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

2016 ANNUAL REPORT

AAC Technologies Holdings Inc. ("AAC Technologies" or the "Company") 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 speaker boxes, speakers, receivers and Micro Electro-Mechanical System ("MEMS") microphones. The Company delivers integrated solutions across multiple segments incorporating advanced proprietary technology haptics vibrators, RF Mechanical and optical components. The Company serves a large number of geographically diverse customers in the mobile electronics market and its products are found in devices such as smartphones, tablets, wearables and notebooks. The Company is global in scope with research and development centers in the People's Republic of China (the "PRC"), Singapore, Japan, the United States and Denmark, testing laboratories in Singapore and South Korea, manufacturing facilities in the PRC and Vietnam and sales offices throughout the world.

CONTENTS

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 AND RISK 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.
Agricultural Bank of China

STOCK CODE

02018

WEBSITE

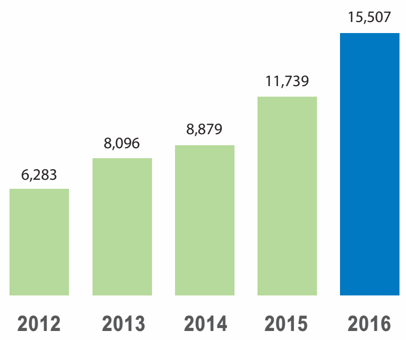
www.aactechnologies.com

FINANCIAL HIGHLIGHTS

(detailed financial summary of results and assets and liabilities of the Group for 2012-2016 on page 117)

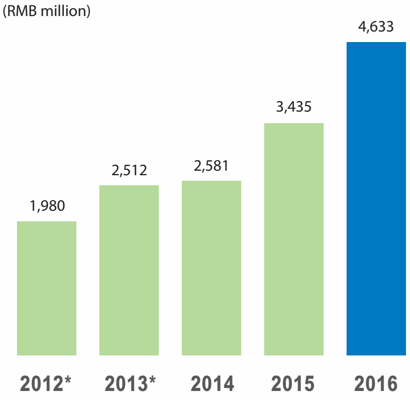
REVENUE

(RMB million)



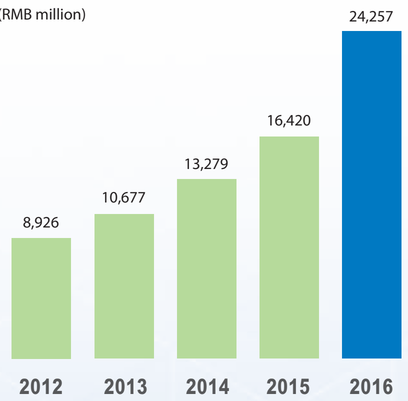
PRE-TAX PROFIT

(RMB million)



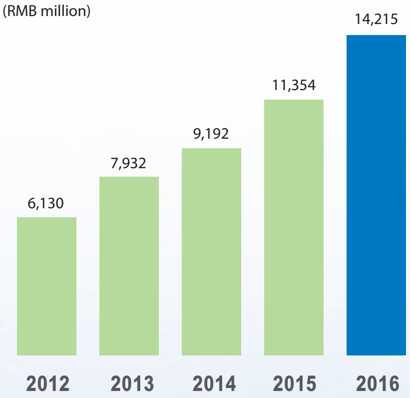
TOTAL ASSETS

(RMB million)



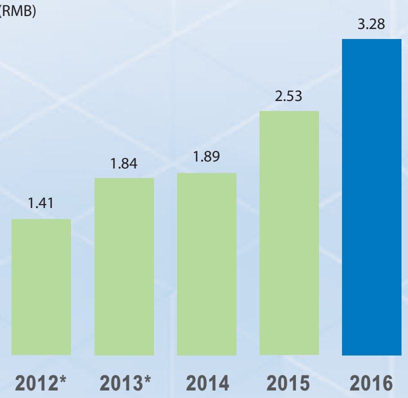
NET ASSETS

(RMB million)



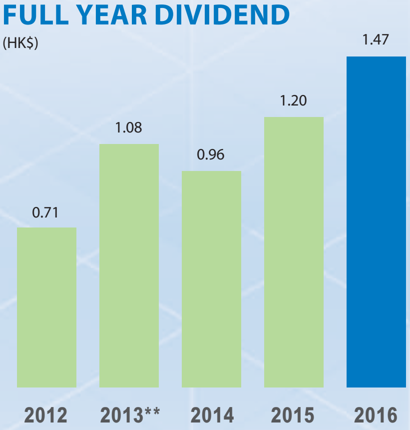
BASIC EARNINGS PER SHARE

(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,

2016 was another good year for AAC Technologies. We managed to grow sales year-on-year for seven years consecutively and reached a new milestone with total revenue exceeding RMB15 billion or US$2 billion. These strong results come amid a more saturated smartphone market. We have gradually evolved from an acoustic components supplier to an integrated miniature technologies solutions provider through the accomplishment of significant initiatives which pave the way for our long-term success.

The following were some of the major financial highlights for the year ended 31 December 2016:

- Revenue grew by 32% to RMB15,506.8 million and net profit rose by 30% to RMB4,025.7 million year-on-year, both are new highs;
- Dual growth drivers comprising sales of dynamic components and non-acoustic solutions which grew by 29% and 56% respectively year-on-year, and both delivered gross margins of 40+%;
- Annualized return on average equity (ROE) was 31.6%, up from 30.4% last year;
- Further strengthened balance sheet with cash on hand of RMB3,864.4 million, and, relatively low gearing ratio and net gearing of 16.9% and 0.9% respectively; and
- A proposed total dividend of HK$1.47 per share for 2016, representing 23% growth over the previous year.

We are glad that AAC Technologies has been included in the 50-constituent stocks of the Hang Seng Index from 5 September 2016 which reaffirms the market's recognition of our significant position in the technology sector of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Our market value hit a record high in August 2016, surpassing HK$100 billion for the first time. That was more than 30-times the market value of our IPO offering in 2005.

MARKET REVIEW

2016 was a significant year of technological advancements for the smart devices market. The worldwide thrust in innovative designs and interactive applications pushed handset makers to be more focused on the pursuit of better specifications and faster devices in order to optimize the user experience. Dual cameras and stereo speakers were among the best features to create better visual and audio entertainment. Moreover, further developments on enriching tactile feedback and stronger waterproof features were rolled out with high-end models. All of these innovations triggered a new cycle of upgrades for more sophisticated solutions.

While top-tier smartphones competed with individual innovations and differentiation, the mid- and low-tiers were inching closer towards delivering comparable higher specifications at affordable prices. The competition among dozens of new smartphones launched became very keen and replacement cycles have become shorter, driven by faster technology upgrades. Although global shipment growth was at a single-digit percent for smartphones, the market size was large, totaling 1.5 billion units for the year.

As always, AAC Technologies was at the vanguard of the technology migration by developing advanced acoustic solutions that enabled us to maintain our leading market position. At the same time, faster growth was achieved due to the traction from the non-acoustic segments. Our exceptionally strong design and production capabilities helped our customers respond to consumer demand and expectations for innovative features in a new generation of smart devices.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

We delivered another set of solid results in 2016 with continued growth momentum from both the acoustic and non-acoustic segments. The Company posted revenue and net profit of RMB15,506.8 million and RMB4,025.7 million, representing a rise of 32% and 30% year-on-year respectively. Gross margin stayed at a high level of 41.5%. A major upgrade trend involving stereo sound and waterproof features drove dynamic components sales, rising by 29% year-on-year and accounting for 51% of total sales. RF Mechanical together with Haptics solutions, the two distinct contributors in the non-acoustic business, grew by 56% year-on-year and contributed 45% of total sales in 2016 compared with only 1% in 2013. The Company's continuous and effective cost controls drove operating expenses down to 12.4% from 14.2% in 2015. Full year net profit margin of 26% was achieved.

We ended the year with strong revenue and earnings growth in the fourth quarter. Q4 revenue rose 49% year-on-year or 36% quarter-on-quarter to RMB5,736.5 million. Net profit of RMB1,570.7 million was recorded, up 55% when compared with the same quarter last year and up 43% against the previous quarter. The strong growth from non-acoustic revenue was the main contributor. Non-acoustic business grew by 73% sequentially, contributing over 56% of total sales in the fourth quarter of 2016 and exceeding acoustic revenue for the first time. Again, we demonstrated strong execution on the production front and exceptional capabilities in delivering advanced solutions to meet customers' requirements. Q4 gross margin was 41.7% and effective control of operating expenses supported the net profit margin improvement to 27.4%.

FINAL DIVIDEND

The Company continues to generate strong earnings and cash flow, further enhancing its already strong financial position, with cash balance at year-end of RMB3,864.4 million. The Board proposed a final dividend of HK$1.17 (2015: HK$0.95) per share. Together with the interim dividend of HK$0.30 per share, the full year basic dividend will be HK$1.47 (2015: HK$1.20) per share, an increase of 23% year-on-year. The Company maintains a consistent dividend payout ratio of about 40% per year.

Subject to Shareholders' approval at the forthcoming annual general meeting to be held on 24 May 2017, the said final dividend will be payable to Shareholders of the Company, whose names appear on the register of members of the Company on 9 June 2017. Payment will be made on or about 21 June 2017.

SUSTAINABILITY

AAC Technologies defines sustainability as a commitment to build a strong and successful business for the future, while minimizing negative environmental and social impacts, and sharing long-term values with its stakeholders. Sustainability has now gradually been incorporated into our business, not only to address today's pressing issues, namely climate change, talent acquisition and corporate transparency, but to create value for our operations. Our commitments and efforts are summarized in our annual Sustainability Report, and the fourth report is scheduled to be published on the websites of the Stock Exchange and the Company this May.

We promote a corporate culture of continuous learning, improvement, and innovation. Reflecting this culture, we successfully obtained 291 additional patents in 2016, of which 151 are for the non-acoustic segment, bringing our intellectual property portfolio to a total of 1,993 patents. We filed another 1,157 patent applications, which bring us to a total of 1,342 patents pending.

CHAIRMAN'S STATEMENT

PROSPECT

There are always many new developments in the technology sector. From rapid advancements in artificial intelligence for various applications to further progress in virtual reality (VR), augmented reality (AR) and machine learning – devices and applications are getting connected. The technological solutions and platforms are evolving at an unprecedented speed, helping people increase productivity and satisfaction. Mobile devices are expected to play a vital role in connecting and commanding the whole ecosystem. The focused portfolio of acoustic and non-acoustic solutions of the Company places it in a strong position to capitalize on the increasing demand for better performing smart devices.

In 2017, some high-tier customers are preparing for specifications upgrades to differentiate themselves in the competitive environment, while others will follow closely to strengthen their market position. We therefore expect attractive growth potential from both the acoustic and non-acoustic segments. Apart from superior technological capabilities for leading development of the industry, AAC Technologies owns integrated and multi-platform solutions. Not only has it helped consolidate our position as a leading provider of the most advanced solutions, but it has also increased the penetration of our new solutions from RF Mechanical, Optics and Haptics. When we strive to improve performance and product design, our solutions can also extend from the current major smartphone arena to other new applications. For VR and AR, audio and optical solutions together with RF designed mechanics and haptic feedback will bring totally immersive experiences that stimulate the human senses of sight and sound in addition to touch. We are capable of shipping total solutions for enhancing user experiences in these new areas.

Thanks to our well-defined development strategies and R&D focused vision, we believe we are able to achieve continuous revenue growth and stable high profitability. Product expertise and innovation will enable us to deliver new technology platforms with rich user experience and firmly establish us to be the leader of integrated miniature technologies provider. We will continue in our efforts to adapt to new challenges and achieve sustainable long-term growth for all shareholders in an ever-evolving market.

APPRECIATION

Lastly, on behalf of the Board, I would like to take this opportunity to express my sincere appreciation to all of our staff and management for hard work which has contributed to a good set of results and established a strong base for future growth. We are also grateful to our stakeholders for their 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
22 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY OVERVIEW

AAC Technologies is a total solution-provider utilising the latest miniaturized technology components across acoustic, haptic, radio frequency and optical segments. We are already an established leading global supplier of miniaturized acoustic components including a broad range of speakers, receivers and MEMS microphones. We deliver integrated solutions across multiple segments incorporating advanced proprietary technology haptics vibrators, RF Mechanical and optical components. Our products are found in smart devices such as smartphones, tablets, wearables and PC notebooks. We are global in scope with research and development centers and sales offices in key markets serving a large number of geographically diverse customers in the mobile electronics market.

As a technology company, AAC Technologies 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.

PERFORMANCE OF BUSINESS SEGMENTS

The Company is operating in the technology component industry which is characterized by rapid technological developments and specifications upgrade. In becoming an innovative solution provider, the Company has always worked closely with customers throughout the design, manufacturing and distribution processes, and nimbly 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, and varying market and industry conditions.

For the year ended 31 December 2016, the Group's total revenue reached RMB15,506.8 million, representing a year-on-year increase of 32%. Dynamic components remained the largest earnings contributor, delivering 51% of total sales, while the combined sales of Haptics and RF Mechanical business contributed 45% of total sales. AAC Technologies continues to build a diversified product portfolio to drive revenue growth with a more balanced customer portfolio.

Dynamic Components

Dynamic components are components that actively produce sound, including speaker boxes, speakers and receivers. In 2016, revenue of the dynamic components segment was RMB7,955.8 million, representing 51% of the total revenue and a year-on-year increase of 29%. Speaker box was the main revenue contributor, accounting for 29% of the total sales while receivers and speakers delivered 17% and 5% respectively. Overall gross margin improved to 45.5% from 40.1% last year.

Overall sales revenue of the three major product lines among dynamic components have different year-on-year outcomes reflecting stages of products specifications upgrade cycles and penetration market shares of individual customers: speaker boxes and receivers grew 27% and 72% respectively, while speakers down 22% compared to 2015. The increasing adoption of speaker boxes instead of speakers by Chinese customers mainly contributed to the growth of speaker boxes sales. Waterproof and stereo sound features of smartphones resulted in higher selling price of speaker boxes and receivers and stimulated growth of both product lines.

Haptics and RF Mechanical

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

During the 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 56% to RMB6,940.2 million from last year and contributed 45% of the total revenue. Haptics was the largest revenue contributor. Gross margin of this combined segment stood at 40.1%, down from 50.8% last year reflecting the impact of product mix changes and increasing production costs.

With more product launches by Chinese customers in 2016, RF Mechanical business delivered strong yearly growth through market expansion and share gain especially for RF metallic structure 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 unique integrated solutions that could fit in different form factor design and changes in material used.

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.

MEMS Components: MEMS Microphones

In 2016, this segment declined 46% year-on-year to RMB535.4 million which the Company have purposely de-emphasize in its product portfolio due to declining profitability, accounting for 3.5% of total sales. Gross margin achieved was 8.8%.

Other Products

Optics sales contribution together with some non-core components such as traditional microphones and headsets are included under this category. The total amounted to RMB75.4 million, or 0.5% of total sales during the period under review.

