kuen Richard ("Mr. Mok"), aged 52, is an executive Director of the Company. With over 20 years of experience in the financial services industry: employments with international accountancy firms such as KPMG, the Hong Kong-listed brokerage South China Group, Asian Capital Partners Group and the Hong Kong-listed banking group Dah Sing Financial Holdings. Mr. Mok is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Mok held a diploma in applied psychology from Hong Kong Baptist University and graduated with a Bachelor degree of Economics from the London School of Economics and Political Science, London University.

Mr. Mok does not have any relationships with other Directors, senior management, substantial Shareholders, or controlling Shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Mok did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years.

The term of appointment of Mr. Mok is set out in the "Directors and Service Contracts" section of the Directors' Report on page 21 of this annual report. Mr. Mok is subject to retirement by rotation and re-election in accordance with the article of association of the Company. He is entitled to a basic salary of approximately HK$2,557,500 per year (effective from 1st April, 2014) (which is covered by the service agreement) and will be paid monthly in arrears which is determined upon negotiation between Mr. Mok and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions, and, is subject to review periodically as determined by the Company.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The interests of Mr. Mok in the Shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO), was as follows:

Name of Director	Capacity/Nature of Interest	Number of Ordinary Shares	Approximate percentage of shareholding
Mr. Mok	Beneficial owner	100,000	0.01%

Save as disclosed above, Mr. Mok does not hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

NON-EXECUTIVE DIRECTOR

Ms. Wu, aged 45, is a non-executive Director of the Company and a member of the audit committee of the Company (the "Audit Committee"). Ms. Wu co-founded the Group in 1993. In 1996, she co-founded and later became chief financial officer of AAC U.S.. She also co-founded Shenzhen Meiou in 1998, Changzhou AAC in 2000, and YEC Electronics Limited in 2001. Before Mr. Du Kuang-Yang joined the Group as the chief operating officer in March 2005, Ms. Wu was responsible for the day-to-day operations of these companies. Ms. Wu graduated from 常州衛生學校 (Changzhou School of Public Health) in 1989. Ms. Wu is the spouse of Mr. Pan, the executive Director, CEO and a substantial Shareholder of the Company. She has directorship in a number of subsidiaries of the Company.

Save as disclosed above, Ms. Wu does not have any relationships with other Directors, senior management, substantial Shareholders, or controlling Shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Ms. Wu did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and she does not hold any other position in the Group.

The term of appointment of Ms. Wu is set out in the "Directors and Service Contracts" section of the Directors' Report on page 21 of this annual report. Ms. Wu is subject to retirement by rotation and re-election in accordance with the article of association of the Company. She is entitled to the director's fee of US$57,500 per year (which is covered in the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Ms. Wu and the Company at arm's length on the basis of her previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. Her director's fee is subject to Shareholders' approval at the annual general meeting.

The interests of Ms. Wu in the Shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO), were as follows:

Name of Director	Capacity/Nature of Interest	Number of Ordinary Shares	Approximate percentage of shareholding
Ms. Wu	Beneficial owner/interest of child under 18 and spouse	495,317,652 (Note)	40.34%

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Note:

Ms. Wu beneficially owns 262,820,525 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes of the SFO:

(i) 120,952,005 shares representing the aggregate of (a) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company wholly-owned by Mr. Pan; and (b) 69,512,565 shares which are beneficially owned by Mr. Pan; and as Mr. Pan is her spouse, she is deemed to be interested in such 120,952,005 shares; and

(ii) 111,545,122 shares representing the aggregate of (a) 106,806,278 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005; and (b) 4,738,844 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Exempt Trust dated 10th May, 2005. Two children of Mr. Pan and Ms. Wu are over the age of 18. Two children have no discretion over distributions or investments in their trusts until distribution is made to them.

Save as disclosed above, Ms. Wu does not hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koh Boon Hwee ("Mr. Koh"), aged 65, is the Chairman of the Board and an independent non-executive Director. He is Chairman of the remuneration committee (the "Remuneration Committee") and a member of the Audit Committee. Mr. Koh has been appointed to the Board since 9th November, 2004. He brings with him extensive management experience and leadership, and has over 30 years of experience in the IT-related and electronics industries.

He is currently the Chairman (executive) of Credence Partners Pte Ltd, which manages Credence Capital, a private equity fund focused on SMEs in South East Asia.

He is also currently the Chairman (executive) of Sunningdale Tech Ltd and Chairman (non-executive) of Yeo Hiap Seng Limited and Far East Orchard Ltd (all publicly-listed in Singapore). Mr. Koh also serves on the Board of Agilent Technologies, Inc. (publicly-listed in the US). He is Chairman (non-executive) of Rippledot Capital Advisers Pte Ltd as well as FEO Hospitality Asset Management Pte Ltd and FEO Hospitality Trust Management Pte Ltd, both private companies, which manage Singapore listed Far East Hospitality Trust.

In the non-profit sector, he is Chairman of the Nanyang Technological University Board of Trustees in Singapore and a Director of the Hewlett Foundation in the US.

Mr. Koh was previously Chairman of DBS Group Holdings Ltd (2005-2010), Singapore Airlines Ltd (2001-2005), SIA Engineering Company Ltd (2003-2005), Singapore Telecom Group and its predecessor organizations (1986-2001), Omni Industries Ltd (1996-2001), all being listed companies in Singapore; Executive Chairman of Wuthelam Holdings Pte Ltd (1991-2000) and before that, Managing Director of Hewlett Packard Singapore (1985-1990), where he started his career in 1977. Mr. Koh was also a Director of Temasek Holdings Pte Ltd (1996-2010), and a member of the Executive Committee of the Board (1997-2010).

Mr. Koh graduated from the Imperial College, University of London, with a Bachelor's Degree (First Class Honours) in Mechanical Engineering. Mr. Koh also holds a Master's Degree in Business Administration (Distinction) from Harvard Business School. Mr. Koh was awarded Singapore's Public Service Star in 1991, the Meritorious Service Medal in 1995, and the Distinguished Service Order in 2008 by the President of Singapore.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Koh does not have any relationships with other Directors, senior management, substantial Shareholders, or controlling Shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Koh did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and he does not hold any other position in the Group.

The term of appointment of Mr. Koh is set out in the "Directors and Service Contracts" section of the Directors' Report on page 21 of this annual report. Mr. Koh is subject to retirement by rotation and re-election in accordance with the article of association of the Company. He is entitled to the director's fee of US$120,750 per year (which is covered by the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Mr. Koh and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. His director's fee is subject to Shareholders' approval at the annual general meeting.

The interests of Mr. Koh in the Shares (within the meaning of Divisions 7 and 8 of Part XV of the SFO), was as follows:

Name of Director	Capacity/Nature of Interest	Number of Ordinary Shares	Approximate percentage of shareholding
Mr. Koh	Beneficial owner	795,562	0.06%

Save as disclosed above, Mr. Koh does not hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

Dato' Tan Bian Ee ("Dato' Tan"), aged 69, was appointed as an independent non-executive Director, the Chairman of the nomination committee (the "Nomination Committee") and a member of the Remuneration Committee of the Company on 11th September, 2009. In December 2014, he was re-appointed as the CEO and executive Director of MFS Technology (S) Pte Ltd., a company listed in Singapore from which he retired in February 2014. He stepped down from Singapore Airlines Engineering Company on July 2010 after 6 years of service. Dato' Tan was the chief operating officer of Avago Technologies and Worldwide Sales and Global Operations prior to his retirement in February 2009. He joined Hewlett-Packard in 1973 and was promoted to Hewlett-Packard Malaysia Managing Director in 1989. He was then appointed as the President of Agilent Technologies Malaysia and Singapore in 1999 when Hewlett-Packard spun off its Semiconductor Component Operations to form Agilent Technologies Inc.. Dato' Tan has been council member in the Industrial Coordination Council under the Ministry of International Trade & Industry of Malaysia since 2000. Dato' Tan was a Director of Singapore Workforce Development Agency under the Singapore Ministry of Manpower from 2004-2005. He was also the Northern Region Chairman for Young Enterprise from 2003-2004, a community educational programme under the auspices of the American Malaysian Chamber of Commerce and a founder member of Penang Skills Development Corporation.

Dato' Tan holds a Diploma in Medical Laboratory Technology and Management Studies, as well as a Master of Business Administration with Distinctions from the Golden Gate University. He was awarded the Pingat Kelakuan Tertinggi (Exemplary Leadership Award), Darjah Johan Negeri (DJN – Second Highest State Award) and the Darjah Setia Pangkuan Negeri which carries the title Dato' (DSPN) in 1991, 1995 and 1999 respectively from the State Government of Penang, Malaysia.

Dato' Tan does not have any relationships with other Directors, senior management, substantial Shareholders, or controlling Shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Dato' Tan did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and he does not hold any other position in the Group.

The term of appointment of Dato' Tan is set out in the "Directors and Service Contracts" section of the Directors' Report on page 21 of this annual report. Dato' Tan is subject to retirement by rotation and re-election in accordance with the articles of association of the Company. Dato' Tan is entitled to a director's fee of US$48,875 per year (which is covered in the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Dato' Tan and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. His director's fee is subject to Shareholders' approval at the annual general meeting.

Dato' Tan does not hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

Mr. Poon Chung Yin Joseph ("Mr. Poon"), aged 61, was appointed as an independent non-executive Director, the Chairman of the Audit Committee and a member of the Nomination Committee of the Company on 5th October, 2009. He is group managing Director and deputy CEO of a private company and an independent non-executive Director of Hysan Development Company Ltd., a company listed in Hong Kong. Mr. Poon was formerly the managing Director and deputy chief executive of Hang Seng Bank Limited and had held several senior management posts in HSBC Group and a number of international renowned financial institutions. Mr. Poon is a committee member of the Chinese General Chamber of Commerce. Previously, he was also the Chairman of Hang Seng Index Advisory Committee of Hang Seng Indexes Company Limited and a member of the Board of Inland Revenue of Hong Kong Special Administrative Region and the Environmental and Conservation Fund Investment Committee. Mr. Poon holds a Bachelor of Commerce degree from the University of Western Australia, is a member of Chartered Accountants Australia and New Zealand, and the Hong Kong Institute of Certified Public Accountants. Mr. Poon is also a Fellow of the Hong Kong Institute of Directors.

Mr. Poon does not have any relationships with other Directors, senior management, substantial Shareholders, or controlling Shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Poon did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and he does not hold any other position in the Group.

The term of appointment of Mr. Poon is set out in the "Directors and Service Contracts" section of the Directors' Report on page 21 of this annual report. Mr. Poon is subject to retirement by rotation and re-election in accordance with the articles of association of the Company. He is entitled to the director's fee of US$77,625 per year (which is covered by the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Mr. Poon and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. His director's fee is subject to Shareholders' approval at the annual general meeting.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Poon does not hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

Ms. Chang Carmen I-Hua ("Ms. Chang"), aged 68, was appointed as an independent non-executive Director, a member of the Remuneration Committee and a member of the Nomination Committee of the Company on 3rd May, 2010. She was appointed as an independent non-executive director of Semiconductor Manufacturing International Corporation on 1st September, 2014, a company listed in Hong Kong and USA. Ms. Chang is a partner at New Enterprise Associates ("NEA"), a U.S. venture fund, and serves as its Managing Director, Asia (ex-India). Prior to joining NEA, Ms. Chang was a U.S. corporate and securities lawyer and was involved in many of the seminal technology transactions and companies in China, including the first foreign investments in China Netcom, Baidu and other companies and in numerous other capital markets and merger and acquisition transactions involving Lenovo, Foxconn, Google, Tencent, Netease, CEC, China Mobile, Spreadtrum, SMIC and others.

In addition, Ms. Chang is an affiliate of the Center for International Security and Cooperation of Stanford University and a fellow for the Arthur and Toni Rembe Rock Center for Corporate Governance, a joint initiative of Stanford Law School and the Stanford Graduate School of Business.

Ms. Chang is a graduate of Stanford Law School and also holds a Master's Degree in Modern Chinese History from Stanford University.

Ms. Chang does not have any relationships with other Directors, senior management, substantial Shareholders, or controlling Shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Ms. Chang did not hold other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and she does not hold any other position in the Group.

The term of appointment of Ms. Chang is set out in the "Directors and Service Contracts" section of the Directors' Report on page 21 of this annual report. Ms. Chang is subject to retirement by rotation and re-election in accordance with the articles of association of the Company. She is entitled to the director's fee of US$46,000 per year (which is covered by the letter of appointment) or such other sum as the Company may from time to time decide, which is determined upon negotiation between Ms. Chang and the Company at arm's length on the basis of her previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. Her director's fee is subject to Shareholders' approval at the annual general meeting.

Ms. Chang does not hold any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short position which they are deemed or taken to have under such provisions of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Jack Duan ("Mr. Duan"), aged 43, is the chief operating officer of the Company effective from 1st October, 2014. Mr. Duan joined the Company on 1st January, 2014 as Senior Vice President of Sales and Marketing. Mr. Duan is experienced in the electronics sales, marketing industry and global supply management. Mr. Duan has held senior sales, marketing and global supply management positions at various electronics companies in the PRC and the USA, such as Foxconn and Hewlett-Packard. Mr. Duan obtained Master degrees in Engineering from University of Southern California and University of California, San Diego, and Bachelor of Science degree in Engineering Physics from Peking University in 1996.

Mr. David Plekenpol ("Mr. Plekenpol"), aged 56, is the chief strategy officer of the Company. Mr. Plekenpol is responsible for future business strategy, including assessing and identifying technology trends and development for the Company and reports directly to the CEO. Mr. Plekenpol has spent twenty years in the telecom industry, with executive positions in both Lucent and Alcatel. He founded two Silicon Valley VC-backed startup companies, led sales & marketing for an optical component startup in Scotland and spent two years with a VC-backed Chinese mobile design startup in Shanghai before joining AAC Technologies. He has an undergraduate degree from Dartmouth College and an MBA from the Graduate School of Business at Stanford University. Mr. Plekenpol is a member of the International Advisory Board for the University of Edinburgh Business School. Mr. Plekenpol joined AAC Technologies in February 2010.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2015.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 37 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement on pages 4 to 5 and Management Discussion and Analysis on pages 6 to 11 of this Annual Report. Also, the financial risk management objectives and policies of the Group can be found in note 4 to the consolidated financial statements. No important events affecting the Group that have occurred since the end of the financial year end 31st December, 2015. An analysis of the Group's performance is provided in the summary of the results and of the assets and liabilities of the Group for the last five financial years as set out on page 107 of this Annual Report. In addition, discussions on the Group's environmental, social and governance practices, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Corporate Governance Report on pages 29 to 46. The Sustainability Report for 2015 will be available on the Company's corporate website in May 2016.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 49.

An interim dividend of HK$0.25 was paid during the year. The Directors have resolved to recommend the payment of a final dividend of HK$0.95 per share.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of the share premium accounts and the contributed surplus which amounted to RMB1,859,134,000 (2014: RMB1,774,335,000). Under the Companies Law Chapter 22 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to Shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive rights under the Articles of Association of the Company and there are no restrictions against such rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 29 to the consolidated financial statements.

DIRECTORS' REPORT

DIRECTORS AND SERVICE CONTRACTS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors:
Mr. Benjamin Zhengmin Pan (CEO)
Mr. Mok Joe Kuen Richard

Non-executive Director:
Ms. Ingrid Chunyuan Wu

Independent non-executive Directors:
Mr. Koh Boon Hwee (Chairman)
Mr. Poon Chung Yin Joseph
Dato' Tan Bian Ee
Ms. Chang Carmen I-Hua

In accordance with Article 87 of the Company's Articles of Association, Ms. Wu, Mr. Mok and Dato' Tan will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

Mr. Pan has entered into a letter of appointment with the Company for a term from 23rd May, 2014 until the conclusion of the annual general meeting of the Company to be held in 2017, which can be terminated on whenever is the earlier of (i) the date of expiry of the above period; or (ii) ceasing to be a Director for any reason pursuant to the Company's Articles of Association or any other applicable law.

Each of Ms. Wu, Mr. Mok, Mr. Koh, Mr. Poon, Ms. Chang and Dato' Tan has respectively entered into a letter of appointment with the Company for a term from the date of 2015 annual general meeting held on 18th May, 2015 until the conclusion of the annual general meeting of the Company to be held in 2017, which can be terminated on whenever is the earlier of (i) the date of expiry of the above period; or (ii) ceasing to be a Director for any reason pursuant to the Company's Articles of Association or any other applicable law.

Other than as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company confirms that it has received from each of its independent non-executive Directors an annual confirmation of their independence pursuant to rule 3.13 of the Listing Rules on the Stock Exchange, and it considers that the independent non-executive Directors are independent.

Biographical details of the Directors and senior management of the Group as at the date of the annual report are set out on pages 12 to 19.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2015, the beneficial interests of the Directors and Chief Executive in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company under 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 (including interests or short positions) which they are taken or deemed to have taken under such provisions of the SFO and pursuant to the Model Code, were as follows:

Long positions in ordinary shares of US$0.01 each of the Company:

		Number of ordinary shares						
Name of Directors	Capacity	Personal interests	Joint interests	Corporate interests	Spouse interests	Other interests	Total number of shares	Percentage of the Company's issued shares as at 31st December, 2015
Mr. Pan [1]	Beneficial owner/interest of child under 18 and spouse/ interest of controlled corporation	69,512,565	–	51,439,440	262,820,525	111,545,122	495,317,652	40.34%
Ms. Wu [2]	Beneficial owner/interest of child under 18 and spouse	262,820,525	–	–	120,952,005	111,545,122	495,317,652	40.34%
Mr. Koh	Beneficial owner	795,562	–	–	–	–	795,562	0.06%
Mr. Mok	Beneficial owner	100,000	–	–	–	–	100,000	0.01%

Notes:

(1) Mr. Pan beneficially owns 69,512,565 shares. In addition, Mr. Pan is also deemed or taken to be interested in the following shares for the purpose of the SFO:

(i) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company wholly-owned by Mr. Pan;

(ii) 262,820,525 shares which are beneficially owned by Ms. Wu and as Ms. Wu is his spouse, he is deemed to be interested in such 262,820,525 shares; and

(iii) 111,545,122 shares representing the aggregate of (a) 106,806,278 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendants, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005; and (b) 4,738,844 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendants, as beneficiaries of the Pan 2005 Exempt Trust dated 10th May, 2005. Two children of Mr. Pan and Ms. Wu are over the age of 18. Two children have no discretion over distributions or investments in their trusts until distribution is made to them.

