



**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

**2017**  
INTERIM 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 miniature speaker modules, 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.

The English text of this interim report shall prevail over the Chinese text in case of any inconsistency



This interim report is printed on environmentally friendly paper

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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

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

### Non-executive Director

Ms. Ingrid Chunyuan Wu

### Independent Non-executive Directors

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

## AUDIT 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

## COMPANY SECRETARY

Mr. Lo Tai On

## AUDITOR

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

## 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

Agricultural Bank of China  
Bank of China  
Bank of Communications  
Citibank, N.A.  
DBS Bank Ltd.  
Ping An Bank  
The Hongkong and Shanghai Banking Corporation Limited

## STOCK CODE

02018

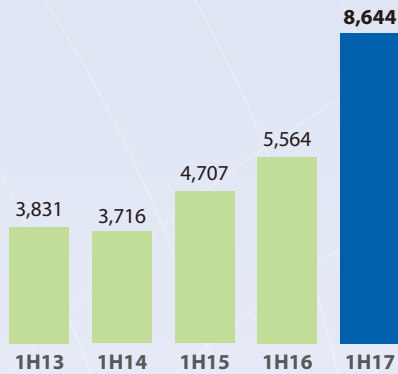
## WEBSITE

[www.aactechnologies.com](http://www.aactechnologies.com)

# HALF-YEAR FINANCIAL HIGHLIGHTS

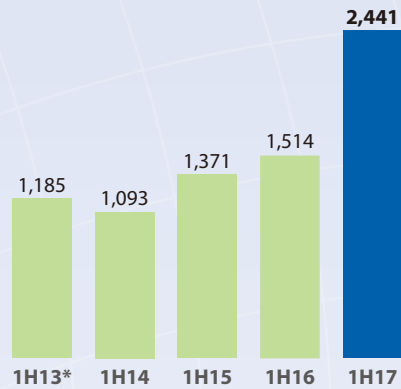
## Revenue

(RMB million)



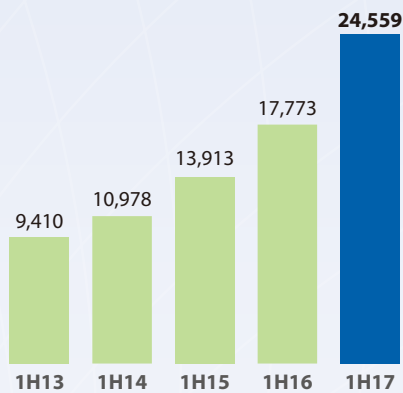
## Pre-tax Profit

(RMB million)



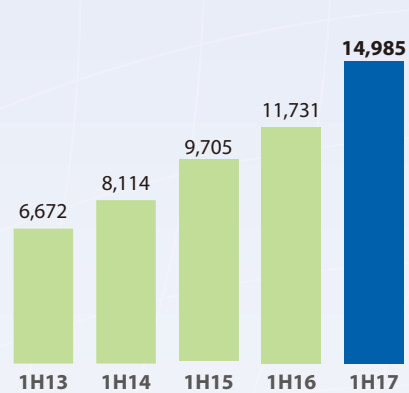
## Total Assets

(RMB million)



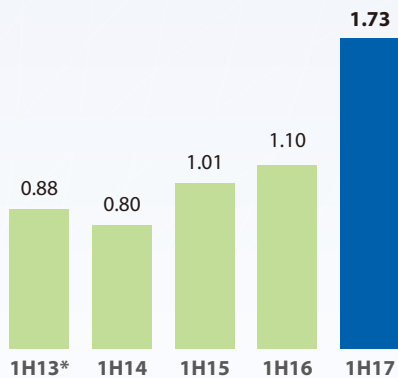
## Net Assets

(RMB million)



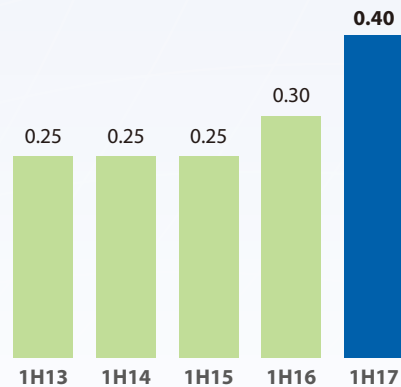
## Basic EPS

(RMB)



## Interim Dividend

(HK\$)