FINANCIAL REVIEW

Summary of Annual Results

AAC Technologies achieved a seventh consecutive annual sales record. During 2016, the Group delivered robust operating performance with the organic growth in both acoustic and non-acoustic business segments. Our financial position remained solid and the Company continues to maintain a strong and steady cash inflow from operating activities. The Group recorded a net operating cash inflow of RMB4,812.0 million. Total revenue rose to RMB15,506.8 million for the year ended 31 December 2016, up RMB3,767.9 million or 32.1% compared with 2015. Our overall gross profit reached RMB6,442.5 million, representing an increase of RMB1,570.4 million or 32.2% compared to 2015. Gross profit margin was 41.5% same as last year's level. Profit attributable to owners of the Company grew by 29.6% from RMB3,106.9 million in 2015 to RMB4,025.7 million this year. Basic earnings per share therefore increased 29.6% from RMB2.53 last year to RMB3.28 in 2016, consistent with the growth in profit attributable to owners of the Company.

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 2016, the Group's tax expenses were not impacted by any major changes in these taxation laws and regulations.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

Our Group continued to maintain a healthy liquidity position and continued to maintain a steady cash inflow from operating activities. Free cash flow from operation (i.e. EBITDA) to sales in 2016 stood at 36.6%, improving from 35.5% for 2015.

Cash and Cash Equivalents

As at 31 December 2016, the unencumbered cash and cash equivalents of the Group amounted to RMB3,864.4 million (2015: RMB2,223.9 million), of which 70.8% (2015: 44.9%) was denominated in US dollar, 26.8% (2015: 45.9%) was denominated in RMB, 0.6% (2015: 2.4%) was denominated in Japanese Yen, 0.4% (2015: 4.4%) was denominated in Hong Kong dollar, 0.2% (2015: 0.9%) was denominated in Euros and 1.2% (2015: 1.5%) was denominated in other currencies.

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.

Trade Receivables and Trade Payables

As at 31 December 2016, the turnover days of trade receivables dropped by 12 days to 95 days as compared to year-end of 2015. 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 RMB4,096.6 million (2015: RMB3,188.4 million), RMB363.3 million (2015: RMB311.6 million) and RMB59.5 million (2015: RMB33.1 million) respectively. We have received total subsequent settlement amounting to RMB3,842.0 million up till 28 February 2017, representing 85% of the total amount outstanding, net of allowances, as at the end of the reporting period.

During the year ended 31 December 2016, the Group has commenced legal proceedings against an emerging smartphone brand (the "Debtor") for settlement of the trade debts due from the Debtor. As part of the proceedings, the court has granted an injunction order in favor of the Group to freeze certain assets of the Debtor, amongst which includes bank balances. The Debtor has commenced negotiation with the Group to reach a settlement. Based on the value of the assets frozen by the court and the ongoing negotiation with the Debtor, the Directors are of the opinion that no provision is necessary for the amount due from the Debtor.

The Group's trade payables turnover days rose by 19 days to 121 days as compared to year-end of 2015. Aging of trade payables based on invoice dates between 0-90 days, 91-180 days and over 180 days were RMB3,459.4 million (2015: RMB1,728.2 million), RMB491.7 million (2015: RMB308.5 million) and RMB0.4 million (2015: RMB0.8 million) respectively. The Group monitors closely and will continue to improve on the management of its trade receivables and trade payables in order to better utilize the available financial resources.

Gearing Ratio and Indebtedness

As at 31 December 2016, the Group's gearing ratio was 16.9% (2015: 11%), which is calculated by dividing total loans and borrowings by total assets. Netting off cash and cash equivalents, net gearing ratio was 0.9%.

The short-term bank loans and long-term bank loans of the Group as at 31 December 2016 amounted to RMB3,303.3 million (2015: RMB1,158.9 million) and RMB789.1 million (2015: RMB648.7 million) respectively.

Charges on Group Assets

Apart from bank deposits amounting to RMB111.1 million that were pledged to banks mainly to purchase fixed assets for Optics business as at 31 December 2016 (2015: RMB0.1 million), no other Group assets were charged to any financial institutions.

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 and capital expenditure of the Group.

Capital Expenditure

The Group continues to invest in capital expenditure during the period to capture new market opportunities and support its long-term business strategies. For the year ended 31 December 2016, capital expenditure incurred by the Group amounted to RMB4,137.6 million (2015: RMB2,420.9 million), mainly for the acquisition of property, plant and equipment for capacity expansion in both acoustic and non-acoustic business segments. The Group will invest a higher proportion of capital expenditure on the non-acoustic business segments to strengthen our technology capabilities in this area. Capital expenditures are generally funded by internal resources.

HUMAN RESOURCES

As at 31 December 2016, the Group employed 46,396 permanent employees, an increase of 30% from 35,687 as at 31 December 2015, 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. In addition to the basic salaries, allowances, social insurance and mandatory pension fund contribution, employee remuneration also includes bonuses and share award scheme. 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.

SHARE AWARD SCHEME

As announced by the Company on 23 March 2016, the Board resolved to adopt a share award scheme (the "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% (i.e. 20,262,000 shares) 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% (i.e. 6,140,000 shares) 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 Bank of Communications Trustee Limited (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 Rules Governing the listing of Securities on the Stock Exchange (the "Listing Rules"), and is a discretional scheme of the Company.

Since the date of adoption of the Scheme and up to 31 December 2016, no shares had been subscribed or purchased by the Trustee pursuant to the rules and trust deed of the Scheme and no shares had been granted to Selected Employee(s) under the Scheme.

The capitalized terms referred in this section shall have the same meanings as those defined in the announcement made by the Company on 23 March 2016 relating to the adoption of the Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY RISK FACTORS

Some key risks factors and uncertainties affecting the Group are outlined below. The list is non-exhaustive and there may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may be immaterial now but could become material in the future. Besides, this document 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.

To tackle this, the Company is continuously widening its product and technologies platforms to extend its reach to different end applications, so as to diversify the sources of revenue and profit to reduce its dependency on any single segment.

Reliance on a small number of Key Customers

The Group's five largest customers, which accounted for 74% of the Group's total revenue, are all related to the dynamic consumer mobile devices industry, characterized by cycles of convergence and emergence of new brands. Loss of or changes in market positions of any of these customers may materially and adversely affect the Group's business, financial condition and results of operations.

Nevertheless, the Group has strong established relationships with these major customers; four of them have been our customers for over 4 years and the remaining one, an emerging smartphone brand who has already been our customer for more than 2 years.

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.

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. Whilst our business has been built on focusing on miniature acoustic components, the Group has been endeavoring to develop new products and technologies platforms. In meeting future design specifications and production quality requirements, our successful track records would not be able to assure we have the same continual success in miniature acoustic components. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

We believe that the Company has a seasoned process in approaching meeting design specifications and quality requirements and there are many over-lapping core design and production competencies that the Company is leveraging on. This will put the Company on the best competitive position in terms of design capacity and timeliness to deliver. In addition, the Company constantly reviews competition and market trends. The Company is committed to innovation and has consistently reinvested significant resources on research and development in the recent five years to build broad solution and intellectual property portfolios and maintain a competitive position. The Company has put in place a quality management system. All products are subject to thorough and comprehensive testing to meet customers' requirements and international standards. The Company will continue to improve internal process capability and set up a solid base for continual improvement in product reliability.

Foreign Exchange Risks

The Group's reporting currency is Chinese Renminbi (RMB) and our sales to overseas customers are predominantly denominated in US currency (USD), therefore the Group is exposed to exchange rate risks that could impact financial reporting results.

The cash flow revenue income to the Group in denominations of the two currencies are mostly, over time, in balanced proportions. In addition, various corresponding banking borrowing facilities have been arranged in these two currencies, namely, RMB and USD, to meet our daily operating expenses and capital investment requirements.

Hence, in our operating business model, the Group's revenue is mostly matched to the currencies of the outlay; which in the past few years, had mitigated the impact of foreign exchange fluctuations.

PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

The performance and the results of operation of the Group as set out in this document are historical in nature and past performance is not a guarantee of future performance. This document 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 document; 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.

Since listing, the Company has been making quarterly results announcements. The Company has experienced, and expects to continue to experience, fluctuations in sales and results of operations from one quarter to the next. We believe that quarter-to-quarter comparisons of our results of operations are, to some extent, meaningful to reflect cyclical and seasonal nature of the industry the Company operates in. However, such comparisons should not be relied upon as sole indicators of the longer term performance such as annual results.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Benjamin Zhengmin Pan ("Mr. Pan"), aged 48, 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 Listing Rules) 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 1 July 2015) 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%

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 representing the aggregate of (a) 134,828,594 shares which are beneficially owned by Sapphire Hill Holdings Limited, a company wholly-owned by Ms. Wu; and (b) 127,991,931 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 10 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 10 May 2005. Two children of Mr. Pan and Ms. Wu both 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 53, 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 1 April 2014) 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.

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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Ms. Wu, aged 46, is a non-executive Director of the Company and a member of the Audit and Risk Committee of the Company (the "Audit and Risk 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. She is currently a director of 瀋陽中北通磁科技股份有限公司 (Shenyang General Magnetic Co., Ltd.) in China.

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$66,300 per year 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/interest of controlled corporation	495,317,652 (Note)	40.34%

Note:

Ms. Wu beneficially owns 127,991,931 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes of the SFO:

(i) 134,828,594 shares which are beneficially owned by Sapphire Hill Holdings Limited, a company wholly-owned by Ms. Wu;

(ii) 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

(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 10 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 10 May 2005. Two children of Mr. Pan and Ms. Wu both 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 66, 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 and Risk Committee. Mr. Koh has been appointed to the Board since 9 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.

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$139,000 per year 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 70, 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 11 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$56,200 per year 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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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 62, was appointed as an independent non-executive Director, the Chairman of the Audit and Risk Committee and a member of the Nomination Committee of the Company on 5 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 was the former Chairman of Hang Seng Index Advisory Committee of Hang Seng Indexes Company Limited, former member of the board of Inland Revenue of Hong Kong Special Administrative Region and the Environmental and Conservation Fund Investment Committee, and a former committee member of the Chinese General Chamber of Commerce. 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$89,300 per year 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.

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 69, 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 3 May 2010. She was appointed as an independent non-executive director of Semiconductor Manufacturing International Corporation on 1 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$52,900 per year 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.

SENIOR MANAGEMENT

Mr. Jack Y. Duan ("Mr. Duan"), aged 44, is the chief operating officer of the Company effective from 1 October 2014. Mr. Duan joined the Company on 1 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 57, 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 31 December 2016.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 39 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 6 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 34 to the consolidated financial statements. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2016 are provided in note 40 to the consolidated financial statements. 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 117 of this annual report. In addition, discussions on the Group's environmental, social and governance policies, 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 30 to 52. The sustainability report for 2016 will be available on the Company's corporate website in May 2017.

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 58.

An interim dividend of HK$0.30 was paid during the year. The Directors have resolved to recommend the payment of a final dividend of HK$1.17 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 12 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of the retained earnings, the share premium accounts and the contributed surplus which amounted to RMB2,169,950,000 (2015: RMB1,859,134,000). 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 27 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, Mr. Pan, Mr. Poon and Ms. Chang 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 23 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, Dato' Tan and Ms. Chang has entered into a letter of appointment with the Company for a term from the date of 2015 annual general meeting held on 18 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 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 13 to 19.

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

As at 31 December 2016, 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 31 December 2016
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/interest of controlled corporation	127,991,931	–	134,828,594	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 representing the aggregate of (a) 134,828,594 shares which are beneficially owned by Sapphire Hill Holdings Limited, a company wholly-owned by Ms. Wu; and (b) 127,991,931 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 10 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 10 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 127,991,931 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes of the SFO:

(i) 134,828,594 shares which are beneficially owned by Sapphire Hill Holdings Limited, a company wholly-owned by Ms. Wu;

(ii) 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

(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 10 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 10 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 31 December 2016, 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 AWARD SCHEME

As announced by the Company on 23 March 2016, the Board 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% (i.e. 20,262,000 shares) 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% (i.e. 6,140,000 shares) 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 discretional scheme of the Company.

Since the date of adoption of the Scheme and up to 31 December 2016, no shares had been subscribed or purchased by the Trustee pursuant to the rules and trust deed of the Scheme and no shares had been awarded to Selected Employee(s) under the Scheme.

The capitalised terms used in this section shall have the same meanings as those defined in the announcement made by the Company on 23 March 2016 relating to the adoption of the Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Same as disclosed in this annual report, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors 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 2016, the Group had entered into the continuing transactions with certain connected persons of the Company to be reported in this section. They constituted non-exempt continuing connected transactions subject only to the announcement, reporting and annual review requirements under Chapter 14A of the Listing Rules.

2014 Lease Agreements

The Group entered into certain lease agreements ("2014 Lease Agreements") with respective lessors for the lease of offices and production facilities necessary for the business activities of the Group on 20 December 2013 (as amended by subsequent supplemental agreements). A brief recap of the transactions is as follows:

Date of agreement	Lessee	Lessor	Location of premises and usage	Term	2016 Annual Cap RMB'000	2016 Actual RMB'000
20.12.2013	The Group	江蘇遠宇電子集團有限公司 (Jiangsu Yuanyu Electronics Group Co., Ltd.) ("Jiangsu Yuanyu")	Yuanyu Technologies Building, Science & Education Mega Centre, Changzhou, Jiangsu Province, PRC	1.1.2014 – 31.12.2016	9,104	5,931
20.12.2013	The Group	深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd.) ("Shenzhen Yuanyu")	1) 5-7/F, Block 6, Nanyou Tian'an Industry Zone, Nanshan, Shenzhen, PRC 2) 1A01, 6-10A, 6-8C, Roof A, Nanda Building, Nanshan, Shenzhen, PRC	1.1.2014 – 31.12.2016	17,451	12,126
20.12.2013	The Group	Ms. Ye Huamei	6/F, Block 5, 1A, 2A&B, 3C, 3D03, Block 8, Nanyou Tian'an Industry Zone, Nanshan, Shenzhen, PRC	1.1.2014 – 31.12.2016	4,416	2,345
20.12.2013	The Group	常州來方圓電子有限公司 (Changzhou Laifangyuan Electronics Co., Ltd.) ("Changzhou LFY")	Nanxiashu Town, Wujin District, Changzhou, Jiangsu Province, PRC	1.1.2014 – 31.12.2016	1,993	1,860

2014 Purchase Agreements

The Group entered into certain purchase agreements ("2014 Purchase Agreements") with respective supplier for the purchase of raw materials necessary for the production activities of the Group on 20 December 2013. A brief recap of the transactions is as follows:

Date of agreement	Purchaser	Supplier	Materials for purchase	Term	2016 Annual Cap RMB'000	2016 Actual RMB'000
20.12.2013	The Group	常州中科來方能源發展有限公司 (Changzhou Zhongke Laifang Power Development Co., Ltd.) ("Changzhou ZKLF")	Electrolyte separator materials	1.1.2014 – 31.12.2016	40,000	–
20.12.2013	The Group	成都茵地樂電源科技有限公司 (Chengdu Yindile Power Technologies Co., Ltd.) ("Chengdu Yindile")	Aqueous binders	1.1.2014 – 31.12.2016	7,000	–
20.12.2013	The Group	常州市武進湖塘何家紅光沖件廠 (Wujin Hutang Hejia Hongguang Stamping Factory) ("HGCJ")	Packaging and stamping materials	1.1.2014 – 31.12.2016	34,000	18,832
20.12.2013	The Group	常州市友晟電子有限公司 (Changzhou Yousheng Electronics Co., Ltd.) ("Changzhou Yousheng")	Acoustic component parts e.g. domes, ear cushions, insulation mats and resistance neeb	1.1.2014 – 31.12.2016	93,000	52,744
20.12.2013	The Group	常州遠宇精密模具製造有限公司 (Changzhou Yuanyu Precise Model Manufacturing Co., Ltd.) ("Changzhou Model")	Supplement materials in manufacturing process e.g. modules and stamping components of acoustic products	1.1.2014 – 31.12.2016	90,000	47,736