(2) Ms. Wu beneficially owns 262,820,525 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes of the SFO:

(i) 120,952,005 shares representing the aggregate of (a) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company wholly-owned by Mr. Pan; and (b) 69,512,565 shares which are beneficially owned by Mr. Pan and as Mr. Pan is her spouse, she is deemed to be interested in such 120,952,005 shares; and

(ii) 111,545,122 shares representing the aggregate of (a) 106,806,278 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendants, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10th May, 2005; and (b) 4,738,844 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendants, as beneficiaries of the Pan 2005 Exempt Trust dated 10th May, 2005. Two children of Mr. Pan and Ms. Wu are over the age of 18. Two children have no discretion over distributions or investments in their trusts until distribution is made to them.

Other than as disclosed above, as at 31st December, 2015, none of the Directors, Chief Executive nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO.

SHARE OPTION SCHEME

The Company approved and adopted a share option scheme (the "SO Scheme") on 15th July, 2005. Details of the SO Scheme are set out in note 30 to the consolidated financial statements. The Company has not granted any option under the SO Scheme since its adoption. A total number of 124,800,000 shares (representing 10% of the issued shares of the Company as at the date of adoption of the SO Scheme and 10.16% of the existing issued shares of the Company as at the date of this report) might be issued upon exercise of all options which might be granted under the SO Scheme as at the said date. On 15th July, 2015, the SO scheme expired on its tenth anniversary.

SHARE AWARD SCHEME

On 23rd March, 2016, the Board has resolved to adopt a Share Award Scheme in which Employees (other than Excluded Employees) may be selected by the Board to participate. The purpose of the Scheme is to permit the Company to grant Awards to Selected Employees as incentives for their contributions to the Group and to attract suitable personnel for further development of the Group. The maximum number of Shares that may be awarded under the Scheme during its term is limited to 1.65 per cent. of the issued share capital of the Company from time to time. The maximum number of Awarded Shares that may be granted to any one Selected Employee shall not exceed 0.5 per cent. of the issued share capital of the Company from time to time. Pursuant to the Scheme, Shares will be subscribed for at a subscription price as determined by the Board, or purchased on the Stock Exchange, by the Trustee at the cost of the Company and will be held by the Trustee on trust for Selected Employee(s) under the Scheme before vesting. The Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules, and is a discretionary scheme of the Company.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company or their close associates (as defined under the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report, no equity-linked agreements were entered into during the year or subsisted at the end of this year.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following transactions with the associate(s) of connected person(s) of the Company, which constitute continuing connected transactions for the Company under the Listing Rules:

(1) On 20th December, 2013, AAC New Power Development (Changzhou) Co., Ltd. ("AAC New Power") and 常州中科來方能源發展有限公司 (Changzhou Zhongke Laifang Power Development Co., Ltd. ("Changzhou ZKLF")) entered into 2014 Changzhou ZKLF Purchase Agreement, pursuant to which AAC New Power agreed to purchase electrolyte separator materials from Changzhou ZKLF for a term of three years commencing from 1st January, 2014 to 31st December, 2016. Based on the terms of the 2014 Changzhou ZKLF Purchase Agreement, the annual caps in respect of the annual purchase amounts under the 2014 Changzhou ZKLF Purchase Agreement will be RMB10.0 million, RMB20.0 million and RMB40.0 million for the three years ended 31st December, 2016 respectively.

(2) On 20th December, 2013, AAC New Power and 成都茵地樂電源科技有限公司 (Chengdu Yindile Power Supply Technologies Co., Ltd. ("Chengdu Yindile")) entered into the 2014 Chengdu Yindile Purchase Agreement, pursuant to which AAC New Power agreed to purchase aqueous binders from Chengdu Yindile for a term of three years commencing from 1st January, 2014 to 31st December, 2016. Based on the terms of the 2014 Chengdu Yindile Purchase Agreement, the annual caps in respect of the annual purchase amounts under the 2014 Chengdu Yindile Purchase Agreement will be RMB1.8 million, RMB3.8 million and RMB7.0 million for the three years ended 31st December, 2016 respectively.

(3) On 20th December, 2013, the Group and 常州市武進湖塘何家紅光沖件廠 (Wujin Hutang Hejia Hongguang Stamping Factory ("HGCJ")) entered into the 2014 HGCJ Agreement, pursuant to which the Group agreed to purchase packaging and stamping materials from HGCJ for a period of three years commencing from 1st January, 2014 to 31st December, 2016. Based on the terms of the 2014 HGCJ Agreement, the annual caps in respect of the annual purchase amounts under the 2014 HGCJ Agreement will be RMB20.0 million, RMB26.0 million and RMB34.0 million for each of the three years ended 31st December, 2016 respectively.

(4) On 20th December, 2013, the Group and 常州市友晟電子有限公司 (Changzhou Yousheng Electronics Co., Ltd. ("Changzhou Yousheng")) entered into the 2014 Yousheng Agreement, pursuant to which the Group agreed to purchase parts such as domes, ear cushions, insulation mats and resistance need for use in acoustic components from Changzhou Yousheng for a period of three years commencing from 1st January, 2014 to 31st December, 2016. Based on the terms of the 2014 Yousheng Agreement, the annual caps in respect of the annual purchase amounts under the 2014 Yousheng Agreement will be RMB55.0 million, RMB72.0 million and RMB93.0 million for the three years ended 31st December, 2016 respectively.

(5) On 20th December, 2013, the Group and 常州遠宇精密模具製造有限公司 (Changzhou Yuanyu Precise Model Manufacturing Co., Ltd. ("Changzhou Model")) entered into 2014 Changzhou Model Agreement, pursuant to which the Group agreed to purchase processed supplement materials used in the manufacturing process (e.g. modules and stamping components of acoustic products) by the Group from Changzhou Model for a period of three years commencing from 1st January, 2014 to 31st December, 2016. Based on the terms of the 2014 Changzhou Model Agreement, the annual caps in respect of the annual purchase amounts under the 2014 Changzhou Model Agreement will be RMB51.0 million, RMB66.0 million and RMB90.0 million for the three years ended 31st December, 2016 respectively.

(6) In order to consolidate the negotiation process, on 20th December, 2013, the Group entered into the 2014 Jiangsu Yuanyu Agreements, pursuant to which 江蘇遠宇電子集團有限公司 (Jiangsu Yuanyu Electronics Group Co., Ltd. ("Jiangsu Yuanyu")) agreed to lease certain areas within the premises located at Yuanyu Technologies Building, Science & Education Mega Centre, Changzhou, Jiangsu Province, PRC to certain members of the Group as part of its factory and office space, for a period of three years commencing from 1st January, 2014 to 31st December, 2016. Based on the annual rent payable under the 2014 Jiangsu Yuanyu Agreements, the annual caps in respect of the annual rent payable under the 2014 Jiangsu Yuanyu Agreements will be RMB7.5 million, RMB8.2 million and RMB9.2 million for each of the three years ended 31st December, 2016 respectively.

(7) On 20th December, 2013, two members of the Group (AAC Acoustic Technologies (Shenzhen) Co., Ltd. ("AAC Shenzhen") and AAC Kaitai (Shenzhen) Sci-Tech Development Co., Ltd. ("AAC Kaitai")) and 深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd. ("Shenzhen Yuanyu")) entered into the 2014 Shenzhen Yuanyu Agreements, pursuant to which Shenzhen Yuanyu agreed to lease (i) the premises located at Nanyou Tian'an Industry Zone, Nanshan, Shenzhen, PRC, to AAC Shenzhen as part of its factory for a period of one and a half years commencing from 1st January, 2014 to 30th June, 2015; and (ii) the premises located at Nanda Building, Nanshan, Shenzhen, PRC, to AAC Shenzhen and AAC Kaitai as their offices for a period of three years commencing from 1st January, 2014 to 31st December, 2016. Based on the annual rent payable under the 2014 Shenzhen Yuanyu Agreements, the annual caps in respect of the annual rent payable under the 2014 Shenzhen Yuanyu Agreements will be RMB13.8 million, RMB12.0 million and RMB10.1 million for each of the three years ended 31st December, 2016 respectively.

On 27th August, 2014, AAC Shenzhen, AAC Kaitai and Shenzhen Yuanyu entered into the Supplemental 2014 Shenzhen Yuanyu Agreements, pursuant to which they agreed to (i) extend the term of the lease for the Shenzhen Yuanyu Nanyou Premises to three years, commencing from 1st January, 2014 to 31st December, 2016; and (ii) increase the rental area of the Shenzhen Yuanyu Nanda Premises by 2,460.47 sq.m. from 1st January, 2015 onwards. Based on the annual rent payable under the Supplemental 2014 Shenzhen Yuanyu Agreements, the annual caps in respect of the annual rent payable under the Supplemental 2014 Shenzhen Yuanyu Agreements will be RMB13.8 million, RMB16.9 million and RMB17.5 million for each of the three years ended 31st December, 2016 respectively.

(8) On 20th December, 2013, AAC Shenzhen and Wu's Mother entered into the 2014 Wu's Mother Agreements, pursuant to which Wu's Mother agreed to renew the lease of the same properties located at Nanyou Tian'an Industry Zone, Nashan, Shenzhen, PRC, to AAC Shenzhen as part of its factory for periods (i) commencing from 1st January, 2014 to 31st December, 2016 (in respect of 1st Floor and 2nd Floor, Block 8) and (ii) commencing from 1st January, 2014 to 30th June, 2015 (in respect of 3rd Floor, Block 8 and 6th Floor, Block 5). Based on the annual rent payable under the 2014 Wu's Mother Agreements, the annual caps in respect of the annual rent payable under the 2014 Wu's Mother Agreements will be RMB3.8 million, RMB2.8 million and RMB1.8 million for each of the three years ended 31st December, 2016 respectively.

On 27th August, 2014, AAC Shenzhen and Wu's Mother entered into the Supplemental 2014 Wu's Mother Agreements, pursuant to which they agreed to extend the term of the lease for the premises of 3rd Floor, Block 8 and 6th Floor, Block 5 to three years, commencing from 1st January, 2014 to 31st December, 2016 and increase the monthly rental for the aforementioned premises from 1st July, 2015 onwards. Based on the annual rent payable under the Supplemental 2014 Wu's Mother Agreements, the annual caps in respect of the annual rent payable under the Supplemental 2014 Wu's Mother Agreements will be RMB3.8 million, RMB4.2 million and RMB4.5 million for each of the three years ended 31st December, 2016 respectively.

(9) On 20th December, 2013, certain members of the Group entered into the 2014 Changzhou LFY Agreements, pursuant to which 常州來方圓電子有限公司 (Changzhou Laifangyuan Electronics Co., Ltd. ("Changzhou LFY")) agreed to renew the lease of the same properties located in Changzhou, Jiangsu Province, PRC as part of its factory, for a period of three years commencing from 1st January, 2014 to 31st December, 2016. Based on the annual rent payable under the 2014 Changzhou LFY Agreements, the annual caps in respect of the annual rent payable under the 2014 Changzhou LFY Agreements will be RMB1.5 million, RMB1.8 million and RMB2.0 million for each of the three years ended 31st December, 2016 respectively.

The independent non-executive Directors had reviewed the above continuing connected transactions and confirmed that the transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms and that the terms thereof (including the relevant annual caps as set out in the Company's announcements dated 20th December, 2013 and 27th August, 2014) are fair and reasonable and in the interests of the Company and the Shareholders as a whole after taking into account the factors stated in these announcements. Details of the above transactions are set out in the Company's announcements dated 20th December, 2013 and 27th August, 2014.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions for the year ended 31st December, 2015 disclosed by the Group from pages 23 to 25 of the annual report in accordance with Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange. The continuing connected transactions entered into by the Group for the year ended 31st December, 2015:

(a) have received the approval of the Directors of the Company;

(b) have been entered into in accordance with the terms of the relevant agreement governing such transactions;

(c) have not exceeded the relevant cap amount for the financial year ended 31st December, 2015 disclosed in previous announcements; and

(d) have been entered into in accordance with the pricing policies of the Company with reference to similar transactions with independent third parties.

Other than as disclosed above, no transactions, arrangements and contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or his/her connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the year are set out in note 36 to the consolidated financial statements and include transactions that constitute continuing connected transactions for which the disclosure requirements under the Listing Rules have been complied.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2015, the register of interests and short positions kept by the Company under Section 336 of the SFO, other than the Directors and Chief Executive, showed that the following persons held interests or short positions in the Company's shares:

Name of Shareholders	Capacity	Number of shares	Derivative interest	Percentage of the Company's issued shares as at 31st December, 2015
JPMorgan Chase & Co. [(1)]	Beneficial owner/Investment Manager/ Trustee/Custodian corporation/ Approved lending agent	183,432,364(L) 6,199,990(S) 36,184,609(P)	4,978,709(L) 1,060,000(S) –	14.93% 0.5% 2.94%
The Capital Group Companies, Inc.[(2)]	Interest of controlled corporation	207,957,746(L)	–	16.93%

L – Long position
S – Short position
P – Lending pool

Notes:

(1) JPMorgan Chase & Co., through its various 100% controlled corporations, is interested in (i) an aggregate of 183,432,364 shares and listed derivative interests of 845,810 shares and unlisted derivative interests of 4,132,899 shares with physically settled in long position; and (ii) an aggregate of 6,199,990 shares and unlisted derivative interests of 1,060,000 shares with physically settled in short position. Among them, 111,545,422 shares held by J.P. Morgan Trust Company of Delaware as a trustee including 111,545,122 shares of other interests of Mr. Pan and Ms. Wu as disclosed in the section headed "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" above.

In addition to the above, JPMorgan Chase & Co. is also interested in 36,184,609 shares in lending pool as described in the SFO. The term "lending pool" is defined as (i) shares that the approved lending agent holds as agent for a third party which he is authorised to lend and other shares that can be lent according to the requirements of the Securities Borrowing and Lending Rules; and (ii) shares that have been lent by the approved lending agent and only if the right of the approved lending agent to require the return of the shares has not yet been extinguished.

(2) 207,957,746 shares in long position comprise 206,928,246 shares held by Capital Research and Management Company and 1,029,500 shares held by Capital International, Inc.. By virtue of Capital Group International, Inc.'s 100% interest in Capital International, Inc., Capital Research and Management Company's 100% interest in Capital Group International, Inc., each of Capital Group International, Inc. and Capital Research and Management Company is deemed to be interested in 1,029,500 shares held by Capital International, Inc.. And by virtue of The Capital Group Companies, Inc.'s 100% interest in Capital Research and Management Company, The Capital Group Companies, Inc. is deemed to be interested in 207,957,746 shares held directly and indirectly by Capital Research and Management Company.

EMOLUMENT POLICY

The Board has delegated the Remuneration Committee with assisting the Board on formulating remuneration policy and reviewing the emoluments of senior management and Directors of the Company. Responsibilities and work performed in 2015 by the Remuneration Committee are stated on pages 36 to 37 in the Corporate Governance Report, and, details of the emolument policy are described on page 37.

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, subject to relevant laws, every Director shall be indemnified out of the assets of the Company against all losses and liabilities which the Directors may sustain or incur in or about the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against Directors of the Company.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company during the year ended 31st December, 2015.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 65.9% of the Group's total revenue from sales while the revenue from sales attributable to the Group's largest customer was approximately 28.4% of the Group's total revenue from sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers were 32.0% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 10.5% of the Group's total purchases.

None of the Directors, including Mr. Pan and Ms. Wu, their close associates or any Shareholders, which to the knowledge of the Directors own more than 5% of the Company's issued shares, had any interest in the share capital of the five largest customers or suppliers of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors of the Company or their respective close associates (as defined in the Listing Rules) were considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses of which the Directors of the Company were appointed as Directors to represent the interests of the Company and/or the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into during the year or subsisted at the end of the year.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float during the year ended 31st December, 2015.

AUDITOR

The consolidated financial statements for the year have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the annual general meeting of the Company to re-appoint Deloitte as auditor of the Company.

On behalf of the Board
AAC Technologies Holdings Inc.

Koh Boon Hwee
Chairman

23rd March, 2016

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE POLICY AND PRACTICES

The Board and the Company is committed to achieving high standards of corporate governance that properly protect and promote the interests of the Shareholders and other stakeholders of the Company.

Our Board is at the centre of our corporate governance structure regularly reviewing, refining and overseeing enforcement of the Company's corporate governance principles and practices.

The Board is of the view that the current framework and internal established processes will enable the Company to comply with applicable statutory and regulatory requirements and, where appropriate, to exceed same by embracing the latest best corporate governance practices. The Board recognizes the need to continuously adapt and improve our corporate governance policies and practices in light of our experience, regulatory requirements, international developments and investor expectations, and is committed to high standards of disclosure. The Company's Corporate Governance framework comprises the following key components:

I. Board of Directors and Executive Management
II. Board Committees
III. The Corporate Governance Code
IV. Legal and Regulatory Compliance
V. Environmental, Social and Governance (ESG) Practices
Vi. Internal Audit, Risk Management and internal control
VII. Statutory Audit
VIII. Code of Conduct and Whistleblowing Policy
IX. Corporate Disclosure
X. Company Secretary
XI. Shareholders' Rights

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

The overall stewardship of the Company's operations is vested in the Board. The Board's responsibilities are to formulate, regulate and evaluate the strategic direction of the Company, management policies and the effectiveness with which management implements its policies. In addition, the Board is responsible for overseeing and evaluating Management in the design, implementation and monitoring of the Company's risk management and internal control systems on an ongoing basis. The Board has reviewed the day-to-day operating requirements of the Company and has preset designated financial limits for a schedule of matters delegated for management to operate and manage the business. Management is to submit business plans or investment proposals to the Board if they fall outside the designated limits. The Board also reviews and approves the annual operating and capital budgets, and when appropriate, incremental items/amounts outside the approved budgets will be raised to the Board for approval. Under the supervision of the CEO, management is responsible for the daily operations of the Group. The CEO and senior management report on business operations, financial results and strategic matters to the Board on a quarterly basis, and provide key updates on a monthly basis.

During this year, the Board performed, considered and/or resolved the following matters:

- reviewed monthly operations and financial updates;
- reviewed new opportunities in the core business portfolio with management;
- reviewed the strategic plans for the Company's core businesses to meet short-term objectives and to strengthen medium-term competitiveness; ongoing assessment of the Company's technology capabilities, with a view to enabling the Company to reach another level of commercial success and sustainability; reviewed further opportunities in our core business portfolio with management;

- reviewed and considered the annual budget, disposals and acquisitions proposals and other significant operational and financial matters;
- reviewed and approved new and renewal, if any, of continuing connected transactions;
- reviewed the amendments for the terms of reference for the Audit Committee, Remuneration Committee and Nomination Committee;
- reviewed accounting principles and practices and approved the relevant quarterly, interim and annual results and financial statements;
- reviewed, recommended or declared dividend payments;
- performed the duties of corporate governance functions under code provision D.3.1 of the Corporate Governance Code (the "CG Code") in Appendix 14 to the Listing Rules;
- renewed the appropriate insurance cover for Directors and Officers arranged by the Company;
- reviewed the Board Diversity Policy;
- reviewed the Corporate Disclosure Policy and Whistleblowing Policy;
- reviewed and evaluated the Enterprise Risk Management (ERM) system for the Group;
- reviewed and evaluated internal audit reports and the effectiveness of the risk management and internal control systems over financial, operational and compliance matters;
- reviewed investor relations program and strategies;
- amended and modified the Company's practices with regard to environmental, social and governance (ESG) issues; and
- published our 2nd annual Sustainability Report for the year 2014.

The Board currently comprises two executive Directors, a non-executive Director and four independent non-executive Directors. Since the first date of listing, the roles of Chairman and CEO are separated and are not to be performed by the same individual, as stipulated under the code provision A.2.1 of the CG Code. The Chairman of the Board is Mr. Koh, an independent non-executive Director, and the CEO is Mr. Pan. The Company has facilitated the Chairman to execute his responsibilities towards the Board and Shareholders of the Company. The number of independent non-executive Directors of the Company represents at least one-third of the Board under the Listing Rules. An updated list of Directors identifying their roles and functions and whether they are independent non-executive Directors has been published on the websites of the Stock Exchange and the Company.

Ms. Wu, a non-executive Director, is not considered as independent, as she is the spouse of the CEO and together with the CEO and her family, has a substantial interest (holding approximately 40.34% interest as at the date of this report) in the Company. Her knowledge and experience of the business of the Company and the industry in which the Company operates continue to contribute valuably to the Company. In common with all Directors, she is aware of her responsibilities as a Director to all Shareholders.

CORPORATE GOVERNANCE REPORT

The Directors have disclosed the number and nature of offices held in public companies or organizations and other significant commitments. The Board will regularly review the contribution required by a Director to perform his/her responsibilities to the Company and whether he/she is spending sufficient time performing his/her duties.

Directors are requested to declare their personal or business interests, if any, in any transactions to be considered by the Board and such declaration of interest would be reviewed and discussed at the beginning of Board meetings and, as appropriate, Directors will or will be asked to withdraw from the meetings as appropriate. Directors have confirmed that they have no other direct or indirect beneficial interests in any businesses competing with the Company, nor in the Top-5 customers or suppliers.

The Company has received, from each of the independent non-executive Directors, an annual written confirmation of his/her independence pursuant to rule 3.13 of the Listing Rules. Based on the assessment conducted by the Nomination Committee, the Company considers that all of the independent non-executive Directors are independent.

Board meetings are held regularly at least four times a year. Apart from the regular Board meetings, the Board meets on other occasions when a board-level decision on a particular matter is required, such as the budget for 2016 which was approved in a Board meeting held in Hong Kong. In addition, the non-executive Directors held meetings in the absence of the executive Directors during 2015 to evaluate the performance of the executive Directors and the effectiveness of the Board. During the year ended 31st December, 2015, the Board convened a total of 5 Board meetings and the annual general meeting. Attendance of the Directors at these meetings is as follows:

	Attendance/	
Directors	**Board meetings**	**AGM**
Executive Directors		
Mr. Benjamin Zhengmin Pan (CEO)	5/5	1/1
Mr. Mok Joe Kuen Richard	5/5	1/1
Non-executive Director		
Ms. Ingrid Chunyuan Wu	5/5	1/1
Independent Non-executive Directors		
Mr. Koh Boon Hwee (Chairman)	5/5	1/1
Mr. Poon Chung Yin Joseph	5/5	1/1
Dato’ Tan Bian Ee	5/5	1/1
Ms. Chang Carmen I-Hua	4/5	–/1

Sufficient notice, typically not less than 14 calendar days, is given for regular Board meetings to all Directors enabling them to attend, and reasonable notice will be given in case of other Board meetings. The Directors received details of agenda items well in advance of each Board meeting. Board minutes are kept by the company secretary and are sent to the Directors for review before sign-off and for their records. They are also open for inspection by the Directors and the external auditors.

CORPORATE GOVERNANCE REPORT

In addition to attendance at meetings and review of papers and circulars sent by the management, all Directors recognized the importance of continuous professional development. During the year ended 31st December, 2015, the Company also arranged statutory update briefing organized by an international technology consultant which were attended by all Directors. All Directors had provided to the Company records of training they received during the year, such trainings including self-reading of regulatory and capital markets updates, attending in-house briefing organized by the Company and/or other listed issuers, and attending seminars organized by professional institutions. The Board is of the view that all Directors have demonstrated sufficient participation in developing and refreshing required knowledge and skills as part of the continuous professional development programme during the year.

BOARD COMMITTEES

The Board has established separate Board Committees with defined terms of reference to assist the full Board in discharging its governance and other responsibilities, particularly over proper financial reporting and disclosure; internal control and risk management; size, structure and diversity of the Board; and remuneration of Directors and senior management.

The three Board committees, all chaired by independent non-executive Directors, are:

- Audit Committee;
- Nomination Committee; and
- Remuneration Committee.

Each of these Board committees has produced a report which is set out below. Their terms of reference, including their duties, have been published on the websites of the Stock Exchange and the Company.

Audit Committee

The Audit Committee was established in April 2005 and is currently chaired by Mr. Poon (an independent non-executive Director) with two other members, Mr. Koh (Chairman of the Board and an independent non-executive Director) and Ms. Wu (a non-executive Director).

The Audit Committee's responsibilities include the oversight of the integrity of the Company's financial statements and assist the Board in the evaluation of Management in the design, implementation and monitoring of the Company's risk management and internal control systems on an ongoing basis. The Audit Committee needs to oversee management while ensuring that it does not step into the management's role. The Audit Committee relies on management's assessment of key risks and mitigating controls at each major operating unit and on internal audit to provide an objective view on how effectively the risk assessments and controls are operating. The external auditors also provide the Audit Committee with assurance regarding the Company's financial reporting and any material weaknesses in internal control and risk management that they might come across as part of their review considered relevant to the audit.

The Audit Committee oversees the relationship and coordination between the Company, internal auditor and external auditors.

Adopting a recommended best practice in the CG Code, the Company, since the first date of listing, has been announcing and publishing quarterly financial results. It is believed that Shareholders would be better informed about the performance and business progress of the Company with quarterly reporting. And as such, the Audit Committee is involved in the review of the quarterly, half-yearly and annual results. It meets at least four times a year and whenever required, and meets the external auditors at least twice a year, in the absence of management at least once a year.

CORPORATE GOVERNANCE REPORT

During the financial year ended 31st December, 2015, the Audit Committee held 4 meetings and the Audit Committee Chairman had an additional audit planning meeting in 2015 with executive Director and the internal auditor to review the three year cycle audit plan and other governance matters. An additional meeting was held in January 2016 to prepare for the agenda items for the March 2016 Audit Committee meeting that reviewed the final 2015 financial results. To reinforce the Company's ERM focus, high risk areas identified in the external auditor's planning memorandum were discussed and special internal audit procedures were agreed where deemed appropriate. Details of members' attendance at the regular quarterly meetings are as follows:

Members	Attendance/ Committee meetings
Mr. Poon Chung Yin Joseph	4/4
Mr. Koh Boon Hwee	4/4
Ms. Ingrid Chunyuan Wu	4/4

Between 1st January, 2015 and the date of this Report (the "Relevant Period"), the Audit Committee discharged its responsibilities in its review of the quarterly, half-yearly and annual results, system of risk management and internal control and its other duties on corporate governance. The Committee reviewed the Financial Statements for the year ended 31st December, 2015, including the Group's adopted accounting principles and practices, and significant judgment and estimation issues, in conjunction with the internal and external auditors. The Committee also reviewed the compliance by the Company with the CG Code throughout the year ended 31st December, 2015. All continuing connected transactions/connected transactions are first reviewed by the Audit Committee before recommending to the full Board, including all independent non-executive Directors, for approval and action.

The work performed by the Audit Committee in 2015 included reviews of:

- the 2014 annual report including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31st December, 2014 and the annual results announcement, with a recommendation to the Board for approval;

- the 2015 first quarterly results including the Group's first quarterly financial statements for the three months ended 31st March, 2015 and the relevant results announcement, with a recommendation to the Board for approval;

- the 2015 interim report including the Group's interim financial statements for the six months ended 30th June, 2015 and the interim results announcement, with a recommendation to the Board for approval;

- the 2015 third quarterly results including the Group's third quarterly financial statements for the nine months ended 30th September, 2015 and the relevant results announcement, with a recommendation to the Board for approval;

- the Group's tax review report carried out by an independent professional firm;

- reports on new investments of the Group;

- compliance by the Company with the CG Code throughout the year ended 31st December, 2014 and throughout the six months ended 30th June, 2015;

- the Company's compliance with the Listing Rules, Companies Laws of the Cayman Islands, Companies Ordinance and SFO throughout the year ended 31st December, 2015. To the best of knowledge of the Audit Committee's members, no breaches were identified;

- the report and management letter submitted by external auditor, which summarized matters arising from their audit on the Group for the year ended 31st December, 2014, including auditing, accounting and tax matters, and internal controls, together with management's progress in addressing matters raised, and the confirmation from auditors that there were no high risk matters were identified which were not satisfactorily resolved or being addressed;

- the audit fees payable to external auditor for the year ended 31st December, 2014 for approval by the Board;

- the effectiveness of the external auditors giving due consideration to the quality and contents of their reports to the Audit Committee, feedback from management and compliance with relevant regulatory and professional requirements, with a recommendation for their re-appointment for the financial year 2015, subject to final approval by Shareholders (given on 18th May, 2015);

- the safeguard of external auditor objectivity and independence in proposed engagement in respect of audit related and permissible non-audit services;

- the adequacy of resources, staff qualifications and experience of the Group's accounting and financial reporting function, and that of the Group's Internal Audit department;

- the quarterly reports from Internal Audit and a three-year cycle audit plan and alignment with ERM;

- the ERM system, from the evaluation of Ernst & Young ERM Services' recommended assessment frameworks;

- the internal controls reviewed by Internal Audit with regard to Connected Transactions; and

- Whistleblowing reports.

On 18th March, 2016, the Audit Committee reviewed this Annual Report, including the Corporate Governance Report, the Director's Report and Financial Statements for the year ended 31st December, 2015 and the annual results announcement with a recommendation to the Board for approval. The Audit Committee reviewed changes in accounting policies arising from revised financial reporting standards, the internal audit review for 2015 and internal audit plan for 2016. It met with the external auditors and discussed their report to management. Overall compliance with Code Provisions of CG Code and other legal and regulatory compliance matters were also reviewed.

Nomination Committee

The Nomination Committee was established in April 2005 and is chaired by an independent non-executive Director, Dato' Tan and two other members who are also independent non-executors, namely, Ms. Chang and Mr. Poon.

The Nomination Committee is responsible for reviewing, advising and making recommendations to the Board on matters in relation to the structure, size and diversity of the Board, the appointment and re-appointment of Directors and the assessment on independence of independent non-executive Directors, and ensuring the proper and transparent procedures for the appointment and re-appointment of Directors.

The current practice to appoint new Directors falls on the Nomination Committee to identify, assess and nominate suitable candidates, including those proposed by the Shareholders, by considering their knowledge, skill and experience, and all valid nomination of candidates, accompanied with details of their biographical backgrounds, would be presented to the Board for consideration as soon as practicable. Consideration would be given to factors such as the candidate's integrity, experience and qualifications relevant to the Company's business. It is believed that members of the Nomination Committee collectively would have required relevant knowledge and skills to identify, invite and evaluate qualifications of nominated candidates for directorship.

The Nomination Committee convened 2 meetings during the year ended 31st December, 2015 to review the structure, size and composition of the Board and Board Diversity Policy, to assess the independence of independent non-executive Directors, to consider the renewal of terms of appointment of independent non-executive Directors, and recommending to the Board on re-election of retiring Directors. Details of the attendance of its meetings are as follows:

Members	Attendance/ Committee meeting
Dato' Tan Bian Ee	2/2
Mr. Poon Chung Yin Joseph	2/2
Ms. Chang Carmen I-Hua	2/2

The Nomination Committee has reviewed and recommended to the Board the terms of appointment of the non-executive Directors (including independent non-executive Directors), which are set out in the "Directors and service contracts" section of the "Directors' Report" on page 21 of this Annual Report. Furthermore, in relation to the requirement set out in the Company's articles of association and in compliance with the code provision A.4.2 of the CG Code, all Directors (including executive Directors, non-executive Director and independent non-executive Directors) are subject to retirement by rotation at least once every three years and the annual list of retiring Directors are reviewed and agreed by the Nomination Committee.

During the year, the Nomination Committee has reviewed the Board composition to ensure that the Company meets the Board diversity required by the Listing Rules. Its terms of reference has been reviewed and continued to be adopted such that the Directors comprise a wide range of business, operations, technology, financial and legal experience, and, based on diversity perspectives, come from different gender, age, cultural and educational background, ethnicity and varied lengths of service at the Company.

The Nomination Committee has reviewed and assessed the regular updates submitted by the Directors on their commitments to other public companies or organizations, their personal and any other business interests, and, any circumstances that may affect independence status of the independent non-executive Directors. The Nomination Committee is of the view that the balance of the current structure, size and diversity of the Board is adequate to its effective performance. Hence, during the year, there is no change of the directorship of the Company and the Board composition.

The Directors' biographical information is set out in the section headed "Biographies of Directors and Senior Management" on pages 12 to 19 of this Annual Report. Except for the family relationship between Mr. Pan and Ms. Wu, as disclosed in Directors' biographical information on pages 12 to 15 of this Annual Report, there is no financial, business, family or other material relationship between any members of the Board, and, in particular, between the Chairman and the CEO.

Board Diversity Policy

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance and has adopted a board diversity policy. A truly diverse Board will include and make good use of differences in the knowledge, skills, geographic and industry experience, background, ethnicity, gender and other qualities of Directors. These differences will be taken into account in determining the optimum composition and complementary of the Board. All Board appointments will be based on meritocracy while taking into account diversity including gender diversity.

Selection of candidates will be based on a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board and the strategic success of the Company.

The Board's composition under diversified perspectives was summarized as follows:

<table>
<tr><td rowspan="2">1.</td><td rowspan="2">Designation</td><td colspan="3">Executive Director (2)</td><td colspan="3">Non-executive Director (1)</td></tr>
<tr><td colspan="6">Independent Non-executive Director (4)</td></tr>
<tr><td>2.</td><td>Gender</td><td colspan="3">Male (5)</td><td colspan="3">Female (2)</td></tr>
<tr><td rowspan="2">3.</td><td rowspan="2">Nationality</td><td colspan="3">Australia (1)</td><td colspan="3">British (1)</td></tr>
<tr><td colspan="3">Singapore (3)</td><td colspan="3">USA (2)</td></tr>
<tr><td>4.</td><td>Age group</td><td colspan="2">61-70 (4)</td><td colspan="2">51-60 (1)</td><td colspan="2">40-50 (2)</td></tr>
<tr><td>5.</td><td>Length of service (year)</td><td colspan="3">6-10 (4)</td><td colspan="3">1-5 (3)</td></tr>
<tr><td rowspan="4">6.</td><td rowspan="4">Skills, knowledge and professional experience [Note 1]</td><td colspan="3">Investment (5)</td><td colspan="3">Management & Commercial (5)</td></tr>
<tr><td colspan="3">Technologies & Manufacturing (4)</td><td colspan="3">Accounting & Finance (4)</td></tr>
<tr><td colspan="3">Investor Relations (4)</td><td colspan="3">Banking (2)</td></tr>
<tr><td colspan="3">Human Resources (2)</td><td colspan="3">Legal (1)</td></tr>
<tr><td>7.</td><td>Academic background</td><td colspan="6">University (5)</td></tr>
</table>

Notes:

1. Directors may possess multiple skills, knowledge and professional experience.
2. The numbers in brackets refer to the number of Directors under the relevant category.

The Nomination Committee reviewed the Board's composition under diversified perspectives and monitored the implementation of the Board Diversity Policy and considered that the Board Diversity Policy is effective. It is currently not required to set any measurable objectives for implementing the policy.

Remuneration Committee

The Remuneration Committee was established in April 2005 and is chaired by Mr. Koh (Chairman of the Board and an independent non-executive Director) with two other members, Dato' Tan (an independent non-executive Director) and Ms. Chang (an independent non-executive Director).

The responsibilities of the Remuneration Committee are to advise the Board in relation to the remuneration policy and structure of the executive Directors and senior management, and to review the fees and remuneration of the Chairman and other non-executive Directors prior to the annual general meeting. In addition, the Remuneration Committee considers management recommendation for key terms of new compensation and benefits plans and reviews management's remuneration proposals with reference to the Board's corporate goals and objectives.

The work performed by the Remuneration Committee in 2015 included reviews of:

- the policy for the remuneration package of executive Directors, assessing performance of executive Directors, and making recommendation to the Board;
- the Group performance for 2014 and 2015 and Group targets for 2015 and 2016;
- senior Executive remuneration, including annual incentive payments for 2013 and 2014 and annual pay review for 2015 and 2016; and
- Share Option Scheme and Share Award Scheme.

The Remuneration Committee has adopted code provision B.1.2 (c) (ii) of the CG Code to make recommendation to the Board on the remuneration packages of the individual executive Directors and senior management of the Company.

The Remuneration Committee convened 2 meetings during the year ended 31st December, 2015. Details of the attendance of its meetings are as follows:

Members	Attendance Committee meeting
Mr. Koh Boon Hwee	2/2
Dato' Tan Bian Ee	2/2
Ms. Chang Carmen I-Hua	2/2

Emolument policy

The emolument policy of the employees of the Group is determined by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are reviewed and recommended by the Remuneration Committee and approved by the Board, having regard to the Company's operating results, individual performance and comparable market statistics.

The remuneration of members of the senior management by band for the year ended 31st December, 2015 is set out below:

Remuneration bands	Number of individuals
HK$8,000,001 to HK$8,500,000	1
HK$2,000,001 to HK$2,500,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 10 to the financial statements.

The Company approved and adopted a share option scheme (the "SO Scheme") on 15th July, 2005, which has been expired at its tenth anniversary. The Company has not granted any option under the SO Scheme since its adoption. A total number of 124,800,000 shares (representing 10% of the issued share capital of the Company as at the date of adoption of the SO Scheme and 10.16% of the existing issued shares capital of the Company as at the date of this report) might be issued upon exercise of all options which might be granted under the SO Scheme as at the said date. On 15th July, 2015, the SO Scheme expired.

CORPORATE GOVERNANCE REPORT

THE CORPORATE GOVERNANCE CODE

The Board has reviewed the Company's corporate governance practices and confirmed that they met the Code Provisions of the CG Code as set out in Appendix 14 of the Listing Rules for the financial year ended 31st December, 2015. The Board has ensured that all Board Committees were represented through the Directors in attendance at that annual general meeting to answer questions that might be raised. To ensure a balanced understanding of the views of Shareholders is maintained by all independent non-executive Directors, the Company provides regular Shareholders' feedback from the Company's investor relations programme.