2017 Lease Agreements

In view of the expiry of the 2014 Lease Agreements and to continue to secure ongoing and future office and production premises as required, the Group entered into new master lease agreements ("2017 Lease Agreements") with the respective connected person lessor groups providing the framework for renewal of the existing leases and to include new lease of premises. A brief recap of the transactions is as follows:

Date of agreement	Lessee	Lessor	Location of premises	Term	Annual Caps RMB'000	Renewal/New
16.12.2016	The Group	Jiangsu Yuanyu	Yuanyu Technologies Building, Science & Education Mega Centre, Changzhou, Jiangsu Province, PRC	1.1.2017 – 31.12.2019	2017 – 10,607 2018 – 10,607 2019 – 10,716	Renewal
16.12.2016	The Group	Shenzhen Yuanyu	1A01, 6-10A, 6-8C, Roof A, Nanda Building, Nanshan, Shenzhen, PRC	1.1.2017 – 31.12.2019	2017 – 12,168 2018 – 12,168 2019 – 12,168	Renewal
16.12.2016	The Group	Changzhou LFY	Nanxiashu Town, Wujin City, Changzhou, Jiangsu Province, PRC	1.1.2017 – 31.12.2019	2017 – 2,357 2018 – 2,357 2019 – 2,395	Renewal
16.12.2016	The Group	紅光(越南)塑業有限公司 (Hongguang Viet Nam Plastic Company Limited) ("HVPC")	Lot E3-3 Que Vo IP, Van Duong Commune, Bac Ninh city, Bac Ninh Province, Viet Nam	1.1.2017 – 31.12.2019	2017 – US$232,512 2018 – US$232,512 2019 – US$232,512	New

2017 Purchase Agreements

Likewise, in view of the expiry of the 2014 Purchase Agreements and the continuance of existing production needs of the Group, the Group entered into new master purchase agreements ("2017 Purchase Agreements") with the relevant connected person supplier groups to continue to assure the supply of production materials to cope with its expected production needs on similar terms. A brief recap of the transactions is as follows:

Date of agreement	Purchaser	Supplier	Materials for purchase	Term	Annual Caps RMB'000	Renewal/New
16.12.2016	The Group	HGCJ	Packaging and stamping materials e.g. foam blocks, plastic boards, etc.	1.1.2017 – 31.12.2019	2017 – 52,760 2018 – 73,864 2019 – 92,670	Renewal
16.12.2016	The Group	Changzhou Yousheng	Acoustic component parts e.g. adhesives, domes and mesh	1.1.2017 – 31.12.2019	2017 – 76,050 2018 – 91,260 2019 – 100,620	Renewal
16.12.2016	The Group	Changzhou Model	Supplement materials in manufacturing process e.g. modules and stamping components of acoustic products	1.1.2017 – 31.12.2019	2017 – 58,500 2018 – 81,900 2019 – 105,300	Renewal
16.12.2016	The Group	成都中科來方能源科技有限公司 (Chengdu Zhongke Laifang Power Science & Technology Co., Ltd.) ("Chengdu ZKLP")	Materials e.g. chemical materials	1.1.2017 – 31.12.2019	2017 – 35,100 2018 – 58,500 2019 – 93,600	New

The independent non-executive Directors had reviewed the continuing connected transactions in 2016 and are satisfied that the transactions were entered into by the Group (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) that the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company has engaged its external auditor to review 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 Directors also confirmed the auditor had confirmed the matters set out in rule 14A.56 of the Listing Rules regarding the continuing connected transactions for the year ended 31 December 2016.

Other than as disclosed above, no transactions, arrangements or 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.

The Connected Relationship

The relevant parties to the above continuing connected transaction with the Group and a description of their connected relationship with the Group are as follows:

The connected person	The connected relationship
Jiangsu Yuanyu	A company indirectly owned by Mr. Pan Zhonglai, father of Mr. Pan ("Mr. Pan's Father") and Ms. Xie Yufang, mother of Mr. Pan ("Mr. Pan's Mother") as to 51.72% and Mr. Pan's Father as to 48.28%
Shenzhen Yuanyu	A company wholly-owned by Ms. Ye Huamei, mother of Ms. Wu ("Ms. Wu's Mother")
Ms. Ye Huamei	Ms. Wu's Mother
Changzhou LFY	A company owned by Mr. Pan's Father and Mr. Pan's Mother each as to 50%
Changzhou ZKLF	A wholly-owned subsidiary of Jiangsu Yuanyu
Chengdu Yindile	An indirect subsidiary of Jiangsu Yuanyu
HGCJ	A company wholly-owned by Ms. Wu's Mother
Changzhou Yousheng	A company owned by Mr. Pan's Mother as to 30% and Ms. Pan Lijun, sister of Mr. Pan as to 70%
Changzhou Model	A company wholly-owned by Mr. Pan's Father
HVPC	A subsidiary of HGCJ
Chengdu ZKLP	A subsidiary of Jiangsu Yuanyu

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the year are set out in note 37 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 31 December 2016, 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 31 December 2016
JPMorgan Chase & Co.[1]	Beneficial owner/Investment Manager/ Trustee/Custodian corporation/ Approved lending agent	183,452,041(L) 1,114,542(S) 27,490,726(P)	3,104,290(L) 573,042(S) –	14.93% 0.09% 2.23%
The Capital Group Companies, Inc.[2]	Interest of controlled corporation	123,277,707(L)	–	10.04%

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

Notes:

(1) JPMorgan Chase & Co., through its various 100% controlled corporations ("JPMorgan Group"), is interested in (i) an aggregate of 183,452,041 shares and listed derivative interests of 693,290 shares and unlisted derivative interests of 2,411,000 shares with physically settled in long position; and (ii) an aggregate of 1,114,542 shares and unlisted derivative interests of 475,442 shares with physically settled and 97,600 shares with cash settled in short position. Among them, 111,555,772 shares held by JPMorgan Group as a trustee, including 111,545,122 shares held by J.P. Morgan Trust Company of Delaware which were represented the same batch of other interests of Mr. Pan and Ms. Wu as disclosed in the section of "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 27,490,726 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) 123,277,707 shares in long position are 100% held by Capital Research and Management Company. 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 123,277,707 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 the Group including senior management and Directors of the Company. Responsibilities and work performed in 2016 by the Remuneration Committee are stated on pages 38 to 40 in the Corporate Governance Report.

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 31 December 2016.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 74.4% of the Group's total revenue from sales while the revenue from sales attributable to the Group's largest customer was approximately 47.2% of the Group's total revenue from sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers were 29.1% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 9.3% 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

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 31 December 2016 and has continued to maintain the public float as at the date of this annual report.

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
22 March 2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE POLICY AND PRACTICES

The Board and the Company are committed to achieving high standards of corporate governance that properly protect and promote the interests of the shareholders ("Shareholders") and other stakeholders of the Company. We also believe that this is essential for the Company's sustainable long term performance and value creation.

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 established internal processes will enable the Company to comply with applicable statutory and regulatory requirements. And, where appropriate, to exceed them by embracing the latest best and recommended 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. It 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. Corporate Governance Code
IV. Legal and Regulatory Compliance
V. Sustainability
VI. Internal Audit, Risk Management and Internal Control
VII. External Audit
VIII. Code of Conduct and Whistleblowing Policy
IX. Shareholders Engagement and Value
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 central responsibilities are to evaluate, formulate and regulate the strategic direction of the Company, to plan Board, Chairman and Chief Executive Officer ("CEO") succession, and to oversee the Company's management and business activities, including remuneration, risk management, compliance and internal control systems. 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 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 new 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 of continuing connected transactions;
- reviewed and adopted revised terms of reference for the Audit Committee (renamed Audit and Risk Committee with effect from 22 March 2017 with revised Terms of Reference), Remuneration Committee, Nomination Committee and Board & Directors' Duties;
- reviewed and adopted amended articles of association of the Company;
- reviewed accounting principles and practices and approved the relevant quarterly, interim and annual results and financial statements and the related announcements;
- reviewed and recommended 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 and modified the Segregation of Duties between Chairman & CEO;
- reviewed and modified the Board Diversity Policy;
- reviewed and modified 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;
- reviewed and approved the new Environmental, Social and Governance (ESG) policy;
- approved and published our 3rd annual Sustainability Report for the year 2015;
- reviewed and approved the proposal on the remuneration of the Directors and share award scheme recommended by Remuneration Committee;
- reviewed and approved the recommendations made by the Nomination Committee; and
- reviewed the follow up actions of evaluation of the Board Performance.

CORPORATE GOVERNANCE REPORT

Board Leadership Structure

The Board is committed to maintaining an independent Board comprising a majority of four independent non-executive Directors, two executive Directors, and a non-executive Director. To enhance the independence of the Board from management, we separate the roles of our CEO, Mr. Pan, and Chairman of the Board, Mr. Koh, an independent non-executive Director since the first date of listing. We believe that this leadership structure demonstrates our commitment to good corporate governance and benefits our Shareholders of the Company by enhancing the oversight of management by the Board, and encouraging balanced decision making.

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, and under the section of Biographies of Directors and Senior Management of this annual report on pages 13 to 19.

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 functioning of the Board as a whole. In common with all Directors, she is aware of her responsibilities as a Director to all Shareholders. The Company's strong Shareholders Engagement program ensures that in the unlikely event that interests of the major Shareholder and other Shareholders are not aligned, the Board would take heed on a timely basis.

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. 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 2017 which was approved in a Board meeting held in Singapore. In addition, the non-executive Directors held meetings in the absence of the executive Directors during 2016 to evaluate the performance of the executive Directors and the effectiveness of the Board on 23 March and 26 August 2016.

Board Meetings and Committees

During the financial year ended 31 December 2016, the Board convened a total of 5 Board meetings and the annual general meeting. Each Director is expected to attend each meeting of the Board and the committees of the Board (the "Committees") on which he or she serves. No Director attended (i) less than 80% of the aggregate of the total number of Board meetings and (ii) less than 75% of the total number of meetings held by all Committees on which he or she served. Directors are also expected to attend the Company's annual general meeting of Shareholders or otherwise absent with a valid reason. 5 out of 7 Directors attended the Company's 2016 annual general meeting of Shareholders.

CORPORATE GOVERNANCE REPORT

Attendance of the Directors at Board meetings and annual general meeting during the year are as follows:

Directors	Attendance/ 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)	4/5	1/1
Mr. Poon Chung Yin Joseph	5/5	–/1
Dato' Tan Bian Ee	5/5	1/1
Ms. Chang Carmen I-Hua	4/5	–/1

Sufficient notice of 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 receive 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 opened for inspection by the Directors and the external auditors.

In addition to attendance at meetings and review of papers and circulars sent by the management, including regular legal and regulatory updates, all Directors recognized the importance of continuous professional development. During the year ended 31 December 2016, the Company also arranged corporate finance actions update briefing organized by external professional institute which were attended by all Directors. All Directors had provided to the Company records of training they received during the year. 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. Set out below are the details of all Directors' participation in continuous professional development during the financial year ended 31 December 2016:

Directors	Self-reading of regulatory & capital markets updates	Attending in-house briefing by the Company	Training/ Seminars by professional institutions
Executive Directors			
Mr. Benjamin Zhengmin Pan (CEO)	√	√	√
Mr. Mok Joe Kuen Richard	√	√	√
Non-executive Director			
Ms. Ingrid Chunyuan Wu	√	√	√
Independence Non-executive Directors			
Mr. Koh Boon Hwee (Chairman)	√	√	*
Mr. Poon Chung Yin Joseph	√	√	√
Dato' Tan Bian Ee	√	√	√
Ms. Chang Carmen I-Hua	√	√	√

* Mr. Koh Boon Hwee perused the training materials subsequently of a training conducted by a professional institution he did not physically attend.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established individual 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 and comprising a majority of independent non-executive Directors, are:

- Audit and Risk Committee (renamed from Audit Committee on 22 March 2017 with revised Terms of Reference);
- 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.

Board and Committees Evaluation

In March 2016, the Board, Audit and Risk Committee, Nomination Committee and Remuneration Committee underwent an annual evaluation of their effectiveness and performance with regard to the year 2015. Board and Committee members were invited to complete a questionnaire. Results of the evaluation were subsequently reviewed by the Board. The results of the evaluation were such that the Board and all Committees were found to be operating effectively, nothing significant had affected Board performance and no material issue needed to be tabled for discussion. The reporting of matters by all the Committees to the Board were found to be clear and adequate.

Audit and Risk Committee

The Audit and Risk 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 and Risk Committee's responsibilities include the oversight of the integrity of the Company's financial statements and assisting the Board in the evaluation of management in the design, implementation and monitoring of the Company's risk management, compliance and internal control systems on an ongoing basis. The Audit and Risk Committee needs to oversee management while ensuring that it does not step into the management's role. The Audit and Risk 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 and Risk 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 and Risk Committee oversees the relationship and coordination between the Company, internal auditor and external auditor.

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. That would enable our Shareholders to be better informed about the performance and business progress of the Company with its quarterly reporting. The Audit and Risk Committee is involved in the review of the quarterly, half-yearly and annual results and the related announcements. It meets at least four times a year and whenever required, and meets the external auditor at least twice a year and in the absence of management at least once a year.

CORPORATE GOVERNANCE REPORT

During the financial year ended 31 December 2016, the Audit and Risk Committee held 4 meetings and the Audit and Risk Committee Chairman had an additional audit planning meeting in 2016 with executive Director and the internal auditor to review the three year cycle audit plan and other governance matters. An additional meeting with chairman of the committee was held on 12 January 2017 to prepare for the agenda items for the March 2017 Audit and Risk Committee meeting that reviewed the 2016 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	3/4

Between 1 January 2016 and the date of this annual report (the "Relevant Period"), the Audit and Risk 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 Audit and Risk Committee reviewed the financial statements for the year ended 31 December 2016, including the Group's adopted accounting principles and practices, and significant judgment and estimation issues, in conjunction with the internal and external auditors. The Audit and Risk Committee also reviewed the compliance by the Company with the CG Code throughout the year ended 31 December 2016. All continuing connected transactions/connected transactions were first reviewed by the Audit and Risk Committee before recommending to the full Board, including all independent non-executive Directors, for approval and action.