The Company has a track record of striving to exceed minimum Code provisions of CG Code. Since the first date of listing in Hong Kong, the Chairman has been an independent non-executive Director holding this role separate from the CEO's role. The Audit Committee has consistently met at least four times a year to review internal control and financial reporting matters ahead of Board meetings. To keep all non-executive Directors informed on a timely basis, updates on business operations and financial results are provided to them on a monthly basis. The Company already fulfilled the new requirement of Listing Rules of having at least one-third of the Board comprising independent non-executive Directors well before the effective date of 31st December, 2012. Since listing, the Company has adopted quarterly reporting of financial results. A significant proportion of the executive Directors' remuneration is linked to corporate and individual performances. A whistleblowing policy and system is in place. An ERM framework was adopted with the assistance of external professional advice ahead of the Stock Exchange consultation and conclusions in this connection.

LEGAL AND REGULATORY COMPLIANCE

During the year, the Board had reviewed the Company's legal framework on implementing policies and practices to ensure the operations of the Company are in compliance with existing or any new legal and regulatory requirements of all applicable jurisdictions, including updates of the HKEX Listing Rules and new disclosure requirements under the Companies Ordinance.

The Company seeks to abide strictly by the governing laws and regulations of the jurisdictions where it operates and observes the applicable guidelines and rules issued by regulatory authorities.

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms not less exacting than the required standards set out in the Model Code for Securities Transaction by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules.

On specific enquiries made, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding the Directors' securities transactions during the year ended 31st December, 2015. Furthermore, as discussed, the Nomination Committee has reviewed and assessed the information submitted by the Directors and is of the view that the Directors are in compliance with the required standard.

During the year, the Board continued to discuss and modify the Company's practices with regard to environmental, social and governance (ESG) issues. Our 2nd annual issue of the Sustainability Report for the year ended 31st December, 2014 was published on the Company's website in May 2015. We have also pro-actively requested and interacted with our stakeholders for their feedback of the report. In September, we responded with our comments to the Consultation Paper on Review of the Environmental, Social and Governance Reporting Guide issued by the HKEX. We believe that the Sustainability Report, together with the Corporate Governance Report, will help to better explain the discharge of our ESG responsibilities to our stakeholders.

CORPORATE GOVERNANCE REPORT

ESG PRACTICES

ESG practices should be embedded in our daily operations

Sustainability is fundamental to the manner in which AAC Technologies conducts its business. Led by an executive Director, the Company's environment, health & safety and social responsibility affairs are managed by respective departments and divisions, with the assistance from human resources department. The Company has included environmental, social and governance (ESG) factors as a strategic consideration in its decision-making. Relevant department heads are responsible for identifying, assessing and mitigating current and potential ESG risks.

Detailed ESG performances will be reported in our third Sustainability Report to be published separately at the Company's website in May 2016.

Recognising the impact on the environment by our Operations

We have established policies, systems and processes in place to manage environmental performance and to seek continuous improvement. Our major manufacturing bases in the PRC are mandated to maintain ISO 14001 environmental management system certification as a means of setting, maintaining and improving standards. In addition, we continue to monitor the impact of climate change of our products and will consider the environment of our operation locations.

As in our practice, we have strictly complied with the environmental laws and regulations where we operate. The Company had achieved a clean record of full compliance with local environmental laws and regulations throughout the year. The Company endeavors to continue to identify, assess and control potential and existing risks concerning effluent and waste treatment, and monitor all relevant environmental performances. It is imperative that as our operations continue to expand, we will remain vigilant on managing our environmental performance with any future regulatory updates.

Engagement with Stakeholders

Our operations extend to an extensive network of stakeholders, including customers, employees, Shareholders, local communities, governments, non-governmental organisations, national and international trade associations and suppliers. We communicate with some of our stakeholders directly and some with opened established channels on an ongoing basis via interactive activities, meetings and publications.

i. ***Employees and labour communities***

Our human resources practices, policies and strategies comply with Chinese labour laws and align with other relevant frameworks and codes of practice, including the human rights requirements of the Electronic Industry Citizenship Coalition (EICC) and the United Nations Global Compact. We value diversity, providing equality of opportunity and recruiting and operate a merit promotion system. The Company will not allow any discrimination nor accommodate adverse labour practices. We have made sure that there is an established grievance mechanism for reporting any employment issues.

We are committed to minimizing the occupational health and safety related impacts for our employees. In addition to increased training hours on health and safety aspects and enhanced safety awareness promotion, we apply rigorous policies, systems and processes across all our facilities to monitor and manage health and safety performance and to drive continuous improvement. For example, mechanism for timely action response are in place to protect our work force and to work with the local health authorities.

Employee engagement are built-in the daily interactions between management in strengthening employee relations, such as incremental medical services and induction programmes. In 2015, we had continued to increase such interactions through additional channels such as employee satisfaction surveys, training programs, in-house publications, regular staff meetings, etc. We hope to create a working environment that respects the human rights and takes into account the long term interests of our employees.

The communities in which we operate is where our customers and employees live and work. We realize the effect that our operations can have on the community and help tackle current social issues. In 2015, in addition to making donations to domestic charities, our employees participated in a number of community activities outside work, supporting educational projects in their communities.

ii. Customers

In providing excellent products and services to our customers, we strive for a high level of customer satisfaction. In 2015, we held a series of seminars engaging our customers and gauged their satisfaction level for the third consecutive year in the areas of quality, service, delivery and technology, striving to understand our customers' needs, and to enhance client experience.

iii. Suppliers

We work with suppliers whose business principles, conduct, and standards align with our own. Our raw material procurement contracts state that suppliers should procure materials in accordance with the requirements set out in the EICC, ensuring there will be no conflict minerals originating from those regions in the Democratic Republic of Congo and its adjoining countries. The Company has been engaging suppliers through capacity building process and maintaining stringent evaluation criteria to monitor their performance in environmental, health and safety, social responsibility, etc. Those who fail to meet the expected criteria would face reduced share of the business or removal from the suppliers' list.

INTERNAL AUDIT, RISK MANAGEMENT AND INTERNAL CONTROL

The strategies of the Company are reviewed and discussed as part of the proceedings of the regular quarterly Board meetings.

The Board understands that there are daily operational risks in achieving these strategic objectives and that a constant close monitoring of the existing internal controls system is required to assess the effectiveness of the risks control system.

Through the design of a structured Internal Audit program and a regular rigorous Internal Audit reporting and follow-up process, the Audit Committee and the Board are able to determine the nature and the extent of the outstanding and the newly arisen risks and evaluate the management's effectiveness in the design, implementation and monitoring of the internal controls and ERM.

In addition to internal control and ERM, certain critical aspects of organizational governance, business ethics, fraud and financial reporting established by COSO (the Committee of Sponsoring Organizations of the Treadway Commission) have been referred to by Internal Audit in their audit planning and objectives when assessing the effectiveness of internal controls. Internal Audit has already included in its work scope to cover internal and external financial reporting objectives and increased focus on operations, compliance and non-financial reporting objectives such as the procurement and materials usage processes adopted by procurement and production departments respectively. On the basis of the evaluation carried out by Internal Audit during the year, management has formed the conclusion that, for the financial year ended 31st December, 2015, the Company's internal controls over the Company's financial and non-financial reporting were effective. Adequacy of resources, staff's professional qualifications and work experiences, specific and general training programmes and budget of the Company's accounting, internal audit and financial reporting functions are provided.

It is recognized that the assessment of the internal control system based the new version of Internal Control Framework is an on-going process which will require applications of underlying principles to the different objective categories in the changing business and operating environments. In particular, management enhancements are required to address deficiencies in internal controls over operations, compliance and financial and non-financial reporting. Meanwhile, the internal audit plan will continue to be based on a risk-based approach aligned with organizational objectives and, to some extent, stakeholder priorities.

CORPORATE GOVERNANCE REPORT

Within the Group, there is a clearly-defined management structure with specified authority limits and segregated responsibilities to achieve business control objectives and safeguard of assets. Guidelines and approval limits for operating (including research and development) and capital expenditures are set clearly and in advance, and, with division of operations and financial personnel to be responsible for the different approval processes. An internal computer system has been implemented to enhance the controls and effectiveness embedded in the approval process. The approval processes prescribed in the system are reviewed regularly by an independent management committee and verified by internal audit. A separate finance team is designated to ensure maintenance of proper and complete accounting records by all Group companies for producing reliable financial information for internal management use. Regular review of the financial information involving senior management and the Board are carried out for verification and monitoring purposes.

The internal audit team also provides independent assurance that the internal controls system is effective and efficient. In order to carry out its function, the internal audit team is given unrestricted access to all business operations and personnel, and all business files and accounting records. The head of the team reports directly and regularly to the Audit Committee on the findings of audit matters. The work schedule of the internal audit team is based on a medium-term audit program reviewed and approved by the Audit Committee. Adverse implications from such findings on the accuracy and completeness of the financial report and the effectiveness of the internal control system are discussed in details by the Audit Committee and immediately rectified.

In addition, the external auditors will report and discuss with the Audit Committee any weaknesses or defects of the internal control system revealed by their audit work, and, if appropriate, adjustments are made to the financial reports and accounts.

While management is responsible for the design, implementation and maintenance of the internal controls, the Board acknowledges the responsibility of ensuring that the Group has maintained effective and sound internal controls to safeguard the Shareholders' investment and the assets of the Group. During the year ended 31st December, 2015, the Board had reviewed the effectiveness of the internal control system and ensured that the internal control process had been properly carried out in making the investment decision and adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function were maintained properly. The Board considers that the Group's internal control system covers all material aspects, including financial, operational, risk management functions and is in compliance with all relevant regulations.

Enterprise Risk Management

Since 2012 the Company has embarked on the journey of building an enterprise risk management (ERM) system with a view to enhancing the risk management and corporate governance practice and improving the effectiveness and efficiency of internal control systems across the whole company.

The Board believes that a heightened focus on risk and compliance is beneficial for the ongoing development and growth of the Company as well as its staff. In establishing the ERM system, all key functions of the Company were guided by Ernst & Young ERM Services to undertake the following exercises:

1. Enterprise Risk assessment – to identify and prioritize the Company's key business risks; and

2. Process level control assessment – to assess the related internal controls and risk mitigating measures.

The ERA is designed to be an efficient and comprehensive process which assists management in accomplishing the following ERA objectives:

- Allows management to identify and prioritize the key risks affecting the achievement of the Company's business objectives;
- Assesses how those key risks are currently being managed and identifies areas where potential gaps and inefficiencies may exist;
- Identifies opportunities for improvement; and
- Allows management to develop a coordinated and systematic approach to embed risk management activities into the daily operations, including planning, investment and strategic decisions, so as to better balance risk, enterprise reward.

STATUTORY AUDIT

The Directors acknowledge responsibilities for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these Financial Statements for the year ended 31st December, 2015, the Directors have selected suitable and applied consistent accounting policies, made reasonable judgments and prudent estimates in preparing the Financial Statements on a going concern basis. Reporting responsibilities of the external auditor of the Company are set out on page 47 of this Annual Report. Directors acknowledge their responsibilities for the preparation and the true and fair presentation of the Financial Statements for the year ended 31st December, 2015 in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Companies Ordinance. Furthermore, the Directors are aware of the responsibility for keeping proper accounting records which could provide the financial position of the Company with reasonable accuracy at all times.

The Company's external auditor is Deloitte Touche Tohmatsu ("Deloitte"). Deloitte has confirmed to the Audit Committee that they are independent with respect to acting as external auditor to the Company. Deloitte will not be employed for any non-audit work unless the non-audit work meets the criteria suggested in the Listing Rules and has been discussed and pre-approved by the Audit Committee.

During the year ended 31st December, 2015 the services provided to the Company by Deloitte, and the respective fees paid are set out below:

Types of service	2015 HK$'000
Audit services	3,214.4
Non-audit services	
Interim review	873.0
Total	4,087.4

The representative of Deloitte has attended the annual general meeting in 2015 to answer questions from Shareholders.

The Company has also adopted a policy of not hiring employees of the external auditor who are or have been involved in the Company's audit so as to ensure no impairment of the auditor's judgment and independence with respect to its auditing. This policy has been strictly complied since the auditor's appointment.

CORPORATE GOVERNANCE REPORT

CODE OF CONDUCT AND WHISTLEBLOWING POLICY

The Company recognizes that employees form an integral part of the internal control system of the corporate structure. On joining the Company, all employees are encouraged to study and keep abreast of the Company's expectations regarding their duties and integrity as spelt out in the Staff Compliance Manual and the Code of Ethics. The manual and the code set out the guiding principles to do what is right, behave with integrity and honesty and treat other colleagues fairly, respect diversity and observe legal regulations, accept accountability, communicate openly appropriately and always behave in a manner that is beyond reproach.

A group ethics committee, comprising CEO, heads of operations at the different operating locations, legal and human resources, is established to review and monitor the policies under the staff manual and the practices advocated in the Code of Ethics.

To build into a system where there are checks and balances such that no single party could 'dictate/control' a transaction, activity or process to conceal irregularities, the Company recognizes that it is necessary to provide an environment and a system where employees could feel free to report problems to management. The Whistleblowing Policy, already approved by the Board, is being incorporated into the Code of Ethics, where employees are encouraged to raise concerns in confidence about misconduct, malpractice of matters related to the Company. The various reporting channels are already clearly stated in the Code of Ethics. "Whistleblowers" are assured of protection against unfair dismissal, victimization or unwarranted disciplinary action. To facilitate the implementation of the policy, the various reporting channels and the filing of the reporting documentation and the investigation report are laid out clearly. The Audit Committee has been delegated with overall responsibility for implementation, monitoring and periodic review of the policy.

CORPORATE DISCLOSURE

The Board recognizes the significance of establishing procedures and internal controls for handling and disseminating inside information about the Company on a timely, accurate and complete basis. The Audit Committee and the Board have reviewed and updated our Corporate Disclosure Policy to ensure that the continuous disclosure standards and procedures are in compliance with the requirements of the Listing Rules, Securities Futures Ordinance and applicable laws and regulations of the Cayman Islands and the Companies Ordinance, including the "Inside Information" legislation. The procedures and practices are to ensure that "Inside Information" can be escalated up within the organization and appropriate decision is made to decide if an announcement should be made. In this respect, the policy has defined "Inside Information" and the principles of disclosure so that the public and the investment community are able to appraise the position of the Company and its stock market activity where the shares of the Company are traded.

To facilitate the process, a disclosure committee has been formed and designated spokespersons are appointed with well-defined responsibilities of communicating and monitoring information disclosure to Shareholders, the investment community and the media if appropriate.

Communications with Shareholders and Investment Community

The Company has established a Shareholders' Communication Policy which sets out various formal channels of communication with Shareholders. The transparent and comprehensive disclosure of the Company's performance and activities is to ensure that its Shareholders and the investment community are provided with ready, equal and timely access to balanced, understandable and updated operating information about the Company, such as its financial performance, strategic goals and plans, material developments, governance and risk profile, in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company.

A number of formal communication channels are used. These include the annual report, interim report, announcements through the Hong Kong Stock Exchange platforms, circulars and press releases of the Company. The Company also updates its website regularly to ensure prompt dissemination of information about its latest development.

CORPORATE GOVERNANCE REPORT

Annual general meeting is another means to enter into a direct dialogue with Shareholders. Board members (including the Chairman), in particular, the Chairmen of all committees or their delegates, and a representative (usually the engagement partner) of the external auditor attend to answer Shareholders' questions.

In addition, the Company strives to uphold a high level of corporate transparency and provides full support to the investor relations team by involving senior management in ongoing dialogue with Shareholders and the investment community to keep them abreast of the Company's latest development strategy, business management, financial information and business progress.

The Company's investor relations team is committed to meeting Shareholders' and investment community's requests on communicating business-related information in a timely manner, and to proactively communicate with the investment community. This is designed to ensure the Company's strengths and competitive advantages, as well as its ability to manage changes in the business environment, are fully understood and hence reflected in the Company's market valuation. The investor relations team also reports to the Board on a monthly basis to keep the Board informed of the latest perceptions in the market regarding the Company and the issues of concern to Shareholders and the investment community.

As part of the process in dealing with "Inside Information", the investor relations team observes "Quiet Periods" that begin one calendar month prior to the announcements of its quarterly, interim and annual financial results to avoid the potential for selective disclosure or its perception of doing so. During the Quiet Periods, there will not be any IR-related access to senior management. The "Quiet Periods" policy is posted on the Company's website at www.aactechnologies.com.

During 2015, the Company held a series of activities in relation to its quarterly, interim and annual results announcements, including panel discussions with Shareholders and the investment community via teleconferencing and participation in different conferences, forums and roadshows in Hong Kong and other parts of the world organized by different brokers. Factory visits were also organized periodically for Shareholders and the investment community. This helps the Company meet the goal of establishing sound relationships with Shareholders and the investment community and maintaining a solid and diverse Shareholder base. Furthermore, there are regular sessions held with local-based securities brokers, the local and overseas press and media representatives for timely distribution of information to non-institutional investors.

At the 2015 annual general meeting held on 18th May, 2015, a resolution was proposed by the Chairman in respect of each separate issue itemized on the agenda, including re-election of retiring Directors. Procedures for conducting a poll were explained by the Chairman at the meeting. The Chairman of the Board and members of board committees were present to answer questions from Shareholders. All resolutions were voted by way of poll. The Company appointed the branch share registrar of the Company to act as scrutineers and to ensure votes cast were properly counted and recorded, and announced the results of the poll on the websites of the Stock Exchange and the Company in accordance with the Listing Rules. No other general meeting was held during the year.

Key dates for Shareholders in 2015/2016

11th May, 2015	2015 First Quarter Results Announcement
18th May, 2015	2015 Annual General Meeting
24th August, 2015	2015 Interim Results Announcement
18th September, 2015	Record Date for Interim Dividend
29th September, 2015	Payment of Interim Dividend
12th November, 2015	2015 Third Quarter Results Announcement
23rd March, 2016	2015 Annual Results Announcement
12th May, 2016	2016 First Quarter Results Announcement
30th May, 2016	2016 Annual General Meeting
15th June, 2016	Record date for Final Dividend
24th June, 2016	Payment of Final Dividend

CORPORATE GOVERNANCE REPORT

Market Capitalization and Public Float

As at 31st December, 2015, the market capitalization of listed shares of the Company was approximately HK$62.1 billion based on the total number of 1,228,000,000 issued shares of the Company and the closing price of HK$50.55 per share.

The daily average number of traded shares was approximately 3.98 million shares over an approximate free float of 732 million shares in 2015. The highest closing price was HK$56.75 per share on 20th November, 2015 and the lowest was HK$37.6 per share on 21st August, 2015.

In accordance with the publicly available information and as far as the Directors are aware, the Company has maintained a public float of more than 25% of the Company's issued shares throughout the financial year ended 31st December, 2015 and has continued to maintain the public float as at the date of this Annual Report. The Company analyses its shareholding structure on a regular basis, including a review of the register of institutional and retail investors, to keep track of changes in Shareholdings by type of investors.