The work performed by the Audit and Risk Committee in 2016 included reviews of:

- the 2015 annual report including the Corporate Governance Report, the Directors' Report and financial statements for the year ended 31 December 2015 and the annual results announcement, with a recommendation to the Board for approval;
- the 2016 first quarterly results including the Group's first quarterly financial statements for the three months ended 31 March 2016 and the relevant results announcement, with a recommendation to the Board for approval;
- the 2016 interim report including the Group's interim financial statements for the six months ended 30 June 2016 and the interim results announcement, with a recommendation to the Board for approval;
- the 2016 third quarterly results including the Group's third quarterly financial statements for the nine months ended 30 September 2016 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 31 December 2015 and throughout the six months ended 30 June 2016;
- the Company's compliance with the Listing Rules, Companies Laws of the Cayman Islands, Hong Kong Companies Ordinance and Securities and Futures Ordinance throughout the year ended 31 December 2016. To the best of knowledge of the Audit and Risk Committee's members, no breaches were identified;

- the report and management letter submitted by external auditor, which summarized matters arising from the audit on the Group for the year ended 31 December 2015, including auditing, accounting and tax matters, and internal controls, together with management's progress in addressing matters raised, and the confirmation from external auditor that there were no high risk matters identified which were not satisfactorily resolved or being addressed;

- the pro forma "long form" independent auditor's report for the 2016 financial statements;

- the audit fees payable to external auditor for the year ended 31 December 2015 and external auditors' scope, plan and fees for the year ended 31 December 2016 with a recommendation for approval by the Board;

- the effectiveness of the external auditor giving due consideration to the quality and contents of their reports to the Audit and Risk Committee, feedback from management and compliance with relevant regulatory and professional requirements, with a recommendation for their re-appointment for the financial year 2016, subject to final approval by Shareholders (given on 30 May 2016);

- 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;

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

- the IT and cyber risks referencing CoBit (Control Objectives for Information and related Technology) and CSC (Critical Security Control) frameworks specially;

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

- the risk management system;

- the internal controls reviewed by Internal Audit with regard to connected transactions; and

- the whistleblowing reports.

On 17 March 2017, the Audit and Risk Committee reviewed this annual report, including the Corporate Governance Report, the Director's Report and financial statements for the year ended 31 December 2016 and the annual results announcement with a recommendation to the Board for approval. The Audit and Risk Committee reviewed changes in accounting policies arising from revised financial reporting standards, the internal audit review for 2016 and internal audit plan for 2017. It met with the external auditor and discussed the audit 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-executive Directors, 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, succession planning for Chairman and CEO. The committee is also consulted upon the hiring, promotion and appointment of senior management.

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. Criteria include 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 one meeting during the year ended 31 December 2016 to review the structure, size and composition of the Board and Board Diversity Policy, to assess the independence 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 meetings
Dato' Tan Bian Ee	1/1
Mr. Poon Chung Yin Joseph	1/1
Ms. Chang Carmen I-Hua	1/1

The Nomination Committee had 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 had reviewed the Board composition to ensure that the Company meets the Board diversity required by the Listing Rules. Its terms of reference had been reviewed, revised and 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 had 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 was 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 13 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 13 to 16 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.

CORPORATE GOVERNANCE REPORT

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 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">11-15 (4)</td><td colspan="3">6-10 (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 and Ms. Chang (both independent non-executive Directors).

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 2016 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 2015 and 2016 and Group targets for 2016 and 2017;
- senior executive remuneration, including annual incentive payments for 2014 and 2015 and annual pay review for 2016 and 2017; 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 one meeting during the year ended 31 December 2016. Details of the attendance of its meetings are as follows:

Members	Attendance/ Committee meetings
Mr. Koh Boon Hwee	1/1
Dato' Tan Bian Ee	1/1
Ms. Chang Carmen I-Hua	1/1

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 8 to the financial statements.

Director Compensation Arrangements

Non-employee Directors receive only cash compensation. Directors who are employed by the Company do not receive any additional compensation for their Board service. Independent non-executive Directors may not receive consulting, advisory, or other compensatory fees from the Company in addition to their Board compensation.

The compensation amounts of the Directors are reviewed on an annual basis and recommended by the Remuneration Committee and approved by the Board, having regard to the individuals' qualifications, experience, responsibilities and comparable market benchmarks.

The current non-employee Directors' remuneration was increased on 1 January 2016 and the following table sets forth, by responsibilities for their Board service, the annual Directors' fees paid in cash to non-employee Directors during the fiscal year ended 31 December 2016:

Director Compensation Retainers	
Annual Director Retainer	US$46,300
Board Chairman Annual Retainer	US$66,100
Audit and Risk Committee Chairman Annual Retainer	US$39,700
Audit and Risk Committee Member Annual Retainer	US$20,000
Remuneration Committee Chairman Annual Retainer	US$6,600
Remuneration Committee Member Annual Retainer	US$3,300
Nomination Committee Chairman Annual Retainer	US$6,600
Nomination Committee Member Annual Retainer	US$3,300

The Company also reimburses non-employee Directors for all reasonable out-of-pocket expenses incurred for attending Board and Committee meetings.

Group Emolument Arrangements

The emlouments of the Group including senior management team are considered having regard to their qualifications, experience, responsibilities, comparable market benchmarks, the Company's operating results and individual performance. In particular, the emoluments of the senior management team are reviewed and recommended by the Remuneration Committee and approved by the Board.

The remuneration of members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration bands	Number of individuals
HK$5,000,001 to HK$5,500,000	1
HK$14,000,001 to HK$14,500,000	1

Share Award Scheme

The Company on 23 March 2016 had adopted the AAC Share Award Scheme (the "Scheme") constituted by a Trust Deed between the Company and Bank of Communications Trustee Limited (the "Trustee") as trustee, in which employees, including Directors, may be selected by the Board to participate. Pursuant to the Scheme, shares of the Company will be subscribed for at a subscription price as determined by the Board, or purchased on the Stock Exchange, by the Trustee.

On the grant of the share awards, the relevant number of shares is legally issued or transferred to the Trustee who holds the shares for the benefit of the selected employees. A grantee shall not have any interest or rights (including the right to receive dividends) in the shares prior to the vesting of the shares.

The expenses in relation to the share awards are charged to profit or loss over the relevant vesting periods with a corresponding increase in share award reserve.

During the period, no new shares have been issued to the Trustee and no shares of the Company had been purchased by the Trustee nor any share awards had been granted to any employees.

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 to the Listing Rules for the financial year ended 31 December 2016. 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 the 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 and Risk 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 requirement of Listing Rules of having at least one-third of the Board comprising independent non-executive Directors well before the effective date of 31 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.

CORPORATE GOVERNANCE REPORT

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 Stock Exchange Listing Rules and disclosure requirements under the Companies Ordinance.

The Company seeks to abide strictly by the governing laws and regulations of the jurisdictions where it operates through its subsidiaries or branches 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 31 December 2016. 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 ESG issues. Our 3rd annual issue of the sustainability report for the year ended 31 December 2015 was published on the websites of the Stock Exchange and the Company in May 2016. We have also pro-actively requested and interacted with our stakeholders for their feedback on the report. 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.

SUSTAINABILITY

Striving to Create Value from ESG Management

Sustainability is an important part of our business, not only to address today's pressing issues, namely climate change, talent acquisition and corporate transparency, but to create value for our operations. The Company's ESG management is led by the CEO and the executive Director, which is further cascading down to respective departments and divisions which are responsible for day-to-day management and operations. The Company has included ESG factors as a strategic consideration in its decision-making in which responsible department heads are charged with the tasks of identifying, assessing and mitigating current and potential ESG risks and opportunities.

Detailed ESG performances will be published in our 4th sustainability report which can be found on the websites of the Stock Exchange and the Company in May 2017. This report in many respects exceeds the disclosure requirements of the ESG Reporting Guide set out in Appendix 27 to the Listing Rules.

Environmental Management

The Company has strictly complied with the environmental laws and regulations in locations where we have operations in 2016. And our major manufacturing bases in the PRC have obtained ISO 14001 environmental management system certification. The Company endeavors to continue to identify, assess and control potential and existing risks, and monitor all relevant environmental performances. This year, we merged our Sewage Management Unit and the Solid Waste Unit together under the Department of Environmental Management, attempting to achieve efficient synchronous treatment of effluent and waste.

As we continue to expand our operations, we stay vigilant in any regulatory changes. The Company embraces the upcoming implementation of the Environmental Protection Tax (EPT) Law in the PRC which will be effective from 1 January 2018. We will take all necessary action to review and manage our business operation in order to comply with the EPT Law.

CORPORATE GOVERNANCE REPORT

In 2016, the Company fostered a closer cooperation between our Technology Unit and Research & Development Unit. The regular dialogue between the units enables us to take environmental requirements and potential environmental impacts of our new products into consideration as early as in the development stage. This product development lifecycle enables us to strictly control the use of harmful substances in our electronic and electrical products in all aspects, including design, materials, production and shipping.

Increased Engagement with Stakeholders

The Company intends to broaden its dialogues with different stakeholder groups, including customers, employees, Shareholders, local communities, governments, and non-governmental organisations, national and international trade associations and suppliers. In addition to ongoing communications through existing established channels such as interactive activities, meetings and publications, we commenced an engagement programme which involves direct interaction via phone interviews and/or online surveys, aiming to gauge their views towards the Company's sustainability efforts. We strive to continually maintain close relationship with our stakeholders and respond to their key topics and concerns through ESG reporting.

i. Employees

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 recruitment. We 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.

The Company is committed to improving its human resources management system. In 2016, we commenced a comprehensive assessment of individual strengths aiming to create a clearer career development channel for talent retention. Ongoing training courses are also provided to specific employees for advancement in which training performance will tie-in with the promotional opportunities.

We put safety first, and have been striving hard to minimize the occupational health and safety related impacts for our employees. In addition to maintaining safety training and awareness campaign, in 2016, we introduced various different initiatives to strengthen the identification of potential hazards and worked with more cooperative hospitals to promote the full implementation of employee health check plan.

The Company realizes the impacts that its operations can have on the community and helps tackle current social issues. In 2016, in addition to making donations to domestic charities, our employees participated in a number of community activities outside work, in particular, focusing on youth education.

ii. Customers

The Company engages its customers right from the start of its product design stage, and keep them in the loop throughout the production process. This engagement approach makes sure that we are able to offer excellent products and services to our customers, maintaining a high level of customer satisfaction over the years. In 2016, we continued to organise a series of seminars engaging our customers and gauged their satisfaction levels in the areas of quality, service, delivery and technology.

CORPORATE GOVERNANCE REPORT

iii. Suppliers

The Company maintains stringent evaluation criteria to monitor its suppliers' environmental and social performance. By working together with our suppliers through capacity building, we aim to ensure their business principles, conduct, and standards are aligned 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.

In 2016, we further strengthened our supply chain management by a risk-based assessment methodology. Suppliers with a higher risk ranking are subject to stringent assessment and evaluation to ensure the quality of their raw materials. Those who fail to meet the expected criteria would face reduced share of the business or removal from the suppliers' list.

Compliance with Environmental Laws and Regulations

The Group operates in markets and industries which require compliance with numerous regulations, including but not limited to, the EPT Law, the Law of the PRC on the Prevention and Control of Environmental Pollution of Solid Waste, the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise, the Law of the PRC on the Prevention and Control of Air Pollution, the Law of the PRC on the Prevention and Control of Water Pollution, the Law of the PRC on the Promotion of Clean Production, the Law of the PRC on Appraisal of Environment Impacts, the Administrative Regulations on Environmental Protection for Construction Project and the Law of the PRC on Conserving Energy. The failure to be responsive to changes to such regulations may adversely affect the Group's reputation, operations and financial performance. The Company seeks to ensure compliance with these requirements through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels of the Group. While these measures require considerable internal resources and result in additional operational cost, the Group highly values the importance of ensuring compliance with applicable legal and regulatory requirements.

Throughout 2016, there was no incidence of non-compliance with the relevant environmental laws and regulations that have a significant impact on the Group.

Sustainability Recognitions

The Company has been included in the Hang Seng Corporate Sustainability Index and Hang Seng (Mainland China and Hong Kong) Corporate Sustainability Index for the third year running since 2014. Selection is based on a sustainability assessment undertaken by Hong Kong Quality Assurance Agency (HKQAA), an independent and professional assessment body based in Hong Kong. In 2016, the Company received an "A+" rating from HKQAA for its overall ESG performance.

The Company was top-ranked on the first-ever fair wealth ranking list in China in September 2016 which was compiled by Fudan University's Institute for Sustainable Innovation and Growth. The ranking was part of efforts made by Chinese scholars to improve China's business environment which takes more social factors into consideration, such as companies' social responsibility, employee welfare and opportunities for career advancement.

On 16 November 2016, the two offices in Hong Kong of the Group were awarded both the World Green Organization's (WGO) "Green Office" Label and the United Nations Sustainable Development Goal's "Better World Company" Label under the Green Office Awards Labelling Scheme (GOALS) initiated by WGO and Junior Chamber International Hong Kong.

CORPORATE GOVERNANCE REPORT

INTERNAL AUDIT, RISK MANAGEMENT AND INTERNAL CONTROL

The Board's Role in Risk Oversight

Although management is responsible for identifying, assessing, and managing the material risks facing the Company, the Board plays an ongoing and active role in the oversight of the Company's risk management policies and processes, along with the oversight of the most significant strategic and operational risks faced by the Company and management's efforts to mitigate those risks. The Board is involved in the setting of the Company's business strategy, which necessarily entails a determination of what constitutes an appropriate level of risk for the Company. And our Audit and Risk Committee quarterly reviews with management the Company's major financial and regulatory risk exposures and the steps management has taken to monitor and control such exposures.

Through the design of a structured Internal Audit program and a regular rigorous Internal Audit reporting and follow-up process, the Audit and Risk Committee and the Board are able to determine the nature and the extent of the outstanding and newly emerging 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. Also, key IT audit focuses on IT risks in respect of strategy, operations, compliance, reputation and infrastructure. Reference is made to CoBit and The Center for Internet Security, Crticial Security Controls (CSC) for cyber risk evaluation which is now subject to quarterly review and reporting to the Audit and Risk Committee. Internal Audit has already included in its work scope to cover internal and external financial reporting objectives and has 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 31 December 2016, the Company's internal controls over the Company's financial and non-financial reporting were effective.

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.

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. They include 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 and Risk 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 and Risk 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 and Risk Committee and immediately rectified.

In addition, the external auditors will report and discuss with the Audit and Risk 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 adequate risk management and internal control systems to safeguard the Shareholders' investment and the assets of the Group. During the year ended 31 December 2016, the Board had reviewed the effectiveness of the risk management and internal control systems and ensured that the risk management and internal control process had been properly carried out. The Audit and Risk Committee also reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions and was satisfied that these functions were maintained properly. The Board considers that the Group's risk management and internal control systems cover 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 (ERA) – 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.

Effectiveness Review of Risk Management and Internal Control Systems

The Audit and Risk Committee, on behalf of the Board, has reviewed the effectiveness of the Company's risk management and internal control systems during the period covered by this annual report. It should be acknowledged that our risk management and internal control systems are designed to manage rather than eliminate the risk of failure in achieving our strategic and business objectives, and may only provide reasonable, but not absolute, assurance against material misstatement or loss.

Quarterly Risk Review Process

The Company conducted bottom-up risk review to enable:

(1) comprehensive identification and prioritization of all material risks throughout the Company;
(2) escalation of material risks at the right management level;
(3) effective risk dialogue among the management team; and
(4) proper governing of risk mitigation efforts.

Our Internal Audit conducts investigations on business units and group functions. Through a diligent process of aggregation, filtering, prioritizing and consultation, Internal Audit compiles a Quarterly Internal Audit Report, submits the findings and list of material risks identified through their risk management process for review and discussion by the Audit and Risk Committee on a quarterly basis.

EXTERNAL 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 31 December 2016, 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 pages 56 to 57 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 31 December 2016 in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. 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 and Risk Committee that they are independent with respect to acting as external auditor to the Company. Deloitte will not be engaged for any non-audit work unless the non-audit work meets the criteria suggested in the Listing Rules and HKICPA's Code of Ethics for Professional Accountants and has been discussed and pre-approved by the Audit and Risk Committee.