Index Recognition

AAC Technologies is currently a constituent stock of MSCI China Index, Hang Seng Mainland 100 Index, Hang Seng Hong Kong Large Cap Index and FTSE Hong Kong Index. In 2015, the Company was selected as a constituent stock of the Hang Seng Corporate Sustainability Index for the second consecutive year, and before 2014, a constituent member of the equivalent Benchmark Index for 2 years.

Constitutional Documents

During the year ended 31st December, 2015, there was no change to the Company's constitutional documents.

COMPANY SECRETARY

All Directors have access to the advice and the professional services of the company secretary, who is a representative from an external secretarial services provider, appointed since August 2010. In addition to company secretarial matters of the Company, the company secretary is responsible for ensuring that Board procedures are followed and for facilitating communications among Directors. The primary contact persons with the company secretary of the Company are Mr. Mok, the executive Director and Ms. Kennes Wong, the Board secretary of the Company. The company secretary of the Company has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM"). Set out below are procedures by which Shareholders may (a) convene an EGM; (b) put forward enquires to the Board; and (c) put forward proposals at general meetings. The procedures are subject to the Company's articles of association and applicable legislation and regulation.

– Procedures for Shareholders to convene EGM

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition to the Board or the company secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the business to be transacted at the meeting, signed by the requisitioner and deposited at the Company's principal place of business in Hong Kong or the Company's registered office for the attention of the Board or the company secretary, and may consist of several documents in like form, each signed by one or more requisitioners. The requisition will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the requisition is proper and in order, the company secretary will ask the Board to convene an EGM by serving sufficient notice in accordance with the requirements under the articles of association of the Company to all the registered Shareholders. On the contrary, if the requisition has been verified as invalid, the requisitioners will be advised of this outcome and accordingly, an EGM will not be convened as requested.

If within twenty-one days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitioner(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to the requisitioner(s) by the Company.

The notice period to be given to all the registered Shareholders for consideration of the proposal raised by the requisitioner(s) concerned at the EGM varies according to the nature of the proposal, as follows:

– Not less than 14 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company; and

– Not less than 21 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes a special resolution of the Company.

– Procedures for putting enquiries to the Board

Shareholders may, at any time, direct enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by email to aac2018@aactechnologies.com for the attention of head of investor relations.

– Procedures for putting forward proposals at general meetings

To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written request, duly signed by the Shareholder concerned, setting out the proposals at the Company's principal place of business in Hong Kong for the attention of the Board and the company secretary. The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary will pass the request to the Board. Whether a proposal will be put to a general meeting will be decided by the Board in its discretion, unless the proposal put forward by a Shareholder is (a) pursuant to a requisition by a Shareholder to convene an EGM referred to above or (b) forms part of ordinary business to be considered at an annual general meeting as described in article 61(1) of the articles of association of the Company.

The procedures for Shareholders of the Company to propose a person for election as Director is posted on the Company's website at www.aactechnologies.com.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF AAC TECHNOLOGIES HOLDINGS INC.
瑞聲科技控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of AAC Technologies Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 106, which comprise the consolidated statement of financial position as at 31st December, 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st December, 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23rd March, 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2015

	NOTES	2015 RMB'000	2014 RMB'000
Revenue		**11,738,866**	8,879,300
Cost of goods sold		**(6,866,765)**	(5,201,267)
Gross profit		**4,872,101**	3,678,033
Other income		**176,577**	114,190
Distribution and selling expenses		**(256,712)**	(198,811)
Administrative expenses		**(546,443)**	(337,747)
Research and development costs		**(858,972)**	(656,183)
Share of results of associates	18	**(4,980)**	(1,374)
Gain on disposal of a subsidiary	32	**4,411**	–
Exchange gain (loss)		**71,241**	(4,195)
Net fair value gain on foreign currency forward contracts		**–**	346
Finance costs	8	**(21,950)**	(13,692)
Profit before taxation	9	**3,435,273**	2,580,567
Taxation	11	**(325,079)**	(270,166)
Profit for the year		**3,110,194**	2,310,401
Other comprehensive income (expense):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		**80,045**	(3,385)
Total comprehensive income for the year		**3,190,239**	2,307,016
Profit for the year attributable to:			
Owners of the Company		**3,106,904**	2,317,695
Non-controlling interests		**3,290**	(7,294)
		3,110,194	2,310,401
Total comprehensive income and expense attributable to:			
Owners of the Company		**3,187,210**	2,314,348
Non-controlling interests		**3,029**	(7,332)
		3,190,239	2,307,016
Earnings per share – Basic	13	**RMB2.53**	RMB1.89

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2015

	NOTES	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment	14	**7,079,966**	5,285,248
Goodwill	15	**89,217**	32,931
Prepaid lease payments	16	**253,367**	180,801
Deposits made for acquisition of property, plant and equipment		**256,661**	485,521
Available-for-sale investments	17	**379,940**	364,531
Interests in associates	18	**5,858**	15,688
Intangible assets	19	**156,021**	139,660
Deposits paid for acquisition of additional interests in a subsidiary		**–**	7,717
Loan receivable from a non-controlling shareholder of a subsidiary	20	**18,417**	17,075
		8,239,447	6,529,172
Current assets			
Inventories	21	**1,718,158**	1,267,191
Trade and other receivables	22	**4,195,568**	3,850,382
Amounts due from related companies	23	**20,511**	18,216
Taxation recoverable		**22,593**	7,511
Pledged bank deposits	24	**60**	3,990
Bank balances and cash	24	**2,223,864**	1,602,687
		8,180,754	6,749,977
Current liabilities			
Trade and other payables	25	**2,919,037**	2,388,466
Amounts due to related companies	23	**39,999**	48,469
Taxation payable		**208,025**	146,050
Short-term bank loans	26	**1,158,880**	1,417,806
Other short-term borrowings		**324**	307
		4,326,265	4,001,098
Net current assets		**3,854,489**	2,748,879
Total assets less current liabilities		**12,093,936**	9,278,051

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2015

	NOTES	2015 RMB'000	2014 RMB'000
Non-current liabilities			
Long-term bank loans	26	**648,700**	–
Government grants	27	**42,172**	34,894
Deferred tax liabilities	28	**48,981**	40,356
Loan payable to a non-controlling shareholder of a subsidiary	20	**–**	11,158
		739,853	86,408
Net assets		**11,354,083**	9,191,643
Capital and reserves			
Share capital	29	**99,718**	99,718
Reserves		**11,207,224**	9,038,377
Equity attributable to owners of the Company		**11,306,942**	9,138,095
Non-controlling interests		**47,141**	53,548
Total equity		**11,354,083**	9,191,643

The consolidated financial statements on pages 49 to 106 were approved and authorised for issue by the Board of Directors on 23rd March, 2016 and are signed on its behalf by:

BENJAMIN ZHENGMIN PAN
DIRECTOR

MOK JOE KUEN RICHARD
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2015

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Non-distributable reserve RMB'000	PRC statutory reserves RMB'000	Retained profits RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1st January, 2014	99,718	746,957	1,135	23,391	(99,701)	87,245	344,860	6,672,512	7,876,117	55,672	7,931,789
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	(3,347)	–	–	–	(3,347)	(38)	(3,385)
Profit for the year	–	–	–	–	–	–	–	2,317,695	2,317,695	(7,294)	2,310,401
Total comprehensive income and expense for the year	–	–	–	–	(3,347)	–	–	2,317,695	2,314,348	(7,332)	2,307,016
Dividend paid	–	–	–	–	–	–	–	(1,052,370)	(1,052,370)	–	(1,052,370)
Deemed contributions from non-controlling interests	–	–	–	–	–	–	–	–	–	5,208	5,208
Transfers	–	–	–	–	–	–	2,400	(2,400)	–	–	–
At 31st December, 2014	99,718	746,957	1,135	23,391	(103,048)	87,245	347,260	7,935,437	9,138,095	53,548	9,191,643
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	80,306	–	–	–	80,306	(261)	80,045
Profit for the year	–	–	–	–	–	–	–	3,106,904	3,106,904	3,290	3,110,194
Total comprehensive income and expense for the year	–	–	–	–	80,306	–	–	3,106,904	3,187,210	3,029	3,190,239
Dividend paid	–	–	–	–	–	–	–	(939,550)	(939,550)	–	(939,550)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	(79,161)	(79,161)	(8,352)	(87,513)
Disposal of a subsidiary (note 32)	–	–	–	–	–	–	–	–	–	(1,127)	(1,127)
Contributions from non-controlling interests	–	–	–	–	–	–	–	348	348	43	391
Transfers	–	–	–	–	–	–	6,920	(6,920)	–	–	–
At 31st December, 2015	99,718	746,957	1,135	23,391	(22,742)	87,245	354,180	10,017,058	11,306,942	47,141	11,354,083

The PRC statutory reserves comprise the statutory surplus reserve fund and an enterprise expansion fund, which are non-distributable. As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiaries of the Company are required to maintain these funds. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries of the Company and the allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up the PRC subsidiaries prior year losses, if any, and can be applied in conversion into capital by means of a capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries of the Company by means of capitalisation issue.

The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the paid-in capital of subsidiaries acquired pursuant to the Group's reorganisation in preparation for the listing of the Company's shares.

The capital reserve relates to a deemed capital contribution from a Shareholder.

The non-distributable reserve of the Group arose as a result of capitalisation of retained profits by subsidiaries of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2015

	NOTES	2015 RMB'000	2014 RMB'000
Operating activities			
Profit before taxation		3,435,273	2,580,567
Adjustments for:			
Interest income		(14,504)	(23,591)
Interest expense		21,950	13,692
Depreciation		698,109	510,660
Amortisation of intangible assets		13,076	14,267
Net fair value gain on foreign exchange currency forward contracts		–	(346)
Impairment losses recognised in respect of property, plant and equipment		60,440	3,671
Impairment loss recognised in respect of goodwill		21,128	–
Impairment loss recognised in respect of intangible assets		19,016	30,238
Operating lease rentals in respect of prepaid lease payments		4,560	2,421
Loss (gain) on disposal of property, plant and equipment		5,976	(5,734)
Gain on disposal of prepaid lease payments		(256)	–
Share of results of associates	18	4,980	1,374
Amortisation of government grants		(3,532)	(1,419)
Gain on waiver of loan		(11,045)	–
Gain on disposal of a subsidiary	32	(4,411)	–
Net allowance (reversal of net allowance) for bad and doubtful debts		603	(383)
Allowance for obsolete inventories		75,944	30,689
Write off provision for obsolete inventories		(3,947)	–
Operating cash flows before movements in working capital		4,323,360	3,156,106
Increase in inventories		(510,639)	(464,614)
Increase in trade and other receivables		(260,837)	(1,253,967)
Increase in trade and other payables		494,658	754,752
(Decrease) increase in amounts due to related companies		(8,360)	25,824
Advance to related companies		(1,288)	(1,987)
Increase in foreign currency forward contracts		–	(481)
Cash from operations		4,036,894	2,215,633
Taxation paid		(276,608)	(248,351)
Net cash from operating activities		3,760,286	1,967,282

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2015

	NOTES	2015 RMB'000	2014 RMB'000
Investing activities			
Proceeds from disposal of property, plant and equipment		**19,099**	55,814
Interest received		**14,504**	23,591
Government grants received relating to acquisition of property, plant and equipment		**10,810**	25,700
Proceeds from disposal of a subsidiary	32	**5,807**	–
Distribution on deregistration of an associate		**4,850**	–
Withdrawal of pledged bank deposits		**4,020**	68,512
Proceeds from disposal of prepaid lease land		**1,112**	–
Acquisition of property, plant and equipment		**(2,087,146)**	(1,666,550)
Deposits paid for acquisition of property, plant and equipment		**(256,661)**	(485,521)
Prepaid rentals on land use rights		**(77,103)**	(72,579)
Acquisition of a subsidiary	31	**(79,395)**	(7,785)
Acquisition of available-for-sale investment		**(15,409)**	–
Additions to intangible assets		**(13,375)**	(9,700)
Proceeds from disposal of intangible assets		**(186)**	–
Placement of pledged bank deposits		**(90)**	(70,144)
acquisition of an associate		**–**	(12,294)
Advance to a non-controlling shareholder of a subsidiary		**–**	(2,177)
Net cash used in investing activities		**(2,469,163)**	(2,153,133)
Financing activities			
Bank loans raised		**4,839,225**	5,375,109
Contributions from non-controlling interests		**391**	–
Repayments of bank loans		**(4,539,035)**	(4,868,429)
Dividend paid		**(939,550)**	(1,052,370)
Deposits paid for acquisition of additional interests in a subsidiary		**(31,498)**	(7,717)
Acquisition of additional interest in subsidiary		**(28,717)**	–
Interest paid		**(21,950)**	(13,692)
Advance from a non-controlling shareholder of a subsidiary		**–**	2,065
Repayments of other short-term borrowings		**–**	(3,923)
Net cash used in financing activities		**(721,134)**	(568,957)
Net increase (decrease) in cash and cash equivalents		**569,989**	(754,808)
Cash and cash equivalents at 1st January		**1,602,687**	2,354,313
Effect of foreign exchange rate changes		**51,188**	3,182
Cash and cash equivalents at 31st December		**2,223,864**	1,602,687
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**2,223,864**	1,602,687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2015

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands with its shares listed on the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 37.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied all new IFRSs which are effective for the Group's accounting period beginning on 1st January, 2015.

The application of the new IFRSs 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.

New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial instruments[1]
IFRS 14	Regulatory deferral accounts[2]
IFRS 15	Revenue from contracts with customers[1]
IFRS 16	Leases[3]
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations[4]
Amendments to IAS 1	Disclosure initiative[4]
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation[4]
Amendments to IFRSs	Annual improvements to IFRSs 2012-2014 cycle[4]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants[4]
Amendments to IAS 27	Equity method in separate financial statements[4]
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception[4]
Amendments to IAS 7	Disclosure initiative[6]
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses[6]

1 Effective for annual periods beginning on or after 1st January, 2018
2 Effective for first annual IFRS financial statements beginning on or after 1st January, 2016
3 Effective for annual periods beginning on or after 1st January, 2019
4 Effective for annual periods beginning on or after 1st January, 2016
5 Effective for annual periods beginning on or after a date to be determined
6 Effective for annual periods beginning on or after 1st January, 2017

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 9 Financial instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

All recognised financial assets that are within the scope of IAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The Directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on the amounts reported in respect of the Group's financial assets (e.g. the Group's investments in equities of private companies that are currently classified as available-for-sale investments may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 15 Revenue from contracts with customers (continued)

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

Apart from IFRS 9 and IFRS 15, the Directors of the Company do not anticipate that the application of the other new and revised IFRSs issued but not yet effective will have a material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs and include applicable disclosures required by the Listing Rules on the Stock Exchange and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) ("new CO") regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31st December, 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with IFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31st December, 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31st December, 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiaries and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of over the years are included in the consolidated statement of profit or loss and other comprehensive income from the effective date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Allocation of total comprehensive income to non-controlling interests

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted, being the change in proportionate share of the net book value of the subsidiary and the fair value of the consideration paid or received, is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRSs.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. The measurement period cannot exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 "Provisions, contingent liabilities and contingent assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of business less accumulated impairment losses, if any.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGU"), that are expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The associates use accounting policies that differ from those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's accounting policies to those of the Group. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of an associate, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate as the Group has lost its significant influence over an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable. Revenue is reduced for estimated customer returns, rebate and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Construction in progress is stated at cost less any recognised impairment loss which includes all development expenditure in relation to the construction and other direct costs attributable to such projects including borrowing costs capitalised. Construction in progress is not depreciated until completion of construction and the asset is put into intended use. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress and freehold land over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method, at the following rates per annum:

Electronic equipment and furniture	20%
Motor vehicles	20%
Plant and machinery	10%

The cost of buildings is depreciated over 20 years using the straight line method.

The cost of leasehold improvements is depreciated over 10 years or the term of the leases if shorter, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for financial assets other than those financial assets designated as at fair value through profit or loss, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss, available-for-sale investments, and loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, trade and other receivables and amounts due from related companies are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivable where the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period granted, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets (continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified at residual interest first according to the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument.

The accounting policies adopted in respect of consolidated financial liabilities are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities excluding derivatives, which consist of bank loans, other short-term borrowings, trade and other payables, amounts due to related companies and loan payable to a non-controlling shareholder of a subsidiary are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

Financial assets are derecognised only when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or any new asset obtained and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when, and only when, the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid including other liabilities assumed is recognised in profit or loss.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, an internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Impairment (other than goodwill and financial assets)

At the end of the reporting period the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RMB, which is the functional currency of the Company, at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the period of the respective leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, which are defined contribution schemes, are charged as an expense when employees have rendered service entitling them to the contributions.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

4. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2015 RMB'000	2014 RMB'000
Financial assets		
Available-for-sale investments	**379,940**	364,531
Loans and receivables (including cash and cash equivalents)	**6,309,347**	5,293,581
Financial liabilities		
Amortised cost	**4,693,429**	3,808,350

4. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, loan receivable from/payable to a non-controlling shareholder of a subsidiary, trade and other receivables, amounts due from (to) related companies, bank balances, trade and other payables, bank loans and other short-term borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in an effective manner. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Market risk

Currency risk – spot rates

With the Group's international operations and presence, the Group faces foreign exchange exposure including transaction and translation exposure.

It is the Group's policy to centralise foreign currency management to monitor the Group's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a complete hedge is not possible, the Group will consider to protect its anticipated foreign currency revenue and foreign currency monetary items with appropriate foreign exchange contracts.

The Group will not enter into derivative transactions for pure trading or speculative purposes.

The carrying amounts of the Group's and intra-Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
US$	**1,769,306**	1,205,224	**3,200,037**	1,474,015
Japanese Yen	**183,203**	22,731	**127,644**	16,762
Euro	**103,495**	54,838	**73,132**	11,438
Hong Kong dollar ("HK$")	**445,767**	414,983	**41,473**	316

Sensitivity analysis

The Group is mainly exposed to fluctuations in exchange rates of RMB against the US$, the Japanese Yen, Euro and HK$. The following details the Group's sensitivity to a 5% increase in RMB against the relevant foreign currencies which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2014: 5%) change in foreign currency rates. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A negative number (in bracket) below indicates a decrease in profit for the year where the RMB strengthen 5% against the relevant currency and vice versa. For a 5% (2014: 5%) weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit.

4. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk – spot rates (continued)

Sensitivity analysis (continued)

	Impact	
	2015 RMB'000	2014 RMB'000
Increase (decrease) in profit for the year		
US$	**71,537**	13,440
Japanese Yen	**(2,778)**	(298)
Euro	**(1,518)**	(2,170)
HK$	**(20,215)**	(20,733)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank loans (see note 26) and bank balances and deposits (see note 24). The Group is also exposed to fair value interest rate risk in relation to fixed rate bank deposits (see note 24). The management considers the Group's exposure on the variable-rate bank loans and bank balances and deposits and fixed rate bank deposits to interest rate risk is not significant as they have a short maturity period.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate between 0.59% and 4.15% per annum arising from the Group's bank loans.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the amount of variable-rate bank loans and bank balances at the end of the reporting period was the amount outstanding for the whole year. The sensitivity analysis has excluded certain bank balances which are not interest sensitive.

If interest rates had been 50 basis points (2014: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2015 would increase/decrease by RMB1,622,000 (2014: increase/decrease by RMB379,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans and bank deposits.

Credit risk

As at 31st December, 2015 and 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are reputable banks or banks with high credit-ratings assigned by international credit-rating agencies.

4. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk (continued)

27.25% (2014: 32.07%) and 59.56% (2014: 63.67%) of total trade receivables are due from the Group's largest debtor and the five largest debtors. These five customers are multi-national corporations who are mobile phone and consumer devices manufacturers. The management considers, based on the strong financial background, good creditability and repayment history of those debtors, there are no significant credit risks.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigates the effects of fluctuations in cash flows.

The following table details the Group's contractual maturity for its financial liabilities:

	Weighted average interest rate	On demand RMB'000	Less than 1 year RMB'000	More than 1 year RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31st December, 2015						
Non-derivative financial liabilities						
Non-interest bearing	–	309,361	2,576,488	–	2,885,849	2,885,849
Variable interest rate	2.00%	–	1,175,307	676,349	1,851,656	1,807,580
		309,361	3,751,795	676,349	4,737,505	4,693,429
At 31st December, 2014						
Non-derivative financial liabilities						
Non-interest bearing	–	208,819	2,170,567	–	2,379,386	2,379,386
Variable interest rate	1.10%	–	1,429,912	–	1,429,912	1,428,964
		208,819	3,600,479	–	3,809,298	3,808,350

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies detailed in note 3, management has made the following estimation that have significant effect on the amounts recognised in the consolidated financial statements. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss of the Group's trade receivables, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2015, the carrying amount of trade receivables is RMB3,533,106,000, net of allowance for doubtful debts of RMB8,849,000 (2014: RMB3,328,545,000, net of allowance for doubtful debts of RMB7,792,000).

Estimated impairment of available-for-sale investment

The Directors of the Company use their judgment in assessing impairment of available-for-sale investment as at 31st December, 2015 which is carried at cost. In estimating whether available-for-sale investment is impaired, the Group adopted an assessment by referencing to market comparable companies multiples and multiplied to the underlying financial information of the available-for-sale investment. To the extent that the carrying amount exceeded the amount of result of the assessment, impairment loss would be recognised.

Estimated impairment of property, plant and equipment

Where there is indication that property, plant and equipment may be impaired, the Group estimates the recoverable amount of the relevant asset. The impairment loss is measured as the difference between the asset's carrying amount and its recoverable amount. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of CGU. The recoverable amount is higher of value in use and fair value less costs to sell. Where there are changes in facts and circumstances which result in revisions of the estimated future cash flows for the purpose of determining the value in use, further impairment loss or reversal of impairment loss may arise. As at 31st December, 2015, the carrying amount of property, plant and equipment is RMB7,079,966,000 net of accumulated depreciation and impairment of RMB2,942,728,000 (2014: RMB5,285,248,000 net of accumulated depreciation and impairment of RMB2,214,471,000).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the recoverable amount of the relevant CGU to which intangible assets have been allocated. The recoverable amount is higher of value in use and fair value less costs to sell. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where there are unfavourable changes in facts and circumstances which results in revisions of the estimated future cash flows for the purpose of determining the value in use, further impairment loss may arise and where there are favourable changes in value in use, reversal of impairment loss may arise. As at 31st December, 2015, the carrying amount of intangible assets are RMB156,021,000 net of accumulated amortisation and impairment loss of RMB148,426,000 (2014: RMB139,660,000 net of accumulated amortization and impairment loss of RMB116,130,000).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity balance. The Group's overall capital risk management strategy remains unchanged from prior years.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The Directors of the Company review the capital structure regularly. As part of this review, the Directors consider the cost of capital and the risks associated with capital. The Group will consider to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

7. SEGMENT INFORMATION

Operating and reportable segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker of the Group has been identified as the CEO.

Information reported to the CEO for the purposes of resource allocation and assessment of performances focuses specifically on the type of products sold. This is also the basis upon which the Group is organised and managed. The Group's operating and reportable segments under IFRS 8 are dynamic components (including speaker boxes, receivers and speakers), MEMS components, haptics & radio frequency mechanical module ("Haptics & RF Mechanical") and other products (including optics, traditional microphones and headsets, etc.), which represent the major types of products manufactured and sold by the Group.

7. SEGMENT INFORMATION (CONTINUED)

Information regarding these segments is presented below.

An analysis of the Group's revenue and results by operating and reportable segments is as follows:

	2015 RMB'000	2014 RMB'000
Operating and reportable segments		
Segment revenue from external customers		
Dynamic components	6,152,427	5,967,414
Haptics & RF Mechanical	4,440,895	1,670,473
MEMS components	990,482	852,215
Other products	155,062	389,198
Revenue	11,738,866	8,879,300
Segment results		
Dynamic components	2,465,541	2,617,188
Haptics & RF Mechanical	2,255,366	801,986
MEMS components	185,335	206,382
Other products	(34,141)	52,477
Total profit for operating and reportable segments	4,872,101	3,678,033
Unallocated amounts:		
Interest income	14,504	23,591
Other income	162,073	90,599
Net fair value gain on foreign currency forward contracts	–	346
Distribution and selling expenses	(256,712)	(198,811)
Administrative expenses	(546,443)	(337,747)
Research and development costs	(858,972)	(656,183)
Share of results of associates	(4,980)	(1,374)
Exchange gain (loss)	71,241	(4,195)
Finance costs	(21,950)	(13,692)
Gain on disposal of a subsidiary	4,411	–
Profit before taxation	3,435,273	2,580,567

There are no inter-segment sales for both years. No analysis of the Group's assets and liabilities and other information by operating and reportable segments is disclosed as such information is not regularly provided to the CEO for review. Depreciation and amortisation charges related to assets employed by different segments are presented to CEO review.

7. SEGMENT INFORMATION (CONTINUED)

Depreciation and amortisation included in measure of segment results are as follows:

	2015 RMB'000	2014 RMB'000
Dynamic components	**396,714**	310,642
Haptics & RF Mechanical	**85,234**	22,561
MEMS components	**30,784**	30,321
Other products	**11,649**	17,433
	524,381	380,957
Other unallocated expenses	**186,804**	143,970
	711,185	524,927

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of finance costs, interest income, administration expenses, research and development costs, distribution and selling expenses, other income, net fair value gain on foreign currency forward contracts, exchange gain (loss), share of results of associates and gain on disposal of a subsidiary. This is the measure reported to the CEO for the purpose of resource allocation and performance assessment.

Over 94.8% of the Group's non-current assets were located in the PRC, the place of domicile of the relevant group entities that hold those assets.

The Group's revenue from external customers analysed by location of end customers are detailed below:

	2015 RMB'000	2014 RMB'000
Greater China* (country of domicile)	**3,721,533**	2,219,282
Other foreign countries:		
Other Asian countries	**1,363,344**	1,263,988
America	**6,648,093**	5,295,547
Europe	**5,896**	100,483
	11,738,866	8,879,300

* Greater China comprises the PRC, Hong Kong and Taiwan. Majority of the revenue from Greater China were derived from the PRC.

The geographical information of the Group's revenue from external end customer by individual countries in Europe, America and other Asian countries are not disclosed. In the opinion of management, such disclosure is harmful to the Group's business.

During the year, the aggregate amount of revenue derived from the Group's top customers which individually has contributed to over 10% of the Group's revenue and included in all of the Group's segments, amounted to RMB4,652,702,000 (2014: RMB4,329,472,000). No disclosure of the total amount of revenue by each customer and number of customers are disclosed, as in the opinion of the Directors such disclosure is harmful to the Group's business.

8. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on bank borrowings wholly repayable within five years	**21,950**	13,692

9. PROFIT BEFORE TAXATION

	2015 RMB'000	2014 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 10)	**13,217**	14,622
Other staff's retirement benefits scheme contributions	**326,097**	235,900
Other staff costs	**2,609,624**	1,984,772
Total staff costs	**2,948,938**	2,235,294
Less: Staff costs included in research and development costs	**(447,632)**	(349,245)
	2,501,306	1,886,049
Depreciation	**698,109**	510,660
Less: Depreciation included in research and development costs	**(98,011)**	(72,165)
	600,098	438,495
Amortisation of intangible assets	**13,076**	14,267
Net allowance for bad and doubtful debts	**1,338**	–
Allowance for obsolete inventories, included in cost of goods sold	**75,944**	30,689
Auditor's remuneration	**2,837**	2,671
Cost of inventories recognised as expense	**6,790,821**	5,170,578
Cost of raw materials included in research and development costs	**159,071**	116,059
Impairment losses recognised in respect of property, plant and equipment (note 14)	**60,440**	3,671
Impairment losses recognised in respect of goodwill (note 15)	**21,128**	–
Impairment losses recognised in respect of intangible assets (note 19)	**19,016**	30,238
Loss on disposal of property, plant and equipment	**5,976**	–
Operating lease rentals in respect of		
– building premises	**54,800**	46,195
– prepaid lease payments	**4,560**	2,421
and after crediting:		
Government grants included in other income*	**54,685**	36,153
Interest income	**14,504**	23,591
Gain on waiver of loan	**11,045**	–
Rental income	**3,797**	1,035
Amortisation of government grants (note 27)	**3,532**	1,419
Gain on disposal of prepaid lease payments	**256**	–
Gain on disposal of property, plant and equipment	**–**	5,734
Net reversal of allowance for bad and doubtful debts	**–**	383

* The amount mainly represents the incentives granted by the PRC local authorities to the Group for engaging in High Technology business, employment of expatriates and technologically advanced staff. All the grants were approved and received during the year of recognition.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The aggregate Directors' and Chief Executive's remuneration for the year ended 31st December, 2015 amounts to RMB13,217,000 (2014: RMB14,622,000), disclosed pursuant to the applicable Listing Rules and Company Ordinance, details are as follows:

For the year ended 31st December, 2015:

	Benjamin Zhengmin Pan RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
Executive Directors			
Fees	–	–	–
Salaries and other benefits	4,158	2,059	6,217
Performance related bonus	853	3,941	4,794
Retirement benefits scheme contributions	–	14	14
Total Directors' emoluments	5,011	6,014	11,025

The executive Directors' emoluments shown above were mainly for their services in connection with the affairs of the Company and the Group.

	Ingrid Chunyuan Wu RMB'000	Total RMB'000
Non-executive Director		
Fees	359	359
Salaries and other benefits	–	–
Performance related bonus	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	359	359

The non-executive Director's emolument shown above was mainly for her services as Director of the Company's subsidiary.

	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Dato' Tan Bian Ee RMB'000	Chang I-Hua Carmen RMB'000	Total RMB'000
Independent non-executive Directors					
Fees	755	485	305	288	1,833
Salaries and other benefits	–	–	–	–	–
Performance related bonus	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–
Total Directors' emoluments	755	485	305	288	1,833

The independent non-executive Directors' emoluments shown above were mainly for their services as Directors of the Company.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

For the year ended 31st December, 2014:

	Benjamin Zhengmin Pan RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
Executive Directors			
Fees	–	–	–
Salaries and other benefits	3,240	1,888	5,128
Performance related bonus	3,370	3,956	7,326
Retirement benefits scheme contributions	–	13	13
Total Directors' emoluments	6,610	5,857	12,467

The executive Directors' emoluments shown above were mainly for their services in connection with the affairs of the Company and the Group.

	Ingrid Chunyuan Wu RMB'000	Total RMB'000
Non-executive Director		
Fees	353	353
Salaries and other benefits	–	–
Performance related bonus	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	353	353

The non-executive Director's emolument shown above was mainly for her services as Director of the Company's subsidiary.

	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Dato' Tan Bian Ee RMB'000	Chang I-Hua Carmen RMB'000	Total RMB'000
Independent non-executive Directors					
Fees	742	477	300	283	1,802
Salaries and other benefits	–	–	–	–	–
Performance related bonus	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–
Total Directors' emoluments	742	477	300	283	1,802

The independent non-executive Directors' emoluments shown above were mainly for their services as Directors of the Company.

Note: The performance related bonus for the years ended 31st December, 2015 and 31st December, 2014 were determined based on the performance of the Group.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Employees' emoluments

The five highest paid individuals included two (2014: two) Directors, details of whose emoluments are set out above. The emoluments of the remaining three (2014: three) highest paid individuals are as follows:

	2015 RMB'000	2014 RMB'000
Employees		
– basic salaries and allowances	**5,057**	3,679
– bonus	**10,169**	12,378
– retirement benefits scheme contributions	**27**	24
– compensation for loss of office	**–**	507
	15,253	16,588

Note: The bonus is determined based on performance of the employees.

The emoluments were within the following bands:

	Number of employees	
	2015	2014
HK$5,000,001 to HK$5,500,000	**2**	–
HK$6,000,001 to HK$6,500,000	**–**	1
HK$7,000,001 to HK$7,500,000	**–**	1
HK$7,500,001 to HK$8,000,000	**–**	1
HK$8,000,001 to HK$8,500,000	**1**	–

Mr. Pan is also the Chief Executive of the Company and his emolument disclosed above include those for services rendered by him as the Chief Executive.

No other emoluments were paid by the Group to the five highest paid individuals (including Directors and employees) as an inducement to join or as compensation for loss of office.

11. TAXATION

	2015 RMB'000	2014 RMB'000
The current tax charge (credit) comprises:		
Hong Kong Profits Tax	**289**	–
PRC Enterprise Income Tax	**238,771**	188,358
Other jurisdictions	**113,121**	89,471
Overprovision of taxation in prior years	**(21,971)**	(6,423)
	330,210	271,406
Deferred tax (see note 28)	**(5,131)**	(1,240)
	325,079	270,166

Under the law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

According to a joint circular of Ministry of Finance and the State Administrative of Taxation of the PRC, Cai Shui 2008 No. 1, only the profits earned by foreign-investment enterprise prior to 1st January, 2008, when distributed to foreign investors, can be grandfathered and exempted from EIT. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to EIT at 10% and withheld by the PRC subsidiary, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Detailed Implementation Rules. According to the Tax Arrangement for Avoidance of Double Taxation between China and Hong Kong, the withholding tax rate on dividend paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise, and remains at 10% otherwise. Deferred tax liability on the undistributed profits earned has been accrued at the tax rate of 5% on the expected dividend stream determined by the Directors of the Company.

In addition, certain PRC subsidiaries were officially endorsed as High-New Technology Enterprises ("HNTE") till the dates ranging from 4th August, 2016 to 2nd November, 2018. Pursuant to the EIT Law, those PRC subsidiaries entitled as HNTE shall be entitled to a preferential tax rate of 15% till the expiry of the HNTE status for the respective PRC subsidiaries.

Pursuant to relevant laws and regulations in Singapore, one of the Group's subsidiaries is entitled to a concessionary tax rate under Development and Expansion Incentive which is granted based on the fulfillment of carrying out qualifying business activities. This incentive program will expire for the subsidiary in 2018.

Taxation in other jurisdiction is calculated at the rates prevailing in the respective jurisdictions.

11. TAXATION (CONTINUED)

The charge for the year is reconciled to the profit before taxation as follows:

	2015 RMB'000	2014 RMB'000
Profit before taxation	**3,435,273**	2,580,567
Tax at the applicable income tax rate*	**858,794**	645,142
Tax effect of income not taxable for tax purpose	**(7,180)**	(3,847)
Tax effect of expenses not deductible for tax purpose	**69,175**	13,714
Tax effect of tax holiday	**(377,733)**	(299,949)
Tax effect of tax losses not recognised	**19,406**	81,584
Utilisation of tax losses previously not recognised	**(22,229)**	(11,872)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(187,881)**	(146,814)
Overprovision in prior years	**(21,971)**	(6,423)
Others	**(5,302)**	(1,369)
Tax charge for the year	**325,079**	270,166

* The PRC EIT rate of 25% (2014: 25%) is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

12. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Dividends recognised as distribution during the year:		
2014 final dividend of HK$0.71 (2013: HK$0.83) per ordinary share	**687,565**	809,073
2015 interim dividend of HK$0.25 (2014: HK$0.25) per ordinary share	**251,985**	243,297
	939,550	1,052,370

Subsequent to the end of the reporting period, a final dividend of HK$0.95 (2014: HK$0.71) per share, has been proposed by the Board of Directors and is subject to approval by the Shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31st December, 2015 is based on the profit for the year attributable to owners of the Company of RMB3,106,904,000 (2014: RMB2,317,695,000) and on the number of ordinary shares of 1,228,000,000 shares in issue during the year (2014: 1,228,000,000 shares).

No diluted earnings per share is presented as there were no potential ordinary shares outstanding during both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Electronic equipment and furniture RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1st January, 2014	–	658,672	538,980	261,802	31,520	3,590,885	611,848	5,693,707
Currency realignment	155	45	(571)	(72)	(17)	(2,321)	(8)	(2,789)
Additions	–	24,923	135,612	50,651	8,907	640,987	1,004,730	1,865,810
On acquisition of a subsidiary	15,073	1,794	–	–	–	–	–	16,867
Disposals	–	(47,612)	(6,358)	(2,302)	(2,294)	(15,113)	(197)	(73,876)
Transfers	–	25,491	7,596	51,179	627	707,831	(792,724)	–
At 31st December, 2014	15,228	663,313	675,259	361,258	38,743	4,922,269	823,649	7,499,719
Currency realignment	(43)	(81)	528	387	(1)	145	6,814	7,749
Additions	–	39,782	139,785	92,855	9,145	994,043	1,297,057	2,572,667
On acquisition of a subsidiary	–	22	603	–	–	1,573	–	2,198
Disposals	–	(465)	(12,349)	–	(4,122)	(33,196)	(6,992)	(57,124)
Disposal of a subsidiary (note 32)	–	–	(592)	(1,568)	–	(355)	–	(2,515)
Transfers	–	241,663	52,471	102,088	479	657,794	(1,054,495)	–
At 31st December, 2015	15,185	944,234	855,705	555,020	44,244	6,542,273	1,066,033	10,022,694
DEPRECIATION AND IMPAIRMENT								
At 1st January, 2014	–	110,425	315,059	146,201	17,824	1,135,410	–	1,724,919
Currency realignment	–	(34)	(246)	(19)	(14)	(670)	–	(983)
Provided for the year	–	31,556	72,339	44,702	4,159	357,904	–	510,660
Eliminated on disposal	–	(10,107)	(3,627)	(1,602)	(1,759)	(6,701)	–	(23,796)
Impairment losses recognised in profit or loss	–	–	–	–	–	3,671	–	3,671
At 31st December, 2014	–	131,840	383,525	189,282	20,210	1,489,614	–	2,214,471
Currency realignment	–	3	463	548	19	1,199	–	2,232
Provided for the year	–	33,904	94,080	82,878	5,180	482,067	–	698,109
Eliminated on disposal	–	(143)	(7,780)	–	(3,400)	(20,726)	–	(32,049)
Disposal of a subsidiary (note 32)	–	–	(135)	(248)	–	(92)	–	(475)
Impairment losses recognised in profit or loss	–	–	–	–	–	60,440	–	60,440
At 31st December, 2015	–	165,604	470,153	272,460	22,009	2,012,502	–	2,942,728
CARRYING VALUES								
At 31st December, 2015	15,185	778,630	385,552	282,560	22,235	4,529,771	1,066,033	7,079,966
At 31st December, 2014	15,228	531,473	291,734	171,976	18,533	3,432,655	823,649	5,285,248

During the year, the Group had fully impaired certain property, plant and equipment of RMB60,440,000 (2014: RMB3,671,000) due to termination of production on certain products that were not part of the Group's core business and due to replacement of some other machineries by more advanced models as part of the Group's automation plan.