During the year ended 31 December 2016, the services provided to the Company by Deloitte, and the respective fees paid are set out below:

Types of service	2016 HK$'000
Audit services	3,329.00
Non-audit services	
Interim review	916.65
Total	4,245.65

The representative of Deloitte had attended the annual general meeting in 2016, prepared to answer questions, if any, 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 with since the auditor's appointment.

CODE OF CONDUCT AND WHISTLEBLOWING POLICY

The Company recognizes that employees form an integral part of the risk management and internal control systems 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 a key constituent of our 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 and Risk Committee has been delegated with overall responsibility for implementation, monitoring and periodic review of the policy.

SHAREHOLDERS ENGAGEMENT AND VALUE

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 and Risk 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 and Futures Ordinance and applicable laws and regulations of the Cayman Islands and the Hong Kong 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 good 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 Stock Exchange platforms, circulars and press releases of the Company. The Company also updates its website, www.aactechnologies.com, regularly to ensure prompt dissemination of information about its latest development.

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 Corporate Disclosure Policy, Shareholders' Communication Policy and "Quiet Periods" policy are all posted on the Company's website.

During 2016, 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 webcast/teleconferencing and participation in different conferences, forums and non-deal 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 2016 annual general meeting held on 30 May 2016, 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, prepared to answer questions, if any, 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 on the same date. No other general meeting was held during the year.

CORPORATE GOVERNANCE REPORT

Key dates for Shareholders in 2016/2017

12 May 2016	2016 First Quarter Results Announcement
30 May 2016	2016 Annual General Meeting
26 August 2016	2016 Interim Results Announcement
15 September 2016	Record Date for 2016 Interim Dividend
27 September 2016	Payment of 2016 Interim Dividend
14 November 2016	2016 Third Quarter Results Announcement
22 March 2017	2016 Annual Results Announcement
12 May 2017	2017 First Quarter Results Announcement
24 May 2017	2017 Annual General Meeting
9 June 2017	Record date for 2016 Final Dividend
21 June 2017	Payment of 2016 Final Dividend

Any changes to these dates in 2017 will be published on the websites of the Stock Exchange and the Company.

Market Capitalization and Share Price Performance

As at 31 December 2016, the market capitalization of listed shares of the Company was approximately HK$86.5 billion or US$11.1 billion based on the total number of 1,228,000,000 issued shares of the Company and the closing price of HK$70.45 per share.

The daily average number of traded shares was approximately 3.95 million shares over an approximate free float of 732 million shares in 2016. The average closing price was HK$65.29, an increase of 37.7% when compared with the average of 2015. The highest closing price was HK$90.20 per share on 8 September 2016 and the lowest was HK$44.70 per share on 14 January 2016.

1-year Relative Performance of the Company vs HSI from 1 January to 31 December 2016 is set out below:

Base: 31 December 2015=1.0
Source: Bloomberg

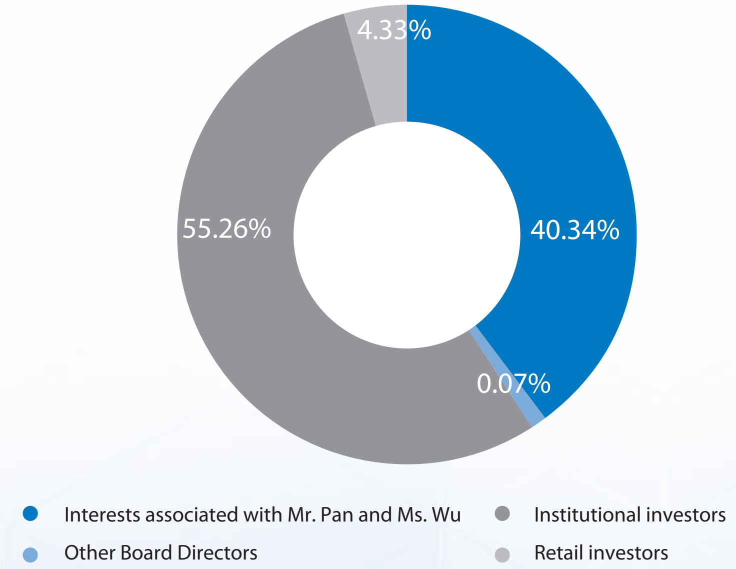
In accordance with the publicly available information and as far as the Directors are aware, the Company has maintained a public float of more than 25% of the Company's issued shares throughout the financial year ended 31 December 2016 and has continued to maintain the public float as at the date of this annual report.

Shareholding Structure

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. At 31 December 2016, the Company had 23 registered Shareholders under the register of members of the Company. The actual number of investors in the shares will be much greater as a substantial portion of the shares are held through intermediaries such as nominees, custodian houses and HKSCC Nominees Limited. The shares are eligible for trading in the Shanghai/Shenzhen-Hong Kong Stock Connect. As at 31 December 2016, 6,264,427 or 0.51% shares were held through China Securities Depository and Clearing Corporation Limited.

A shareholding register analysis was conducted as at 31 December 2016 and further revealed the shareholding structure as follow:

I) Shareholders by Category



II) Shareholders by Domicile

	% of Total issued shares
Hong Kong/China	54.85
North America	23.60
United Kingdom	7.46
Singapore	5.70
Europe (ex-United Kingdom)	3.33
Rest of World	5.06
TOTAL	**100.00**

Notes:

1. The shareholding in Hong Kong/China included the interests associated with Mr. Pan and Ms. Wu (40.34%).
2. 99.99% of all issued shares were held through HKSCC Nominees Limited.
3. The approximate percentage of shareholding is calculated on the basis of 1,228,000,000 shares in issue as of 31 December 2016.

Index Recognition

The Company is currently a constituent stock of Hang Seng Index, Hang Seng Corporate Sustainability Index, Hang Seng (Mainland and HK) Corporate Sustainability Index, Hang Seng China (Hong Kong-listed) 25 Index, Hang Seng Composite LargeCap Index, Hang Seng Composite Industry Index (Information Technology), Hang Seng IT Hardware Index, MSCI China Index and FTSE Hong Kong Index.

Constitutional Documents

Shareholders' rights are specified in the Articles of Association of the Company ("Articles"). During the year ended 31 December 2016, certain amendments were made to the Articles to reflect the latest requirements of the Listing Rules and with the laws of the Cayman Islands. Details of the changes were stated on the announcement dated 23 March 2016 and the circular dated 19 April 2016 of the Company. An up-to-date consolidated version of the Articles is available on the websites of the Company and the Stock Exchange.

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 of the Company with the company secretary of the Company are Ms. Belinda Cheung, the legal 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 Articles 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 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 investor relations to follow up.

– 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 or 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.

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

OPINION

We have audited the consolidated financial statements of AAC Technologies Holding Inc. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 58 to 116, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Estimated allowance of trade receivables	
We identified estimated allowance of trade receivables as a key audit matter due to the use of judgement and estimates by the management in determining the allowance for doubtful debts of trade receivables. In determining the allowance for doubtful debts of trade receivables, the management considers and reviews the financial background of the trade customers, their credit history including settlement records and aging analysis of the trade receivables. (Refer to notes 4 and 20 to the consolidated financial statements). As at 31 December 2016, the carrying amount of the Group's trade receivables including bank acceptance and commercial bills is RMB4,519,409,000, net of allowance for doubtful debts of RMB7,186,000.	Our procedures in relation to estimated allowance of trade receivables included: • Understanding of how management assess the allowance for doubtful debts of trade receivables; • Understanding the entity's key controls relating to the preparation of aging analysis of trade receivables; • Testing the aging analysis of the trade receivables, on a sample basis, to the source documents; • Assessing the reasonableness of allowance of trade receivables with reference to settlement records and aging analysis of trade receivables; • Reviewing the legal evidence obtained from management to support the recoverability of a trade receivable due from an emerging smartphone brand; and • Assessing the reasonableness of reversal of allowance for doubtful debts previously recognised by testing the settlement from respective customers, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Estimated allowance of inventories	
We identified estimated allowance of inventories as a key audit matter due to the use of judgement and estimates by the management in estimating the allowance of inventories. In determining the allowance of inventories the management considers and reviews the aging analysis and net realisable value for obsolete and slow-moving inventories items that are no longer suitable for use in operation at the end of each reporting period (Refer to notes 4 and 19 to the consolidated financial statements). As at 31 December 2016, the carrying amount of the Group's inventories was RMB2,622,931,000.	Our procedures in relation to estimated allowance of inventories included: • Understanding how management estimates the allowance of obsolete and slow-moving inventories items; • Obtaining the inventory aging analysis and checking its classification by age on a sampling basis, to source documents; • Evaluating the reasonableness of the allowance of obsolete and/or slow-moving inventories as identified from the inventory aging analysis; • Testing subsequent sales or usage of inventories on a sampling basis; and • Assessing the reasonableness of reversal of allowance for inventories previously recognised by testing the receipts from sales of respective inventories, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chu, Johnny Chun Yin.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue		**15,506,828**	11,738,866
Cost of goods sold		**(9,064,317)**	(6,866,765)
Gross profit		**6,442,511**	4,872,101
Other income		**148,997**	176,577
Distribution and selling expenses		**(291,150)**	(256,712)
Administrative expenses		**(472,102)**	(546,443)
Research and development costs		**(1,165,669)**	(858,972)
Share of results of associates	16	**(8,535)**	(4,980)
Gain on disposal of a subsidiary	30	**428**	4,411
Exchange gain		**45,322**	71,241
Finance costs	6	**(66,812)**	(21,950)
Profit before taxation	7	**4,632,990**	3,435,273
Taxation	9	**(608,555)**	(325,079)
Profit for the year		**4,024,435**	3,110,194
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		**175,172**	80,045
Total comprehensive income for the year		**4,199,607**	3,190,239
Profit (loss) for the year attributable to:			
Owners of the Company		**4,025,665**	3,106,904
Non-controlling interests		**(1,230)**	3,290
		4,024,435	3,110,194
Total comprehensive income (expense) attributable to:			
Owners of the Company		**4,201,203**	3,187,210
Non-controlling interests		**(1,596)**	3,029
		4,199,607	3,190,239
Earnings per share – Basic	11	**RMB3.28**	RMB2.53

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	12	9,494,014	7,079,966
Goodwill	13	89,217	89,217
Prepaid lease payments	14	339,583	253,367
Deposits made for acquisition of property, plant and equipment		918,358	256,661
Available-for-sale investments	15	385,676	379,940
Interests in associates	16	14,146	5,858
Intangible assets	17	167,259	156,021
Loan receivable from a non-controlling shareholder of a subsidiary	18	19,994	18,417
		11,428,247	8,239,447
Current assets			
Inventories	19	2,622,931	1,718,158
Trade and other receivables	20	6,155,767	4,195,568
Amounts due from related companies	21	2,933	20,511
Taxation recoverable		71,832	22,593
Pledged bank deposits	22	111,108	60
Bank balances and cash	22	3,864,386	2,223,864
		12,828,957	8,180,754
Current liabilities			
Trade and other payables	23	5,345,908	2,919,037
Amounts due to related companies	21	50,705	39,999
Taxation payable		425,161	208,025
Short-term bank loans	24	3,303,293	1,158,880
Other short-term borrowings		347	324
		9,125,414	4,326,265
Net current assets		3,703,543	3,854,489
Total assets less current liabilities		15,131,790	12,093,936

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Long-term bank loans	24	**789,135**	648,700
Government grants	25	**80,040**	42,172
Deferred tax liabilities	26	**47,818**	48,981
		916,993	739,853
Net assets		**14,214,797**	11,354,083
Capital and reserves			
Share capital	27	**99,718**	99,718
Reserves		**14,089,161**	11,207,224
Equity attributable to owners of the Company		**14,188,879**	11,306,942
Non-controlling interests		**25,918**	47,141
Total equity		**14,214,797**	11,354,083

The consolidated financial statements on pages 58 to 116 were approved and authorised for issue by the Board of Directors on 22 March 2017 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 31 December 2016

	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 1 January 2015	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 30)	–	–	–	–	–	–	–	–	–	(1,127)	(1,127)
Contributions from non-controlling interests	–	–	–	–	–	–	–	348	348	43	391
Transfers	–	–	–	–	–	–	6,920	(6,920)	–	–	–
At 31 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
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	175,538	–	–	–	175,538	(366)	175,172
Profit for the year	–	–	–	–	–	–	–	4,025,665	4,025,665	(1,230)	4,024,435
Total comprehensive income and expense for the year	–	–	–	–	175,538	–	–	4,025,665	4,201,203	(1,596)	4,199,607
Dividend paid	–	–	–	–	–	–	–	(1,314,285)	(1,314,285)	–	(1,314,285)
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	(4,981)	(4,981)	966	(4,015)
Capital reduction of a subsidiary	–	–	–	–	–	–	–	–	–	(20,593)	(20,593)
Transfers	–	–	–	–	–	–	2,827	(2,827)	–	–	–
At 31 December 2016	99,718	746,957	1,135	23,391	152,796	87,245	357,007	12,720,630	14,188,879	25,918	14,214,797

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 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before taxation		**4,632,990**	3,435,273
Adjustments for:			
Interest income		**(33,986)**	(14,504)
Interest expense		**66,812**	21,950
Depreciation		**952,615**	698,109
Amortisation of intangible assets		**9,512**	13,076
Operating lease rentals in respect of prepaid lease payments		**6,778**	4,560
Loss on disposal of property, plant and equipment		**12,788**	5,976
Loss (gain) on disposal of prepaid lease payments		**2,735**	(256)
Share of results of associates	16	**8,535**	4,980
Amortisation of long-term bank loan charge		**1,734**	–
Amortisation of government grants		**(5,922)**	(3,532)
Gain on waiver of loan		**–**	(11,045)
Gain on disposal of a subsidiary	30	**(428)**	(4,411)
Fair value loss on contingent consideration in respect of acquisition of a subsidiary in prior year		**13,485**	–
(Reversal of allowance) net allowance for bad and doubtful debts		**(3,067)**	1,338
(Reversal of allowance) allowance for obsolete inventories		**(113,452)**	75,944
Impairment losses recognised in respect of property, plant and equipment		**–**	60,440
Impairment loss recognised in respect of goodwill		**–**	21,128
Impairment loss recognised in respect of intangible assets		**–**	19,016
Operating cash flows before movements in working capital		**5,551,129**	4,328,042
Increase in inventories		**(762,180)**	(514,586)
Increase in trade and other receivables		**(1,736,233)**	(261,572)
Increase in trade and other payables		**2,204,587**	494,658
Increase (decrease) in amounts due to related companies		**10,716**	(8,360)
Advance to related companies		**(3,015)**	(1,288)
Cash from operations		**5,265,004**	4,036,894
Taxation paid		**(453,024)**	(276,608)
Net cash from operating activities		**4,811,980**	3,760,286

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Investing activities			
Government grants received relating to acquisition of property, plant and equipment		**43,790**	10,810
Interest received		**22,049**	14,504
Proceeds from disposal of property, plant and equipment		**18,658**	19,099
Proceeds from disposal of prepaid lease land		**580**	1,112
Withdrawal of pledged bank deposits		**120**	4,020
Acquisition of property, plant and equipment		**(3,007,727)**	(2,087,146)
Deposits paid for acquisition of property, plant and equipment		**(918,358)**	(256,661)
Placement of pledged bank deposits		**(111,168)**	(90)
Prepaid rentals on land use rights		**(95,347)**	(77,103)
Contingent consideration paid in respect of acquisition of a subsidiary		**(28,898)**	–
Additions to intangible assets		**(18,153)**	(13,561)
Investment in associates		**(16,823)**	–
Acquisition of available-for-sale investments		**(5,736)**	(15,409)
Cash (outflow) inflow from disposal of a subsidiary	30	**(296)**	5,807
Acquisition of a subsidiary	29	**–**	(79,395)
Distribution on deregistration of an associate		**–**	4,850
Net cash used in investing activities		**(4,117,309)**	(2,469,163)
Financing activities			
Bank loans raised		**5,169,575**	4,839,225
Repayments of bank loans		**(2,968,647)**	(4,539,035)
Dividend paid		**(1,314,285)**	(939,550)
Interest paid		**(66,812)**	(21,950)
Deposits paid for acquisition of additional interests in a subsidiary		**(23,123)**	(31,498)
Acquisition of additional interest in a subsidiary		**–**	(28,717)
Contributions from non-controlling interests		**–**	391
Net cash from (used in) financing activities		**796,708**	(721,134)
Net increase in cash and cash equivalents		**1,491,379**	569,989
Cash and cash equivalents at 1 January		**2,223,864**	1,602,687
Effect of foreign exchange rate changes		**149,143**	51,188
Cash and cash equivalents at 31 December		**3,864,386**	2,223,864
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**3,864,386**	2,223,864

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 of Hong Kong Limited (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 39.