Majority of the Group's buildings are situated in the PRC on land which is held under medium-term land use rights.

15. GOODWILL

	RMB'000
COST	
At 1st January, 2014 and 31st December, 2014	32,931
Acquired on acquisition of a subsidiary (see note 31)	77,414
Impairment loss recognised during the year	(21,128)
At 31st December, 2015	89,217

The goodwill acquired in business combination was allocated to each individual subsidiary which management considers represent separate CGUs. At the end of the reporting period, the carrying amount of goodwill had arisen from the acquisition of the following subsidiaries:

	2015 RMB'000	2014 RMB'000
北京東微世紀科技有限公司 ("Eastmicro Technology (Beijing) Co., Ltd.")*	**1,750**	1,750
AAC Technologies Japan R&D Center Co., Ltd.	**1,348**	1,348
Kaleido Technology APS	**8,705**	8,705
WiSpry, Inc.	**77,414**	–
Mems Technology Pte. Ltd. ("MemsTech")	**–**	21,128
	89,217	32,931

* For identification purpose only.

The recoverable amount of the CGU is determined from value in use calculations. These calculations use cash flow projections based on latest financial budgets approved by management covering a five year period, using an applicable discount rate of 8.8%.

During the year, the Directors conducted a review on the recoverable amount of MemsTech's business and determined that the goodwill and intangible asset were fully impaired due to its recurring losses. Accordingly, impairment loss of RMB21,128,000 has been recognised.

16. PREPAID LEASE PAYMENTS

The amount represents the prepayment of rentals for medium-term land use rights situated in the PRC for a period of 50 years.

17. AVAILABLE-FOR-SALE INVESTMENTS

	2015 RMB'000	2014 RMB'000
Unlisted shares, at cost	**379,940**	364,531

The investment is measured at cost less impairment as the range of reasonable fair value estimates is so significant that the Directors are of the opinion that the fair value cannot be measured reliably. The Directors use their judgment in assessing impairment of its available-for-sale investment. In estimating whether available-for-sale investment is impaired, the Group adopted an assessment by referencing to market comparable companies multiples and multiplied to the underlying financial information of the available-for-sale investment. To the extent that the carrying amount exceeded the amount of the result of the assessment, impairment loss would be recognised.

The available-for-sale investment represents the Group's investment in unlisted securities issued by a private entity incorporated in Singapore and the investee is engaged in the Micro-Optics business.

18. INTERESTS IN ASSOCIATES

	2015 RMB'000	2014 RMB'000
Cost of investments in associates, unlisted	**66,185**	71,185
Impairment loss recognised in respect of interest in an associate	**(13,014)**	(13,014)
Share of post-acquisition loss and other comprehensive expense	**(47,313)**	(42,483)
	5,858	15,688

Details of the Group's principal associates are as follows:

Name of associate	Place of incorporation	Percentage equity interest 2015 %	Percentage equity interest 2014 %	Principal activity
Xenon Technology (Cayman) Limited	Cayman Islands	39.2%	39.2%	Design and manufacture of Xenon-based flash lamp and flash modules
Vesper Technologies Inc.	United States of America	25%	25%	Research and develop of MEMS products

18. INTERESTS IN ASSOCIATES (CONTINUED)

During the year, the management assessed its associates for impairment with reference to their recoverable amounts. The recoverable amounts were determined based on the value in use calculations using the cashflow projections based on financial budget for the next 3 to 5 years approved by management. Cash flows beyond the budgeted period have extrapolated using a rate of 0-3%. Discount rate of 8.8% (2014: 14.1%) was used, which was determined based on the weighted average cost of capital of the investees. Based on the estimated recoverable amount, an impairment loss of RMB13,014,000 was recognised and charged to profit or loss during the year ended 31st December, 2013. No impairment loss is recognised in the current year.

In the current year, one of the Group's associates has been deregistered. The Group received RMB4,850,000 from the distribution on deregistration.

The associates use accounting policies that differ from those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associates' accounting policies to those of the Group.

Summarised financial information in respect of the assets and liabilities and post-acquisition results of the Group's associates are set out below:

	2015 RMB'000	2014 RMB'000
Total assets	20,237	22,399
Total liabilities	(35,887)	(7,815)
	(15,650)	14,584
Revenue	2,113	6,582
Loss for the year	(19,952)	(6,479)
Group's share of loss of associates for the year	(4,980)	(1,374)

19. INTANGIBLE ASSETS

	Patents RMB'000	Development expenditure RMB'000	Total RMB'000
COST			
At 1st January, 2014	154,425	96,613	251,038
Currency realignment	106	(5,054)	(4,948)
Addition	–	9,700	9,700
At 31st December, 2014	154,531	101,259	255,790
Currency realignment	769	(2,514)	(1,745)
On acquisition of a subsidiary	38,211	–	38,211
Addition	–	13,375	13,375
Disposal	–	(1,184)	(1,184)
At 31st December, 2015	193,511	110,936	304,447
AMORTISATION AND IMPAIRMENT			
At 1st January, 2014	33,643	38,062	71,705
Currency realignment	32	(112)	(80)
Provided for the year	13,137	1,130	14,267
Impairment losses recognised during the year	30,238	–	30,238
At 31st December, 2014	77,050	39,080	116,130
Currency realignment	769	806	1,575
Provided for the year	10,716	2,360	13,076
Written off on disposal	–	(1,371)	(1,371)
Impairment losses recognised during the year	19,016	–	19,016
At 31st December, 2015	107,551	40,875	148,426
CARRYING VALUE			
At 31st December, 2015	85,960	70,061	156,021
At 31st December, 2014	77,481	62,179	139,660

During the year ended 31st December, 2015, the Group has fully written off certain patents of RMB19,016,000 (2014: RMB30,238,000) due to the terminations of production on the relevant products that were not part of the Group's core business.

Patents represents the Group's patents on designing small and sophisticated module structures. Development expenditure represents the Group's development cost in MEMS technology and wafer-level glass moulding technology which are used to enhance the Group's current products. Amortisation is provided to write off the cost of development expenditure and patents, using the straight line method, over the estimated useful life ranging from 5 to 20 years.

20. LOAN FROM/TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

Loan receivable from a non-controlling shareholder of a subsidiary bears interest rate at Singapore Interbank Offered Rate plus 1.0% per annum and are with no fixed repayment terms. The Directors are of the opinion that the amount is not expected to be received within one year from the end of the reporting period. As a result, the loan receivable from a non-controlling shareholder of a subsidiary is classified as non-current assets.

Loan payable to a non-controlling shareholder of a subsidiary bears interest rate at Singapore Interbank Offered Rate plus 1.0% per annum and are with no fixed repayment terms. The Directors are of the opinion that the Group has the right to deny payment upon request as the non-controlling shareholder's loan to the subsidiary is funded by the Group ultimately. As a result, the loan payable to a non-controlling shareholder of a subsidiary is classified as non-current liabilities.

Under a loan agreement entered between the Group, a subsidiary of the Group and the non-controlling shareholder, the loan receivable from a non-controlling shareholder of a subsidiary and loan payable to a non-controlling shareholder of a subsidiary are not enforceable to be settled on net basis.

21. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	**353,539**	299,750
Work in progress	**168,816**	188,477
Finished goods	**1,195,803**	778,964
	1,718,158	1,267,191

22. TRADE AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables	**3,470,802**	3,250,107
Bank acceptance and commercial bills	**62,304**	78,438
	3,533,106	3,328,545
Advance payment to suppliers	**6,000**	74,928
Prepayments	**143,073**	123,838
Value-added tax recoverable	**191,297**	168,138
Other receivables	**322,092**	154,933
	4,195,568	3,850,382

22. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following is an analysis of trade receivables and bank acceptance and commercial bills by age, presented based on the invoice dates at the end of the reporting period, which approximate the respective revenue recognition dates. The analysis below is net of allowance for doubtful debts.

	2015 RMB'000	2014 RMB'000
Age		
0 – 90 days	**3,188,404**	3,015,864
91 – 180 days	**311,573**	282,070
Over 180 days	**33,129**	30,611
	3,533,106	3,328,545

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 days to 120 days of issuance. The Group accepts bank acceptance and commercial bills with maturities ranging from 30 to 180 days at the end of the credit terms in lieu of immediate cash payment. The following is an aged analysis of trade receivables and bank acceptance and commercial bills which are past due but not impaired:

	2015 RMB'000	2014 RMB'000
Age		
Overdue 0 – 90 days	**332,884**	324,070
Overdue 91 – 180 days	**829**	30,947
Overdue over 180 days	**31,036**	3,340
	364,749	358,357

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB364,749,000 (2014: RMB358,357,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on historical experience the Group considers the amounts which are past due and which impairment loss has not been provided for to be of good credit quality and they are expected to be recoverable. The Group does not hold any collateral over these balances.

22. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following is a movement in the allowance for bad and doubtful debts account:

	2015 RMB'000	2014 RMB'000
Balance at beginning of the year	**14,036**	14,577
Currency realignment	**683**	44
Allowance for bad and doubtful debts	**2,482**	1,378
Write-off of bad and doubtful debts	**(735)**	(202)
Reversal of allowance for bad and doubtful debts	**(1,144)**	(1,761)
Balance at end of the year	**15,322**	14,036

Allowances are recognised based on the Group's historical experience, aging analysis and internal assessment of the recoverability of the debt.

The Group's trade receivables which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2015 RMB'000	2014 RMB'000
US$	**140,669**	192,717
Euro	**439**	6,761
HK$	**14**	1

23. AMOUNTS DUE FROM (TO) RELATED COMPANIES

Details of the amounts due from related companies, in which close family members of Ms. Wu and Mr. Pan, Directors of the Company have controlling interest, are as follows:

Name of related company	Balance at 31.12.2015 RMB'000	Balance at 1.1.2015 RMB'000	Maximum amount outstanding during the year RMB'000
常州遠宇精密模具製造有限公司 (Changzhou Yuanyu Precise Model Manufacturing Co., Ltd.)*	228	267	267
深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd.)*	1,681	1,689	1,689
常州中科來方能源發展有限公司 (Changzhou Zhongke Laifang Power Development Co., Ltd.)*	15,620	14,629	15,620
江蘇遠宇電子集團有限公司 (Jiangsu Yuanyu Electronics Group Co., Ltd.)*	1,731	1,631	1,731
成都中科來方能源科技有限公司	424	–	424
四川茵地樂科技有限公司	827	–	827
	20,511	18,216	

* For identification purpose only.

The above amounts were unsecured, interest-free and repayable on demand.

The amounts due to related companies are unsecured, interest-free and are repayable on demand. Certain close family members of the Ms. Wu and Mr. Pan of the Company have controlling interests in these related companies.

24. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

The bank balances and pledged bank deposits carry variable and fixed interest rates ranging from 0.00% to 4.50% (2014: 0.33% to 4.00%).

The Group's bank balances and cash and pledged bank deposits which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	Pledged bank deposits		Bank balances and cash	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
US$	–	–	508,123	496,616
HK$	–	–	44,751	12,579
Japanese Yen	–	77	52,219	22,637
Euro	–	–	19,043	35,601
Other currencies	–	–	18,747	1,962

25. TRADE AND OTHER PAYABLES

	2015 RMB'000	2014 RMB'000
Trade payables	1,169,340	1,120,700
Notes payables – secured	868,199	665,590
	2,037,539	1,786,290
Payroll and welfare payables	421,107	343,664
Payables for acquisition of property, plant and equipment	195,537	86,468
Other payables and accruals	258,234	165,732
Contingent consideration payable	6,620	6,312
	2,919,037	2,388,466

Other payables are unsecured, interest-free and have no fixed repayment terms.

An aged analysis of trade and notes payables, presented based on the invoice date, is as follows:

	2015 RMB'000	2014 RMB'000
Age		
0 – 90 days	1,728,178	1,577,470
91 – 180 days	308,547	208,285
Over 180 days	814	535
	2,037,539	1,786,290

25. TRADE AND OTHER PAYABLES (CONTINUED)

The Group's trade payables which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2015 RMB'000	2014 RMB'000
US$	**197,902**	79,024
Japanese Yen	**23,131**	9,165
Euro	**263**	1,609

26. BANK LOANS

	2015 RMB'000	2014 RMB'000
Bank loans are repayable as follows:		
Within one year	**1,158,880**	1,417,806
After one year but within two years	**–**	–
After two years but within five years	**648,700**	–
	1,807,580	1,417,806
Less: Amount due within one year included in current liabilities	**1,158,880**	1,417,806
Amount due after one year	**648,700**	–

The Group's bank loans denominated in currencies other than the functional currencies of the respective entities are set out below:

	2015 RMB'000	2014 RMB'000
US$	**389,617**	112,230
HK$	**40,629**	–
Euro	**35,476**	–
RMB	**154,400**	–

The Group's bank loans, carry interest ranging from 0.59% to 4.15% per annum (as at 31st December, 2014: carry interest ranging from 0.75% to 2.74% per annum). The Company issued guarantees to the banks to secure these borrowings.

27. GOVERNMENT GRANTS

During the year, the Group received government grants of RMB10,810,000 (2014: RMB25,700,000) in aggregate from various PRC government authorities as an incentive for constructing electronic plants and acquiring machineries. The amount received is to be amortised and released to profit or loss over the useful lives of the relevant assets. During the year, RMB3,532,000 (2014: RMB1,419,000) of the grants have been released to profit or loss.

28. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group and the movements thereon during the current and prior year.

	Intangible assets RMB'000	PRC withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1st January, 2014	18,074	23,522	41,596
Credited to profit or loss	(1,240)	–	(1,240)
At 31st December, 2014	16,834	23,522	40,356
On acquisition of a subsidiary	13,756	–	13,756
Credited to profit or loss	(5,131)	–	(5,131)
At 31st December, 2015	25,459	23,522	48,981

At 31st December, 2015, the Group has unrecognised deferred tax liability in relation to PRC withholding tax on undistributed earnings in certain of its PRC subsidiaries, as it is the intention of the Directors to retain the earnings within these subsidiaries.

At the end of the reporting period, certain subsidiaries of the Group has unused tax losses of RMB421,824,000 (2014: RMB433,116,000) available for offset against future profits. These losses may be carried forward for five years from the year when the losses are incurred. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

The deferred tax liability recognised of RMB13,756,000 in respect of the intangible assets was related to the acquisition of WiSpry during the year ended 31st December, 2015 as a result of the fair value adjustment on patents and technical knowhow in relation to dynamically tunable RF.

29. SHARE CAPITAL

	Number of shares	Amount US$'000
Shares of US$0.01 each		
Authorised:		
Ordinary shares at 1st January, 2014, 31st December, 2014 and 31st December, 2015	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1st January, 2014, 31st December, 2014 and 31st December, 2015	1,228,000,000	12,280

	RMB'000
At 1st January, 2014, 31st December, 2014 and 31st December, 2015	99,718

30. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed in the Company's special general meeting held on 15th July, 2005, the Company approved and adopted a SO Scheme which had a ten-year duration.

The purpose of the Scheme was to provide the eligible participants with the opportunity to acquire proprietary interests in the Company, to attract and retain the best available personnel, to encourage and motivate participants to work towards enhancing the value of the Company and the shares and to allow them to participate in the growth of the Company and to align the interests of the Shareholders and the participants. Under the Scheme, the Directors may grant options to any eligible participants, including the Company's Shareholders, all Directors and any employees of the Company or any subsidiaries and any consultants, professional and other advisors who would provide or have provided services to the Group.

The Company had not granted any option under the Scheme since its adoption and the Scheme has been terminated on 15th July, 2015 on its expiry date.

Share options granted to a Director, Chief Executive or substantial Shareholder of the Company, or to any of their associates, were subject to approval of the independent non-executive Directors of the Company. In addition, any share options granted to a substantial Shareholder or any independent non-executive Director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in any one year up to and including the date of such grant (i) representing in aggregate value over 0.1% of the shares of the Company in issue on that date; and (ii) having an aggregate value, based on the closing price of the shares on the date of each grant, in excess of HK$5 million, were subject to Shareholders' approval in a general meeting.

30. SHARE OPTION SCHEME (CONTINUED)

The exercisable period of the options granted were determined by the Board of Directors of the Company at its absolute discretion. The share options would expire no later than ten years from the date of grant. At the time of grant of the share options, the Company may specify a minimum period for which an option must be held before it can be exercised. The acceptance date should not be later than 90 days after the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of options. The subscription price of the option shares was not less than the higher of (i) the closing price of the shares on the date of grant; (ii) the average closing prices of the shares on the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed in nominal amount of 10% of the issued share capital of the Company at the date of approval of the Scheme. However, the total maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time. The number of shares in respect of which options may be granted to each eligible participants in any one year was not permitted to exceed 1% of the shares of the Company in issue from time to time.

31. ACQUISITION OF A SUBSIDIARY

(a) Business combination under IFRS 3

On 7th May, 2015, the Group acquired 100% interest in a private company, WiSpry, Inc. from certain independent third parties for an aggregate consideration of USD16,816,000 (approximately RMB102,808,000). The acquisition has been accounted for using the acquisition method.

Consideration transferred as at date of acquisition

	WiSpry RMB'000
Cash	73,364
Contingent consideration	29,444
Total	102,808

Pursuant to the sales and purchase agreement, the Group is required to make contingent consideration payment to the shareholders upon meeting specific technical milestone and specific revenue target. The Directors are of the opinion, that WiSpry will be able to meet all the conditions for payment of the contingent consideration. The contingent consideration is payable by stages on or before October 2017.

Acquisition-related costs during the period amounting to approximately RMB3,522,000 have been excluded from the cost of acquisition and have been recognised directly as an expense in the period and included in the administrative expenses line item in the consolidated statement of profit or loss and other comprehensive income.