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 1 January 2016.

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 amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial instruments[1]
IFRS 15	Revenue from contracts with customers[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign currency transactions and advance consideration[1]
Amendments to IFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts[1]
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from contracts with customers[1]
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to IAS 7	Disclosure initiative[4]
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses[4]
Amendments to IAS 40	Transfers of investment property[1]
Amendments to IFRSs	Annual improvements to IFRS standards 2014-2016 cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

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

IFRS 9 "Financial instruments"

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IFRS 9 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 fair value through other comprehensive income ("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.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

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.

In 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the Directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 "Leases"

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 "Leases" and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

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

IFRS 16 "Leases" (continued)

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB159,030,000 as disclosed in note 31. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

Apart from the above, the Directors do not anticipate that the application of the other new and revised IFRSs issued but not 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. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair values at the end of cash reporting period, 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 share-based payment transactions that are within the scope of IFRS 2 "Share-based payment", leasing transactions that are within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of assets".

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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 relevant components of equity including reserves 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, after re-attribution of the relevant equity component 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 attributable to the owners of the Company. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net 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.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary'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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

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 to fair value at subsequent reporting date 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 is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment.

A CGU (or group of 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 (or group of 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 (or group of 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.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates

An associate is an entity over which the investor has significant influence. 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, an investment in an associate is 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 and liabilities and of an associate 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 and 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.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IAS 39, 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 and the fair value of any retained interest and any proceeds from disposing the relevant 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 had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate 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 the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

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.

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 is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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 in the consolidated statement of financial position at cost less subsequent accumulated depreciation and any accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Depreciation is recognised to write off the cost of assets other than freehold land and construction in progress less their residual values over their estimated useful lives, using the straight-line method at the following rates per annum:

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

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

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, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 debt instrument 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments 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.

Financial assets

The Group's financial assets are classified as 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, loans and receivables (including trade 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 receivables 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 as available-for-sale 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).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets

Financial assets 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 affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities at amortised cost

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

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 (including all fees and 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

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 Group 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.

Derecognition

The Group derecognises a financial asset only when the rights to receive cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations specified in the relevant are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised 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 effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Internally generated intangible assets – 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.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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. 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 deferred tax assets and liabilities are not recognised if the temporary difference arises 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. In addition, deferred tax liabilities are not recognised if the temporary differences arises from the initial recognition of goodwill.

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 arising on the settlement of monetary items, and on the retranslation of 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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).

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, 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 that do not result in the Group losing significant influence), 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.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Retirement benefit costs

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

4. 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 allowance of trade receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are made on trade receivables whenever there is any objective evidence that the balances may not be collectible. In determining the allowance for doubtful debts for trade receivables, the management considers and reviews the credit history including settlement records as well as aging analysis of the trade receivables on a regular basis. When the actual collection of trade receivables is greater or less than the carrying amount after the reporting period, the management re-assesses the estimated allowance. As at 31 December 2016, the carrying amount of trade receivables including bank acceptance and commercial bills is RMB4,519,409,000, net of allowance for doubtful debts of RMB7,186,000 (2015: RMB3,533,106,000, net of allowance for doubtful debts of RMB8,849,000).

Estimated allowance of inventories

Management reviews the inventories aging listing at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in operation. Estimation of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. Where the net realisable value is less than the cost, a material impairment may arise. As at 31 December 2016, the carrying amount of inventories (net of allowance) was approximately RMB2,622,931,000 (2015: RMB1,718,158,000).

5. 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), haptics & radio frequency mechanical module ("Haptics & RF Mechanical"), MEMS components and other products (including optics, traditional microphones and headsets, etc.), which represent the major types of products manufactured and sold by the Group.

5. 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:

	2016 RMB'000	2015 RMB'000
Operating and reportable segments		
Segment revenue from external customers		
Dynamic components	7,955,785	6,152,427
Haptics & RF Mechanical	6,940,249	4,440,895
MEMS components	535,356	990,482
Other products	75,438	155,062
Revenue	15,506,828	11,738,866
Segment results		
Dynamic components	3,618,815	2,465,541
Haptics & RF Mechanical	2,786,126	2,255,366
MEMS components	46,998	185,335
Other products	(9,428)	(34,141)
Total profit for operating and reportable segments	6,442,511	4,872,101
Unallocated amounts:		
Interest income	33,986	14,504
Other income	115,011	162,073
Distribution and selling expenses	(291,150)	(256,712)
Administrative expenses	(472,102)	(546,443)
Research and development costs	(1,165,669)	(858,972)
Share of results of associates	(8,535)	(4,980)
Exchange gain	45,322	71,241
Finance costs	(66,812)	(21,950)
Gain on disposal of a subsidiary	428	4,411
Profit before taxation	4,632,990	3,435,273

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.

5. SEGMENT INFORMATION (CONTINUED)

Depreciation, amortisation and operating lease rental in respect of prepaid lease payments included in measure of segment results are as follows:

	2016 RMB'000	2015 RMB'000
Dynamic components	477,348	396,714
Haptics & RF Mechanical	173,193	85,234
MEMS components	41,505	30,784
Other products	17,886	11,649
	709,932	524,381
Other unallocated expenses	258,973	191,364
	968,905	715,745

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, exchange gain, 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.

Approximately 90% 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 is detailed below:

	2016 RMB'000	2015 RMB'000
Greater China* (country of domicile)	4,779,986	3,721,533
Other foreign countries:		
Other Asian countries	1,053,676	1,363,344
America	9,669,114	6,648,093
Europe	4,052	5,896
	15,506,828	11,738,866

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

5. SEGMENT INFORMATION (CONTINUED)

The geographical information of the Group's revenue from external end customer by individual countries in America, Europe and other Asian countries is 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 RMB7,313,044,000 (2015: RMB4,652,702,000). 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.

6. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank borrowings wholly repayable within five years	**66,811**	21,950
Interest on other short-term borrowings	**1**	–
	66,812	21,950

7. PROFIT BEFORE TAXATION

	2016 RMB'000	2015 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 8)	**18,841**	13,217
Other staff's retirement benefits scheme contributions	**366,858**	326,097
Other staff costs	**3,543,612**	2,609,624
Total staff costs	**3,929,311**	2,948,938
Less: Staff costs included in research and development costs	**(695,342)**	(447,632)
	3,233,969	2,501,306
Depreciation	**952,615**	698,109
Less: Depreciation included in research and development costs	**(150,796)**	(98,011)
	801,819	600,098
Amortisation of intangible assets	**9,512**	13,076
Auditor's remuneration	**2,907**	2,837
Cost of inventories recognised as expense	**9,177,769**	6,790,821
Cost of raw materials included in research and development costs	**78,254**	159,071
Loss on disposal of property, plant and equipment	**12,788**	5,976
Loss on disposal of prepaid lease payments	**2,735**	–
Operating lease rentals in respect of		
– building premises	**66,788**	54,800
– prepaid lease payments	**6,778**	4,560
Allowance for obsolete inventories, included in cost of goods sold	**–**	75,944
Impairment losses recognised in respect of property, plant and equipment (note 12)	**–**	60,440
Impairment losses recognised in respect of goodwill (note 13)	**–**	21,128
Impairment losses recognised in respect of intangible assets (note 17)	**–**	19,016
Net allowance for bad and doubtful debts	**–**	1,338
and after crediting:		
Reversal of allowance for obsolete inventories, included in cost of goods sold (note 19)	**113,452**	–
Government grants included in other income*	**90,640**	54,685
Interest income	**33,986**	14,504
Amortisation of government grants (note 25)	**5,922**	3,532
Net reversal of allowance for bad and doubtful debts	**3,067**	–
Rental income	**2,448**	3,797
Gain on disposal of prepaid lease payments	**–**	256
Gain on waiver of loan	**–**	11,045

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

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The aggregate Directors' and Chief Executive's remuneration for the year ended 31 December 2016 amounts to RMB18,841,000 (2015: RMB13,217,000), disclosed pursuant to the applicable Listing Rules and CO, details are as follows:

For the year ended 31 December 2016:

	Benjamin Zhengmin Pan RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
Executive Directors			
Fees	–	–	–
Salaries and other benefits	4,565	2,192	6,757
Performance related bonus	–	9,356	9,356
Retirement benefits scheme contributions	–	15	15
Total Directors' emoluments	4,565	11,563	16,128

The executive Directors' emoluments shown above were 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	446	446
Salaries and other benefits	–	–
Performance related bonus	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	446	446

The non-executive Director's emolument shown above was 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	934	600	378	355	2,267
Salaries and other benefits	–	–	–	–	–
Performance related bonus	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–
Total Directors' emoluments	934	600	378	355	2,267

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

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

For the year ended 31 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 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 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 for their services as Directors.

Note: The performance related bonus for the years ended 31 December 2016 and 31 December 2015 were determined based on the performance of the Group.

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Employees' emoluments

The five highest paid individuals included one (2015: two) Directors, details of whose emoluments are set out above. The emoluments of the remaining four (2015: three) highest paid individuals are as follows:

	2016 RMB'000	2015 RMB'000
Employees		
– basic salaries and allowances	6,922	5,057
– bonus (Note)	32,503	10,169
– retirement benefits scheme contributions	70	27
	39,495	15,253

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

The emoluments were within the following bands:

	Number of employees	
	2016	2015
HK$5,000,001 to HK$5,500,000	–	2
HK$8,000,001 to HK$8,500,000	1	1
HK$9,000,001 to HK$9,500,000	1	–
HK$9,500,001 to HK$10,000,000	1	–
HK$14,000,001 to HK$14,500,000	1	–

Mr. Pan is also the Chief Executive of the Company and his emolument disclosed above includes 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.

9. TAXATION

	2016 RMB'000	2015 RMB'000
The current tax charge (credit) comprises:		
Hong Kong Profits Tax	86	289
PRC Enterprise Income Tax	535,713	238,771
Other jurisdictions	103,110	113,121
Overprovision of taxation in prior years	(29,191)	(21,971)
	609,718	330,210
Deferred tax (note 26)	(1,163)	(5,131)
	608,555	325,079

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%.

According to a joint circular of Finance and the State Administration of Taxation of the PRC, Cai Shui 2008 No. 1, profits earned by foreign-investment enterprise prior to 1 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 is considered as the beneficial owner of the dividend, 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 4 August 2017 to 2 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.

Pursuant to the relevant laws and regulation in Vietnam, one of the Group's subsidiaries is entitled to concessionary tax rate which is granted based on the fulfilment of carrying qualifying business activities. This tax holiday will expire for the subsidiary in 2020.

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

9. TAXATION (CONTINUED)

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

	2016 RMB'000	2015 RMB'000
Profit before taxation	**4,632,990**	3,435,273
Tax at the applicable income tax rate*	**1,158,248**	858,794
Tax effect of income not taxable for tax purpose	**(27,576)**	(7,180)
Tax effect of expenses not deductible for tax purpose	**192,469**	69,175
Tax effect of tax holiday	**(446,998)**	(377,733)
Tax effect of tax losses not recognised	**84,096**	19,406
Utilisation of tax losses previously not recognised	**(4,296)**	(22,229)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(307,437)**	(187,881)
Overprovision in prior years	**(29,191)**	(21,971)
Others	**(10,760)**	(5,302)
Tax charge for the year	**608,555**	325,079

* The PRC EIT rate of 25% (2015: 25%) is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

10. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends recognised as distribution during the year:		
2015 final dividend of HK$0.95 (2014: HK$0.71) per ordinary share	**997,093**	687,565
2016 interim dividend of HK$0.30 (2015: HK$0.25) per ordinary share	**317,192**	251,985
	1,314,285	939,550

Subsequent to the end of the reporting period, a final dividend of HK$1.17 (2015: HK$0.95) per share has been proposed by the Board of Directors and is subject to approval by the Shareholders in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2016 is based on the profit for the year attributable to owners of the Company of RMB4,025,665,000 (2015: RMB3,106,904,000) and on the number of ordinary shares of 1,228,000,000 shares in issue during the year (2015: 1,228,000,000 shares).

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

12. 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 1 January 2015	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 30)	–	–	(592)	(1,568)	–	(355)	–	(2,515)
Transfers	–	241,663	52,471	102,088	479	657,794	(1,054,495)	–
At 31 December 2015	15,185	944,234	855,705	555,020	44,244	6,542,273	1,066,033	10,022,694
Currency realignment	99	1,514	2,306	3,533	151	15,483	1,502	24,588
Additions	167	86,105	240,363	135,103	10,250	1,019,833	1,888,767	3,380,588
Disposals	–	(5,689)	(13,702)	(2,092)	(3,914)	(37,550)	(15,050)	(77,997)
Transfers	–	320,061	61,668	91,092	1,963	1,366,376	(1,841,160)	–
At 31 December 2016	15,451	1,346,225	1,146,340	782,656	52,694	8,906,415	1,100,092	13,349,873
DEPRECIATION AND IMPAIRMENT								
At 1 January 2015	–	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 30)	–	–	(135)	(248)	–	(92)	–	(475)
Impairment losses recognised in profit or loss	–	–	–	–	–	60,440	–	60,440
At 31 December 2015	–	165,604	470,153	272,460	22,009	2,012,502	–	2,942,728
Currency realignment	–	188	913	1,760	70	4,136	–	7,067
Provided for the year	–	56,202	127,000	126,184	6,229	637,000	–	952,615
Eliminated on disposal	–	(2,931)	(11,588)	(1,980)	(3,481)	(26,571)	–	(46,551)
Impairment losses recognised in profit or loss	–	32	–	–	–	(32)	–	–
At 31 December 2016	–	219,095	586,478	398,424	24,827	2,627,035	–	3,855,859
CARRYING VALUES								
At 31 December 2016	15,451	1,127,130	559,862	384,232	27,867	6,279,380	1,100,092	9,494,014
At 31 December 2015	15,185	778,630	385,552	282,560	22,235	4,529,771	1,066,033	7,079,966

During the prior year, the Group had fully impaired certain property, plant and equipment of RMB60,440,000 (2016: nil) 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.