31. ACQUISITION OF A SUBSIDIARY (CONTINUED)

(a) Business combination under IFRS 3 (continued)

The assets acquired and liabilities assumed which were recognised on 7th May, 2015, the date of acquisition, are as follows:

	RMB'000
Plant and equipment	2,198
Intangible asset	38,211
Other assets	192
Trade and other receivables	587
Prepaid and other current assets	1,704
Bank balances and cash	3,709
Trade and other payables	(3,913)
Accruals	(3,538)
Deferred tax liability	(13,756)
Net assets acquired	25,394
Goodwill arising on acquisition:	
Consideration	102,808
Less: Net assets acquired	(25,394)
Goodwill arising on acquisition	77,414

The fair value of trade and other receivables at date of acquisition amounted to RMB587,000 and the gross contractual amount was RMB587,000. All contractual receivables at acquisition date are expected to be recoverable.

Goodwill arising from the acquisition is attributable to the future economic benefits that are expected to accrue to the Group from operating synergies and revenue growth through the joint contributions of technology by WiSpry and business management skills by the Group. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The fair value of the intangible asset is estimated by an independent and professionally qualified valuer and calculated using multi-period excess earnings method under income approach.

	RMB'000
Net cash outflow on acquisition:	
Consideration paid	(73,364)
Contingent consideration paid	(9,740)
Cash and cash equivalents acquired	3,709
	(79,395)

31. ACQUISITION OF A SUBSIDIARY (CONTINUED)

(a) Business combination under IFRS 3 (continued)

Impact of acquisition on the results of the Group

WiSpry, as intended to be a technology contributor, contributed a revenue of RMB35,794,000 and a profit of RMB3,719,000 to the Group since the acquisition. Had WiSpry been consolidated from 1st January, 2015, the impact of the Group's revenue and the profit attributable to the equity holders of the Company for the period ended 31st December, 2015 would have been insignificant.

(b) Acquisition of assets and liabilities

On 23rd October, 2014, AAC Optics Philippines, Inc., the Group's 99.99% owned subsidiary and TECHAAC Inc., the Group's 40% owned subsidiary, acquired 40% and 60% equity interests of Florafield Inc. respectively from certain independent third parties for a cash consideration of RMB7,787,000. Major assets of Florafield Inc. are freehold lands located in the Philippines without any operation which did not constitute a business combination in accordance with IFRS 3 "Business combination" as such, the acquisition has been accounted for as acquisition of assets and liabilities through acquisition of a subsidiary.

	RMB'000
Analysis of assets and liabilities acquired:	
Property, plant and equipment	16,867
Other receivables	241
Bank balances and cash	2
Other payables	(9,323)
	7,787
Net cash outflow arising from the acquisition:	
Cash consideration paid	(7,787)
Less: Bank balances and cash acquired	2
	(7,785)

32. DISPOSAL OF A SUBSIDIARY

As at 1st May, 2015, the Group entered into share transfer agreements with a related party and a third party for the disposal of 62% and 5% equity interests in a subsidiary, at a cash consideration of RMB6,200,000 and RMB500,000 respectively.

	RMB'000
Analysis of assets and liabilities disposed of:	
Plant and equipment (note 14)	2,040
Bank balances and cash	893
Trade and other receivables	349
Inventories	381
Trade and other payables	(247)
	3,416
Gain on disposal of a subsidiary:	
Consideration	6,700
Non-controlling interests (33% of the subsidiary)	1,127
Net assets disposed of	(3,416)
Gain on disposal	4,411
Cash inflow arising on disposal:	
Cash consideration received	6,700
Less: Bank balances and cash disposed of	(893)
	5,807

33. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Building premises	
	2015 RMB'000	2014 RMB'000
Within one year	54,463	52,721
In the second to fifth year inclusive	20,982	58,956
	75,445	111,677

Leases are negotiated and rentals are fixed for a lease term of 1 to 3 years.

34. CAPITAL COMMITMENTS

	2015 RMB'000	2014 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**300,251**	136,335

35. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees but subject to a maximum amount of HK$1,500 per month for each employee.

The employees of the Group's PRC subsidiaries are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

36. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere in the consolidated financial statements, during the year, the Group had the following significant transactions with related parties:

Relationship of related parties	Nature of transactions	2015 RMB'000	2014 RMB'000
Companies controlled by close family members of the substantial Shareholders of the Company (note)	Purchase of raw materials	**109,637**	94,605
	Property rentals paid	**21,709**	21,937
	Property rentals received	**1,252**	–
	Sales of raw materials	**1,178**	769
Close family members of the substantial Shareholders of the Company (note)	Property rentals paid	**4,106**	3,798

Note: The substantial Shareholders have shareholdings which give them significant influence over the Company. They are also Directors of the Company.

During the year, a company that were controlled by close family members of the substantial Shareholder acquired a subsidiary from the Group, see note 32 for details.

Emoluments paid to the key management personnel of the Company which represents the executive Directors of the Company and the five highest paid individuals, are set out in note 10.

Balances with related parties are disclosed in note 23 to the consolidated financial statements.

37. PRINCIPAL SUBSIDIARIES

(a) General information of subsidiaries

Details of the Company's principal subsidiaries, all of which are wholly-owned subsidiaries of the Group as at 31st December, 2015 and 31st December, 2014, are as follows:

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
瑞聲聲學科技（常州）有限公司 AAC Acoustic Technologies (Changzhou) Co., Ltd. (note a)	PRC	Registered capital – US$8,000,000	Manufacture and sales of acoustic products, research and development
AAC Acoustic Technologies Limited 瑞聲聲學科技有限公司	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products, investment
AAC Technologies Pte. Ltd.	Singapore	Shares – SGD500,000	Sale of products, research and development
瑞聲聲學科技（深圳）有限公司 AAC Acoustic Technologies (Shenzhen) Co., Ltd. (note b)	PRC	Registered capital – US$33,000,000	Manufacture and sales of acoustic products, research and development
瑞聲科技（沭陽）有限公司 AAC Technologies (Shuyang) Co., Ltd. (note c)	PRC	Registered capital – US$9,000,000	Manufacture and sales of precision components for acoustic products, research and development
瑞聲光電科技（常州）有限公司 AAC Microtech (Changzhou) Co., Ltd. (note d)	PRC	Registered capital – US$102,800,000	Manufacture and sales of electronic components, research and development
常州美歐電子有限公司 American Audio Components (Changzhou) Co., Ltd. (note e)	PRC	Registered capital – US$23,000,000	Manufacture and sales of precision components and acoustic products, research and development
瑞聲精密制造科技（常州）有限公司 AAC Module Technologies (Changzhou) Co., Ltd. (note f)	PRC	Registered capital – US$69,800,000	Manufacture and sales of tooling and precision components, research and development
常州泰瑞美電鍍科技有限公司 Changzhou Tairuimei Electroplating Technology Co., Ltd. (note g)	PRC	Registered capital – RMB69,000,000	Provision of electroplating service
YEC Electronics Limited 香港遠宇電子有限公司	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products

37. PRINCIPAL SUBSIDIARIES (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
瑞聲精密電子沭陽有限公司 AAC Precision Electronics Shuyang Co., Ltd. (note h)	PRC	Registered capital – US$104,980,000	Manufacture and sales of electronics related accessories and components, research and development
瑞聲聲學科技（蘇州）有限公司 AAC Acoustic Technologies (Suzhou) Co., Ltd. (note i)	PRC	Registered capital – US$107,000,000	Manufacture and sales of electronic components, research and development
瑞聲（中國）投資有限公司 AAC (China) Investment Co., Ltd. (note j)	PRC	Registered capital – US$200,000,000	Investment
瑞聲開泰（深圳）科技發展有限公司 AAC Kaitai (Shenzhen) Sci-Tech Development Co., Ltd. (note k)	PRC	Registered capital – US$40,000,000	Sales of products
瑞聲光學科技（常州）有限公司 AAC Optics Technologies (Changzhou) Co., Ltd. (note l)	PRC	Registered capital – US$120,000,000	Manufacture and sales of electronic components
AAC Technologies Viet Nam Co., Ltd. (note m)	Vietnam	Registered capital – US$6,500,000	Manufacture and sales of products

Notes:

(a) Wholly-owned foreign enterprise for a term of 50 years commencing 28th September, 2003.
(b) Wholly-owned foreign enterprise for a term of 20 years commencing 12th January, 2004.
(c) Wholly-owned foreign enterprise for a term of 20 years commencing 8th November, 2006.
(d) Wholly-owned foreign enterprise for a term of 50 years commencing 13th April, 2006.
(e) Wholly-owned foreign enterprise for a term of 20 years commencing 28th January, 2000.
(f) Wholly-owned foreign enterprise for a term of 20 years commencing 8th May, 2007.
(g) Wholly-owned foreign enterprise for a term of 20 years commencing 11th April, 2005.
(h) Wholly-owned foreign enterprise for a term of 20 years commencing 13th June, 2010.
(i) Wholly-owned foreign enterprise for a term of 15 years commencing 6th April, 2004.
(j) Wholly-owned foreign enterprise for a term of 30 years commencing 13th November, 2012.
(k) Wholly-owned foreign enterprise for a term of 10 years commencing 29th August, 2013.
(l) Wholly-owned foreign enterprise for a term of 20 years commencing 29th July, 2013.
(m) Wholly-owned foreign enterprise for a term of 10 years commencing 20th September, 2013.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, results in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

37. PRINCIPAL SUBSIDIARIES (CONTINUED)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2015	2014	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
AAC New Power Development (Changzhou) Co., Ltd. ("AAC New Power") (note)	PRC	19.58%	19.58%	3,544	4,151	39,983	43,527
Individually immaterial subsidiaries with non-controlling interests				(254)	3,143	7,158	10,021
				3,290	7,294	47,141	53,548

Note: Summarised financial information in respect of the above subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

AAC New Power

	2015 RMB'000	2014 RMB'000
Current assets	69,026	79,802
Non-current assets	135,333	144,908
Current liabilities	156	2,408
Non-current liabilities	–	–
Equity attributable to owners of the Company	164,220	178,775
Non-controlling interests	39,983	43,527

37. PRINCIPAL SUBSIDIARIES (CONTINUED)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

AAC New Power (continued)

	2015 RMB'000	2014 RMB'000
Income	**416**	1,242
Expenses	**18,514**	22,444
Loss for the year	**18,098**	21,202
Loss attributable to owners of the Company	**14,554**	17,051
Loss attributable to the non-controlling interests	**3,544**	4,151
Loss for the year	**18,098**	21,202
Net cash outflow from operating activities	**5,947**	40,415
Net cash outflow from investing activities	**108**	60,762
Net cash inflow from financing activities	**–**	–
Net cash outflow	**6,055**	101,177

(c) Change in ownership interest in a subsidiary

During the year ended 31st December, 2015, the Group acquired additional 11.1% of its interest in a subsidiary at a consideration of RMB28,717,000, increasing its continuing interest to 100.0%. An amount of RMB8,352,000 (being the proportionate share of the carrying amount of the net assets of the subsidiary) has been transferred from non-controlling interests. The difference of RMB20,365,000 between the decrease in the non-controlling interests and the consideration paid is recognised directly in equity.

(d) Deposit paid for acquisition of additional interest in a subsidiary

During the year ended 31st December, 2014, the Group paid deposit amounts to RMB7,717,000 for acquisition of additional interest in a subsidiary. In the current year, the Group further paid deposit amounts to RMB31,498,000.

During the year, the aggregate consideration paid was recognised directly in equity.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTE	2015 RMB'000	2014 RMB'000
Non-current assets			
Interests in subsidiaries		**1,171,857**	1,171,857
Current assets			
Other receivables		**2,189**	191
Amounts due from subsidiaries (note)		**782,622**	700,546
Bank balances and cash		**4,268**	2,671
		789,079	703,408
Current liabilities			
Other payables		**1,246**	1,211
Amounts due to subsidiaries (note)		**838**	1
		2,084	1,212
Net current assets		**786,995**	702,196
		1,958,852	1,874,053
Capital and reserves			
Share capital	29	**99,718**	99,718
Reserves		**1,859,134**	1,774,335
		1,958,852	1,874,053

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 23rd March, 2016 and are signed on its behalf by:

BENJAMIN ZHENGMIN PAN
DIRECTOR

MOK JOE KUEN RICHARD
DIRECTOR

Note: The amounts are unsecured, interest-free and are repayable on demand.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Movement of reserves

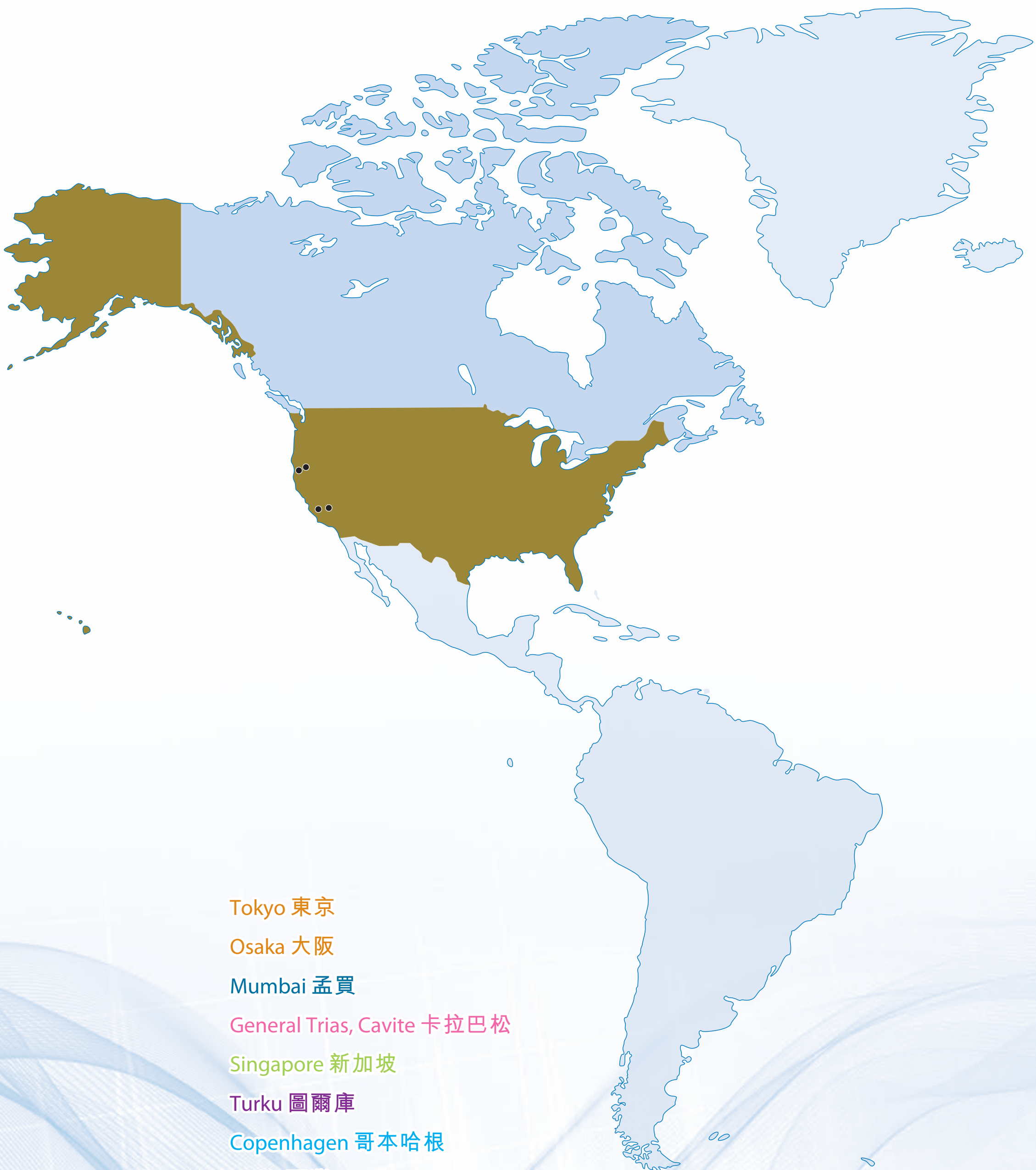
	Share premium RMB'000	Special reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1st January, 2014	746,957	33,428	845,297	1,625,682
Profit and total comprehensive income for the year	–	–	1,201,023	1,201,023
Dividend paid	–	–	(1,052,370)	(1,052,370)
At 31st December, 2014	746,957	33,428	993,950	1,774,335
Profit and total comprehensive income for the year	–	–	1,024,349	1,024,349
Dividend paid	–	–	(939,550)	(939,550)
At 31st December, 2015	746,957	33,428	1,078,749	1,859,134

FINANCIAL SUMMARY

	Year ended 31st December,				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000
RESULTS					
Revenue	4,059,687	6,282,946	8,095,889	8,879,300	**11,738,866**
Reported profit before taxation	1,141,559	2,015,518	2,834,539	2,580,567	**3,435,273**
Recurring profit before taxation	1,141,559	1,980,111	2,511,519	2,580,567	**3,435,273**
Taxation	(108,626)	(258,945)	(263,081)	(270,166)	**(325,079)**
Reported profit	1,032,933	1,756,573	2,571,458	2,310,401	**3,110,194**
Attributable to:					
Owners of the Company					
– reported	1,036,192	1,762,625	2,577,583	2,317,695	**3,106,904**
– recurring	1,036,192	1,727,218	2,254,563	2,317,695	**3,106,904**
Non-controlling interests	(3,259)	(6,052)	(6,125)	(7,294)	**3,290**
	1,032,933	1,756,573	2,571,458	2,310,401	**3,110,194**
Reported Basic EPS	RMB0.84	RMB1.44	RMB2.10	RMB1.89	**RMB2.53**
Adjusted recurring Basic EPS	RMB0.84	RMB1.41	RMB1.84	RMB1.89	**RMB2.53**
Full year dividend	HK$0.42	HK$0.71	HK$1.08	HK$0.96	**HK$1.20**

	As at 31st December,				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000
ASSETS AND LIABILITIES					
Total assets	6,714,226	8,925,806	10,677,022	13,279,149	**16,420,201**
Total liabilities	(1,902,804)	(2,795,725)	(2,745,233)	(4,087,506)	**(5,066,118)**
Net assets	4,811,422	6,130,081	7,931,789	9,191,643	**11,354,083**
Attributable to owners of the Company	4,750,070	6,078,242	7,876,117	9,138,095	**11,306,942**
Non-controlling interests	61,352	51,839	55,672	53,548	**47,141**
	4,811,422	6,130,081	7,931,789	9,191,643	**11,354,083**

WORLDWIDE LOCATIONS



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Shanghai 上海
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Nanjing 南京
Changzhou 常州
Shuyang 沭陽
Wuhan 武漢
Chengdu 成都
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