13. GOODWILL

	RMB'000
COST	
At 1 January 2014 and 31 December 2014	32,931
Acquired on acquisition of a subsidiary (see note 29)	77,414
Impairment loss recognised during the prior year	(21,128)
At 31 December 2015 and 31 December 2016	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:

	2016 RMB'000	2015 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. ("WiSpry")	**77,414**	77,414
Mems Technology Pte. Ltd. ("MemsTech")	**–**	–
	89,217	89,217

* 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 5.9%.

In prior 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, an impairment loss of RMB21,128,000 was recognised in 2015.

14. PREPAID LEASE PAYMENTS

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

15. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Unlisted shares, at cost	**385,676**	379,940

The investments are 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.

Included in the above is the Group's investment in Heptagon Advanced Micro-Optics Pte. Ltd. ("Heptagon"), an unlisted private company incorporated in Singapore, engaged in the Micro-Optics business. As at 31 December 2016, the carrying value of Heptagon was RMB361,995,000. Subsequent to 31 December 2016, the Group's interest in Heptagon was disposed of to an independent third party (see note 40(a)).

16. INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Cost of investments in associates, unlisted	**29,118**	66,185
Impairment loss recognised in respect of interest in an associate	**–**	(13,014)
Share of post-acquisition loss and other comprehensive expense	**(14,972)**	(47,313)
	14,146	5,858

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

Name of associate	Place of incorporation	Percentage equity interest 2016 %	2015 %	Principal activity
Vesper Technologies Inc. ("Vesper")	United States of America	16.1 (Note a)	25	Research and development of MEMS products
Five Dimension Co., Ltd.	Japan	39.1	Nil	Design, research and development of LENS products
Xenon Technology (Cayman) Limited ("Xenon")	Cayman Islands	– (Note b)	39.2	Design and manufacture of Xenon-based flash lamp and flash modules

Notes:

(a) The Group's equity interest in Vesper was diluted from 25% to 16.1% in the current year due to Vesper's increase of share capital.

(b) In the current year, Xenon was deregistered. No distribution was received upon the deregistration.

16. INTERESTS IN ASSOCIATES (CONTINUED)

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:

Vesper Technologies Inc.

	2016 RMB'000	2015 RMB'000
Total assets	**69,157**	20,237
Total liabilities	**(8,311)**	(35,887)
	60,846	(15,650)
Revenue	**2,696**	2,113
Loss for the year	**(28,788)**	(19,952)
Group's share of loss of associate for the year	**(7,197)**	(4,980)

Five Dimension Co., Ltd.

	2016 RMB'000	2015 RMB'000
Total assets	**4,381**	–
Total liabilities	**(5,753)**	–
	(1,372)	–
Revenue	**2,975**	–
Loss for the year	**(4,057)**	–
Group's share of loss of associate for the year	**(1,338)**	–

17. INTANGIBLE ASSETS

	Patents RMB'000	Development expenditure RMB'000	Total RMB'000
COST			
At 1 January 2015	154,531	101,259	255,790
Currency realignment	769	(2,513)	(1,744)
On acquisition of a subsidiary	38,211	–	38,211
Addition	–	13,561	13,561
Disposal	–	(1,371)	(1,371)
At 31 December 2015	193,511	110,936	304,447
Currency realignment	979	3,762	4,741
Addition	–	18,153	18,153
Written off	(15,319)	–	(15,319)
At 31 December 2016	179,171	132,851	312,022
AMORTISATION AND IMPAIRMENT			
At 1 January 2015	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 31 December 2015	107,551	40,875	148,426
Currency realignment	979	1,165	2,144
Provided for the year	6,454	3,058	9,512
Written off	(15,319)	–	(15,319)
At 31 December 2016	99,665	45,098	144,763
CARRYING VALUE			
At 31 December 2016	79,506	87,753	167,259
At 31 December 2015	85,960	70,061	156,021

During the year ended 31 December 2015, the Group made impairment provisions on certain patents amounting to RMB19,016,000 (2016: nil) due to the terminations of production on the relevant products that were not part of the Group's core business.

Patents represent the Group's patents on designs of 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.

18. LOAN RECEIVABLE FROM 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 is 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.

19. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**650,409**	353,539
Work in progress	**272,875**	168,816
Finished goods	**1,699,647**	1,195,803
	2,622,931	1,718,158

The Group has written off provision for obsolete inventories of RMB898,000 in the current year (2015: RMB3,947,000).

During the year, there was a significant increase in the net realisable value of certain inventories due to subsequent sales. As a result, a reversal of allowance for obsolete inventories of approximately RMB113,452,000 (2015: nil) has been recognised and included in cost of sales in the current year.

20. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**4,463,826**	3,470,802
Bank acceptance and commercial bills	**55,583**	62,304
	4,519,409	3,533,106
Advance payment to suppliers	**–**	6,000
Prepayments	**217,772**	143,073
Value-added tax recoverable	**460,025**	191,297
Other receivables	**295,836**	248,210
Loan receivables and interest*	**662,725**	73,882
	6,155,767	4,195,568

* Loans of RMB631,200,000 (2015: RMB61,800,000) made to certain suppliers of the Group are secured, and carries interest rates ranging from 4% to 5% per annum (2015: 4.35% to 5.6%). The amounts are repayable in 1 year.

20. 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.

	2016 RMB'000	2015 RMB'000
Age		
0 – 90 days	**4,096,594**	3,188,404
91 – 180 days	**363,261**	311,573
Over 180 days	**59,554**	33,129
	4,519,409	3,533,106

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:

	2016 RMB'000	2015 RMB'000
Age		
Overdue 0 – 90 days	**368,397**	332,884
Overdue 91 – 180 days	**95,704**	829
Overdue over 180 days	**2,271**	31,036
	466,372	364,749

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 RMB466,372,000 (2015: RMB364,749,000) 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.

During the year ended 31 December 2016, the Group has commenced legal proceedings against an emerging smartphone brand (the "Debtor") for settlement of the trade debts due from the Debtor which was past due but not impaired. As part of the proceedings, the court has granted an injunction order in favor of the Group to freeze certain assets of the Debtor, amongst which includes bank balances. The Debtor has commenced negotiation with the Group to reach a settlement. Based on the value of the assets frozen by the court and the ongoing negotiation with the Debtor, the Directors are of the opinion that no provision is necessary for the amount due from the Debtor.

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2016 RMB'000	2015 RMB'000
Balance at beginning of the year	**15,322**	14,036
Currency realignment	**670**	683
Allowance for bad and doubtful debts	**2,908**	2,482
Write-off of bad and doubtful debts	**–**	(735)
Reversal of allowance for bad and doubtful debts	**(5,975)**	(1,144)
Balance at end of the year	**12,925**	15,322

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:

	2016 RMB'000	2015 RMB'000
US$	**155,556**	140,669
Euro	**619**	439
HK$	**8**	14

21. 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 have controlling interest, are as follows:

Name of related company	Balance at 31.12.2016 RMB'000	Balance at 1.1.2016 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.)*	523	228	523
深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd.)*	1,683	1,681	1,683
常州中科來方能源發展有限公司 (Changzhou Zhongke Laifang Power Development Co., Ltd.)*	726	15,620	15,620
江蘇遠宇電子集團有限公司 (Jiangsu Yuanyu Electronics Group Co., Ltd.)*	–	1,731	1,731
成都中科來方能源科技有限公司 (Chengdu Zhongke Laifang Power Science & Technology Co. Ltd.)*	1	424	424
四川茵地樂科技有限公司 (Sichuan Yindile Science & Technology Co., Ltd.)*	–	827	827
	2,933	20,511	

* The English translation is for identification purpose only.

21. AMOUNTS DUE FROM (TO) RELATED COMPANIES (CONTINUED)

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.

22. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

Deposit amounting to RMB111,108,000 (2015: RMB60,000) has been pledged to secure credit facilities granted to subsidiaries for purchase of property, plant and equipment which is expected to be repaid within one year.

The bank balances carry variable interest rates ranging from 0.00% to 0.30% (2015: 0.00% to 0.35%) and fixed interest rates ranging from 0.01% to 1.43% (2015: 0.01% to 4.50%). The pledged bank deposits carry variable interest rates of 0.30% (2015: 0.30% to 0.35%).

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	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
US$	58,965	–	759,279	508,123
HK$	–	–	12,585	44,751
Japanese Yen	922	–	22,653	52,219
Euro	–	–	6,698	19,043
Other currencies	–	–	18,094	18,747

23. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	2,599,146	1,169,340
Notes payables – secured	1,352,316	868,199
	3,951,462	2,037,539
Payroll and welfare payables	640,708	421,107
Payables for acquisition of property, plant and equipment	311,737	195,537
Other payables and accruals	428,571	236,713
Contingent consideration payable	13,430	28,141
	5,345,908	2,919,037

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

23. TRADE AND OTHER PAYABLES (CONTINUED)

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

	2016 RMB'000	2015 RMB'000
Age		
0 – 90 days	**3,459,399**	1,728,178
91 – 180 days	**491,681**	308,547
Over 180 days	**382**	814
	3,951,462	2,037,539

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

	2016 RMB'000	2015 RMB'000
US$	**1,292,010**	197,902
Japanese Yen	**28,693**	23,131
Euro	**1,189**	263

24. BANK LOANS

	2016 RMB'000	2015 RMB'000
Bank loans are repayable as follows:		
Within one year	**3,303,293**	1,158,880
After one year but within two years	**689,139**	–
After two years but within five years	**99,996**	648,700
	4,092,428	1,807,580
Less: Amount due within one year included in current liabilities	**3,303,293**	1,158,880
Amount due after one year	**789,135**	648,700

24. BANK LOANS (CONTINUED)

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

	2016 RMB'000	2015 RMB'000
US$	**554,962**	389,617
HK$	**295,348**	40,629
Euro	**37,265**	35,476
RMB	**254,390**	154,400

The Group's bank loans, carry interest ranging from 0.55% to 4.05% per annum (as at 31 December 2015: carry interest ranging from 0.73% to 4.15% per annum). The Company issued guarantees to the banks to secure these borrowings.

25. GOVERNMENT GRANTS

During the year, the Group received government grants of RMB43,790,000 (2015: RMB10,810,000) 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, RMB5,922,000 (2015: RMB3,532,000) of the grants have been released to profit or loss.

26. 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 1 January 2015	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 31 December 2015	25,459	23,522	48,981
Credited to profit or loss	(1,163)	–	(1,163)
At 31 December 2016	24,296	23,522	47,818

At 31 December 2016, 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.

26. DEFERRED TAX LIABILITIES (CONTINUED)

At the end of the reporting period, certain subsidiaries of the Group has unused tax losses of RMB741,024,000 (2015: RMB421,824,000) 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 31 December 2015 as a result of the fair value adjustment on patents and technical knowhow in relation to dynamically tuneable RF.

27. SHARE CAPITAL

	Number of shares	Amount US$'000
Shares of US$0.01 each		
Authorised:		
Ordinary shares at 1 January 2015, 31 December 2015 and 31 December 2016	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1 January 2015, 31 December 2015 and 31 December 2016	1,228,000,000	12,280

	RMB'000
At 1 January 2015, 31 December 2015 and 31 December 2016	99,718

28. SHARE AWARD SCHEME

The Company on 23 March 2016 had adopted the AAC Share Award Scheme ("the Scheme") constituted by a Trust Deed between the Company and Bank of Communications Trustee Limited ("the Trustee"), in which employees may be selected by the Board to participate. Pursuant to the Scheme, shares of the Company will be subscribed for at a subscription price as determined by the Board of the Company, or purchased on the Hong Kong Stock Exchange, by the Trustee of the trusts declared in the Trust Deed.

On the grant of the share awards, the relevant number of shares is legally issued or transferred to the Trustee who holds the shares for the benefit of the selected employees. A grantee shall not have any interest or rights (including the right to receive dividends) in the shares prior to the vesting of the shares.

The expenses in relation to the share awards are charged to profit or loss over the relevant vesting periods with a corresponding increase in share award reserve.

During the year, no new shares have been issued to the Trustee and no shares of the Company had been purchased by the Trustee nor any share awards had been granted to any employees.

29. ACQUISITION OF A SUBSIDIARY

Business combination under IFRS 3

On 7 May 2015, the Group acquired 100% interest in a private company, WiSpry from certain independent third parties for an aggregate consideration of US$16,816,000 (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 of US$4,816,000 (approximately RMB29,444,000) 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.

The assets acquired and liabilities assumed which were recognised on 7 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.

29. ACQUISITION OF A SUBSIDIARY (CONTINUED)

Business combination under IFRS 3 (continued)

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)

During the current year, the group made further payment of RMB28,898,000 to the vendor in respect of the contingent consideration for the acquisition of WiSpry.

Impact of acquisition on the results of the Group

During the year, WiSpry contributed a revenue of RMB63,201,000 and a profit of RMB15,442,000 (since the acquisition and up to 31 December 2015: a revenue of RMB35,794,000 and a profit of RMB3,719,000) to the Group. Had WiSpry been consolidated from 1 January 2015, the impact of the Group's revenue and the profit attributable to the equity holders of the Company for the both years would have been insignificant.

30. DISPOSAL OF A SUBSIDIARY

(a) Disposal of a subsidiary in year 2016

In October 2016, the Group entered into an agreement to dispose of 100% equity interests in a subsidiary at no consideration.

Analysis of assets and liabilities disposed of:

	RMB'000
Bank balances and cash	**296**
Trade and other receivables	**42**
Trade and other payables	**(766)**
	(428)
Net liabilities disposed and gain on disposal	**428**
Cash outflow arising on disposal, representing:	
Bank balances and cash disposed of	**(296)**

30. DISPOSAL OF A SUBSIDIARY (CONTINUED)

(b) Disposal of a subsidiary in year 2015

As at 1 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.

Analysis of assets and liabilities disposed of:

	RMB'000
Plant and equipment (note 12)	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

31. 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	
	2016 RMB'000	2015 RMB'000
Within one year	67,845	54,463
In the second to fifth year inclusive	91,185	20,982
	159,030	75,445

Leases are negotiated and rentals are fixed for a lease term of 1 to 5 years.

32. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**439,694**	300,251

33. CONTINGENT LIABILITY

During the year, the Company and a subsidiary were named as defendants in a United States district court, in respect of a claim on royalty payments in accordance with a settlement agreement previously reached between the Group and the plaintiff. On 8 March 2017, the district court handed down a judgement in favour of the plaintiff and ordered the parties to commence settlement negotiation. The Directors are studying the judgement and reviewing appropriate courses of action, including the recommendation of the counsel to file an appeal on the judgement. The Directors believe that the Company's arguments remain valid and no provision for liability is required under the current circumstances.

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Available-for-sale investments	**385,676**	379,940
Loans and receivables (including cash and cash equivalents)	**9,936,416**	6,309,347
Financial liabilities		
Amortised cost	**9,376,760**	4,693,429

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, loan receivable from 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.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

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	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
US$	**8,048,030**	1,769,306	**6,548,481**	3,200,037
Japanese Yen	**605,594**	183,203	**558,060**	127,644
Euro	**80,652**	103,495	**58,434**	73,132
HK$	**436,192**	445,767	**296,706**	41,473

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% (2015: 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% (2015: 5%) weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	Impact	
	2016 RMB'000	2015 RMB'000
Increase (decrease) in profit for the year		
US$	**(56,233)**	53,653
Japanese Yen	**(1,783)**	(2,084)
Euro	**(833)**	(1,139)
HK$	**(5,231)**	(15,161)

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.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank loans (see note 24) and bank balances and deposits (see note 22). The Group is also exposed to fair value interest rate risk in relation to fixed rate bank deposits (see note 22). 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 0.55% and 4.05% 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 (2015: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2016 would decrease/increase by RMB921,000 (2015: increase/decrease by RMB1,217,000). 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 31 December 2016 and 2015, 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 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.

As at 31 December 2016, the Group has concentration of credit risk on total trade receivables as 59.82% (2015: 27.25%) and 80.64% (2015: 59.56%) of the total trade receivables are due from the Group's largest customer and the five largest customers, respectively. 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.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

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	1 -2 years RMB'000	2 – 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31 December 2016							
Non-derivative financial liabilities							
Non-interest bearing	–	492,064	4,792,268	–	–	5,284,332	5,284,332
Variable interest rate	2.9%	–	3,365,465	716,963	110,075	4,192,503	4,092,428
		492,064	8,157,733	716,963	110,075	9,476,835	9,376,760
At 31 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

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.

35. 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 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.

36. 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.

37. 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	2016 RMB'000	2015 RMB'000
Companies controlled by close family members of the substantial shareholders of the Company (Note)	Purchase of raw materials	**119,312**	109,637
	Property rentals paid	**19,917**	21,709
	Property rentals received	**1,508**	1,252
	Sales of raw materials	**3,730**	1,178
Close family members of the substantial shareholders of the Company (Note)	Property rentals paid	**2,345**	4,106

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

During the prior year, a company that were controlled by close family members of the substantial shareholders acquired a subsidiary from the Group, see note 30 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 8.

Balances with related parties are disclosed in note 21 to the consolidated financial statements.

38. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2016, the capital reduction of a subsidiary of approximately RMB20,593,000 was set off with amounts due from related companies.

39. 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 31 December 2016 and 31 December 2015, 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$100,000,000	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$74,800,000	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

39. 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$157,000,000	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$300,000,000	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
沭陽瑞泰科技有限公司 Shuyang Ruitai Technologies Co., Ltd. (Note n)	PRC	Registered capital – US$100,000,000	Manufacture and sales of electronic components
瑞泰（江蘇）投資有限公司 Ruitai (Jiangsu) Investment Co., Ltd. (Note o)	PRC	Registered capital – US$100,000,000	Investment

39. PRINCIPAL SUBSIDIARIES (CONTINUED)

(a) General information of subsidiaries (continued)

Notes:

(a) Wholly-owned foreign enterprise for a term of 50 years commencing 28 September 2003.
(b) Wholly-owned foreign enterprise for a term of 20 years commencing 12 January 2004.
(c) Wholly-owned foreign enterprise for a term of 20 years commencing 8 November 2006.
(d) Wholly-owned foreign enterprise for a term of 50 years commencing 13 April 2006.
(e) Wholly-owned foreign enterprise for a term of 20 years commencing 28 January 2000.
(f) Wholly-owned foreign enterprise for a term of 20 years commencing 8 May 2007.
(g) Wholly-owned foreign enterprise for a term of 20 years commencing 11 April 2005.
(h) Wholly-owned foreign enterprise for a term of 20 years commencing 13 June 2010.
(i) Wholly-owned foreign enterprise for a term of 15 years commencing 6 April 2004.
(j) Wholly-owned foreign enterprise for a term of 30 years commencing 13 November 2012.
(k) Wholly-owned foreign enterprise for a term of 10 years commencing 29 August 2013.
(l) Wholly-owned foreign enterprise for a term of 20 years commencing 29 July 2013.
(m) Wholly-owned foreign enterprise for a term of 10 years commencing 20 September 2013.
(n) Wholly-owned foreign enterprise for a term of 20 years commencing 24 September 2015.
(o) Wholly-owned foreign enterprise for a term of 30 years commencing 20 September 2016.

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.

(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) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
AAC New Power Development (Changzhou) Co., Ltd. ("AAC New Power") (Note)	PRC	19.58%	19.58%	(3,234)	(3,544)	16,156	39,983
Individually immaterial subsidiaries with non-controlling interests				2,004	6,834	9,762	7,158
				(1,230)	3,290	25,918	47,141

Note: The principal activities of AAC New Power are manufacture and sales of battery products. 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.

39. PRINCIPAL SUBSIDIARIES (CONTINUED)

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

AAC New Power

	2016 RMB'000	2015 RMB'000
Current assets	**33,108**	69,026
Non-current assets	**159,760**	135,333
Current liabilities	**110,354**	156
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**66,358**	164,220
Non-controlling interests	**16,156**	39,983

	2016 RMB'000	2015 RMB'000
Income	**315**	416
Expenses	**16,830**	18,514
Loss for the year	**16,515**	18,098
Loss attributable to owners of the Company	**13,281**	14,554
Loss attributable to the non-controlling interests	**3,234**	3,544
Loss for the year	**16,515**	18,098
Net cash inflow (outflow) from operating activities	**14,554**	(5,947)
Net cash outflow from investing activities	**(34,356)**	(108)
Net cash inflow from financing activities	**–**	–
Net cash outflow	**(19,802)**	(6,055)

39. PRINCIPAL SUBSIDIARIES (CONTINUED)

(c) Change in ownership interest in a subsidiary

During the year ended 31 December 2015, the Group acquired additional 11.1% of its interest in a subsidiary at a consideration of RMB28,717,000, increasing its equity 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 31 December 2015, the Group paid deposit amounting to RMB31,498,000 for acquisition of additional interest in a subsidiary. During the year ended 31 December 2016, the Group further paid deposit of RMB23,123,000 of which RMB19,108,000 was recognised as a liability in the prior year and included in other payables. The difference of RMB4,015,000 between the actual deposit paid and the amount provided for was included in equity during the year.

40. EVENTS AFTER REPORTING PERIOD

(a) Disposal of an available-for-sale investment

On 24 October 2016, a share purchase and transfer agreement (the "Agreement") was entered into among AMS AG ("AMS", a Swiss-listed company incorporated in Austria and is engaged in manufacturing of sensor and analogy solutions), Heptagon and the dragging shareholders of Heptagon in relation to the disposal of shares in Heptagon to AMS. The Group was dragged along to the Agreement and agreed to dispose of its entire equity interest to AMS. Completion of the transaction was subject to certain approvals and conditions defined in the Agreement.

As at 31 December 2016, the transaction had not yet completed as it was subject to the occurrence of certain approvals and conditions stated above. The Group owned approximately 10.05% of the issued share capital of Heptagon with a carrying amount of RMB361,995,000 as at the end of the reporting period. The investment is designated as available-for-sale investments on the Group's statement of financial position.

On 24 January 2017, the transaction was completed. The Group disposed of its entire equity interest in Heptagon to AMS, for an upfront consideration of approximately US$4,166,000 (equivalent to approximately RMB28,574,000) in cash and 1,126,000 AMS shares (with fair value of approximately RMB258,592,000 as at 24 January 2017) and an earn out consideration up to approximately US$17,202,000 (equivalent to approximately RMB117,985,000) in cash and up to 261,692 AMS shares, to be released in mid-2018 based on the milestone relating to the product revenue of Heptagon in 2017. In the opinion of the Directors, the aggregate consideration received and receivable from the disposal exceeds the carrying value of the Group's interest in Heptagon.

(b) Contingent consideration paid in respect of acquisition of a subsidiary

On 23 January 2017, the Group made a further payment of US$735,000 (equivalent to approximately RMB5,041,000) to the vendor in respect of the contingent consideration for the acquisition of WiSpry.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTE	2016 RMB'000	2015 RMB'000
Non-current assets			
Interests in subsidiaries		**1,171,867**	1,171,857
Current assets			
Other receivables		**2,100**	2,189
Amounts due from subsidiaries (Note)		**1,092,009**	782,622
Bank balances and cash		**5,635**	4,268
		1,099,744	789,079
Current liabilities			
Other payables		**1,048**	1,246
Amounts due to subsidiaries (Note)		**895**	838
		1,943	2,084
Net current assets		**1,097,801**	786,995
		2,269,668	1,958,852
Capital and reserves			
Share capital	27	**99,718**	99,718
Reserves		**2,169,950**	1,859,134
		2,269,668	1,958,852

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

Movement of reserves

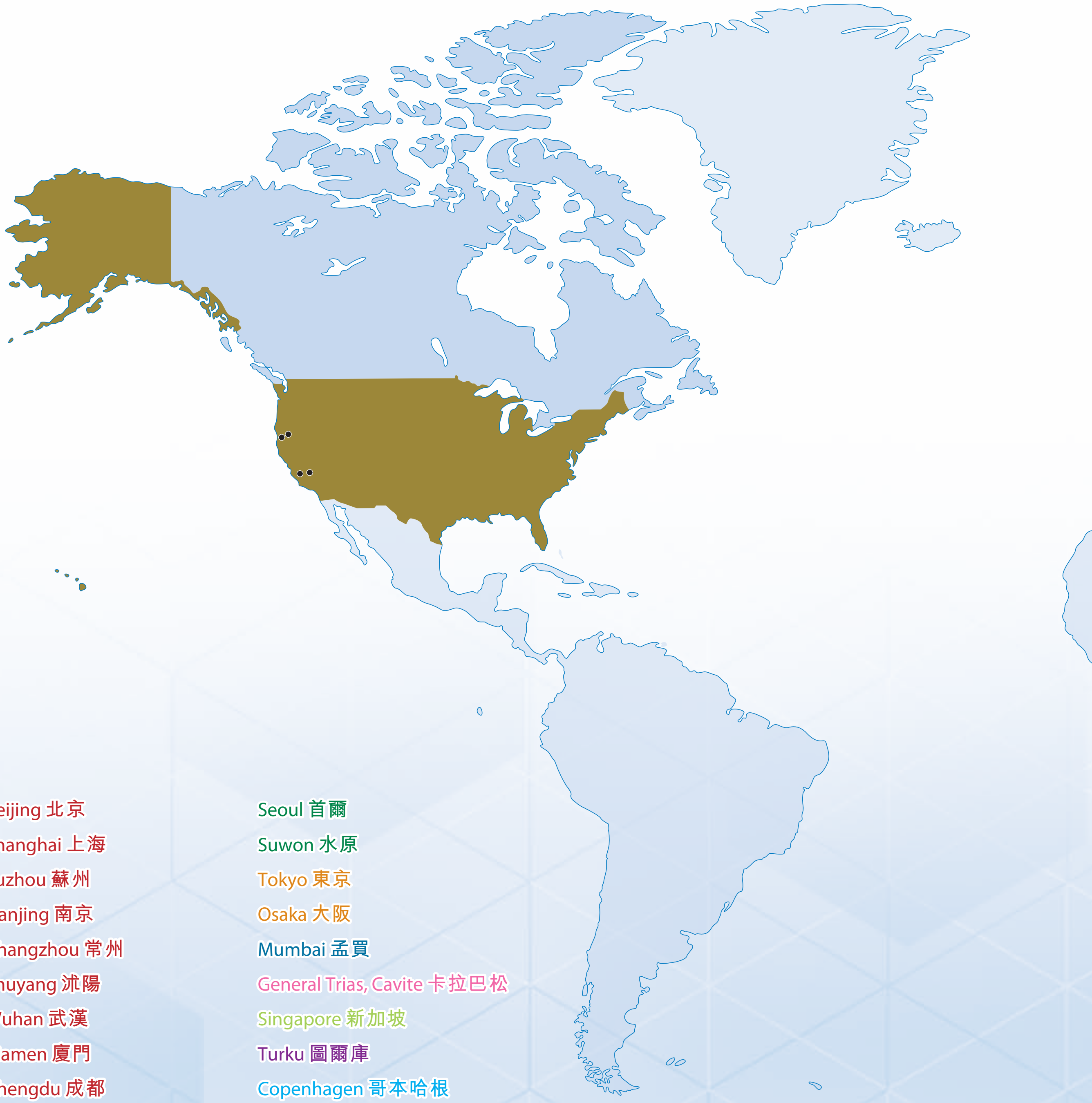
	Share premium RMB'000	Special reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	746,957	33,428	993,950	1,774,335
Profit and total comprehensive income for the year	–	–	1,024,349	1,024,349
Dividend paid	–	–	(939,550)	(939,550)
At 31 December 2015	746,957	33,428	1,078,749	1,859,134
Profit and total comprehensive income for the year	–	–	1,625,101	1,625,101
Dividend paid	–	–	(1,314,285)	(1,314,285)
At 31 December 2016	746,957	33,428	1,389,565	2,169,950

FINANCIAL SUMMARY

	Year ended 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
RESULTS					
Revenue	6,282,946	8,095,889	8,879,300	11,738,866	**15,506,828**
Reported profit before taxation	2,015,518	2,834,539	2,580,567	3,435,273	**4,632,990**
Recurring profit before taxation	1,980,111	2,511,519	2,580,567	3,435,273	**4,632,990**
Taxation	(258,945)	(263,081)	(270,166)	(325,079)	**(608,555)**
Reported profit	1,756,573	2,571,458	2,310,401	3,110,194	**4,024,435**
Attributable to:					
Owners of the Company					
– reported	1,762,625	2,577,583	2,317,695	3,106,904	**4,025,665**
– recurring	1,727,218	2,254,563	2,317,695	3,106,904	**4,025,665**
Non-controlling interests	(6,052)	(6,125)	(7,294)	3,290	**(1,230)**
	1,756,573	2,571,458	2,310,401	3,110,194	**4,024,435**
Reported Basic EPS	RMB1.44	RMB2.10	RMB1.89	RMB2.53	**RMB3.28**
Adjusted recurring Basic EPS	RMB1.41	RMB1.84	RMB1.89	RMB2.53	**RMB3.28**
Full year dividend	HK$0.71	HK$1.08	HK$0.96	HK$1.20	**HK$1.47**

	As at 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
ASSETS AND LIABILITIES					
Total assets	8,925,806	10,677,022	13,279,149	16,420,201	**24,257,204**
Total liabilities	(2,795,725)	(2,745,233)	(4,087,506)	(5,066,118)	**(10,042,407)**
Net assets	6,130,081	7,931,789	9,191,643	11,354,083	**14,214,797**
Attributable to owners of the Company	6,078,242	7,876,117	9,138,095	11,306,942	**14,188,879**
Non-controlling interests	51,839	55,672	53,548	47,141	**25,918**
	6,130,081	7,931,789	9,191,643	11,354,083	**14,214,797**

WORLDWIDE LOCATIONS



Beijing 北京
Shanghai 上海
Suzhou 蘇州
Nanjing 南京
Changzhou 常州
Shuyang 沭陽
Wuhan 武漢
Xiamen 廈門
Chengdu 成都
Shenzhen 深圳
Hong Kong 香港
Taipei 台北
Vinh Phuc 永福
Bac Ninh 北寧

Seoul 首爾
Suwon 水原
Tokyo 東京
Osaka 大阪
Mumbai 孟買
General Trias, Cavite 卡拉巴松
Singapore 新加坡
Turku 圖爾庫
Copenhagen 哥本哈根
Irvine 爾灣
San Jose 聖荷西
Walnut 核桃市
Cupertino 庫比蒂諾