\* The figures of 1H13 were adjusted for one-off items



# FINANCIAL SUMMARY

	Six months ended 30 June				2017 RMB'000
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	
<b>RESULTS</b>					
Revenue	3,830,676	3,716,020	4,706,784	5,563,560	<b>8,644,272</b>
Reported profit before taxation	1,182,216	1,092,670	1,371,207	1,514,270	<b>2,441,086</b>
Recurring profit before taxation	1,184,962	1,092,670	1,371,207	1,514,270	<b>2,441,086</b>
Taxation	(109,451)	(114,853)	(127,850)	(159,712)	<b>(313,958)</b>
Reported profit	1,072,765	977,817	1,243,357	1,354,558	<b>2,127,128</b>
Attributable to:					
Owners of the Company					
– reported	1,075,391	979,753	1,245,605	1,354,779	<b>2,126,824</b>
– recurring	1,078,137	979,753	1,245,605	1,354,779	<b>2,126,824</b>
Non-controlling interests	(2,626)	(1,936)	(2,248)	(221)	<b>304</b>
	1,072,765	977,817	1,243,357	1,354,558	<b>2,127,128</b>
Reported basic EPS	RMB0.88	RMB0.80	RMB1.01	RMB1.10	<b>RMB1.73</b>
Adjusted recurring basic EPS	RMB0.88	RMB0.80	RMB1.01	RMB1.10	<b>RMB1.73</b>
Interim dividend	HK\$0.25	HK\$0.25	HK\$0.25	HK\$0.30	<b>HK\$0.40</b>

	As at 30 June				2017 RMB'000
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	
<b>ASSETS AND LIABILITIES</b>					
Total assets	9,410,317	10,978,468	13,912,680	17,772,772	<b>24,559,362</b>
Total liabilities	(2,738,684)	(2,864,639)	(4,207,902)	(6,041,520)	<b>(9,574,073)</b>
Net assets	6,671,633	8,113,829	9,704,778	11,731,252	<b>14,985,289</b>
Attributable to owners of the Company	6,631,824	8,060,513	9,663,216	11,705,272	<b>14,975,008</b>
Non-controlling interests	39,809	53,316	41,562	25,980	<b>10,281</b>
	6,671,633	8,113,829	9,704,778	11,731,252	<b>14,985,289</b>

# CHAIRMAN'S STATEMENT

Dear Shareholders,

AAC Technologies achieved another set of record financial results in the first half of 2017 and is on the way towards its eighth consecutive year of growth.

Some of the major financial highlights were as follows:

- Revenue grew by 55% to RMB8,644.3 million and net profit rose by 57% to RMB2,126.8 million year-on-year, both are new highs;
- Dual growth drivers comprising sales of acoustic and non-acoustic solutions which grew by 22% and 130% respectively year-on-year, both delivered gross margins of 40+%;
- Optical lenses (specifications not less than 5P or 13M), based on proprietary designs and manufactured on a new production platform technology, has reached 10 million sets monthly production capacity. We expect the Optics business to become our next significant growth driver;
- Annualized return on average equity (ROE) was 29.2%, up from 23.5% in the first half of 2016;
- Solid balance sheet with cash on hand of RMB3,088.1 million. Gearing remains low with gross and net gearing ratios of 19.4% and 6.8% respectively;
- A proposed interim dividend of HK\$0.40 per share for the first half of 2017, 33% higher than the corresponding period of last year.

## MARKET REVIEW

The smartphone industry had a good start in the first half of 2017. Some new companies entered the market and others made a comeback with new products, resulting in more intense competition within the industry. Some new technologies were deployed and innovations in design intensified. The new designs featured minimal bezels, full screen displays, 3D cover glass, OLED screens, the application of 3D sensing cameras, etc. Meanwhile, lighter and thinner phones still appeal to consumers. Together with the arrival of 5G era, these evolving new features will greatly impact the components that make up the whole device. Opportunities will arise as many components are upgraded to generate better user experience.

As a global leading technology solutions provider, AAC Technologies always focuses on research and development of technologies and product. With continuous upgrades of our unique solutions to offer greater value, the Company is able to sustain robust growth. We believe, the Company has constructed a strong "moat" through continuous technological innovation and has the ability to drive new standards and innovation to provide better entertainment and user experience for audio, touch and visual interactions.

## BUSINESS REVIEW

AAC Technologies delivered strong results in the first half of 2017 with continued growth momentum from both the acoustic and non-acoustic segments. The Company posted revenue and net profit of RMB8,644.3 million and RMB2,126.8 million, representing a rise of 55% and 57% year-on-year respectively. Gross margin stayed at a high stable level of 41.0%. A major upgrade trend involving stereo sound and waterproof features drove dynamic components sales, rising by 22% year-on-year and accounting for 48% of total sales. RF Mechanical and Haptics solutions, key contributors in the non-acoustic business, grew by 130% year-on-year and contributed 48.5% of total sales in the first half of 2017, exceeding acoustic revenue. The Company's continuous and effective cost controls drove operating expenses down to 12.8% from 14.7% in the first half of 2016. The semi-annual R&D spending, as a percentage of revenue, fell slightly from 8.8% in 2016 to 8.4% in 2017. Half year net profit margin improved 0.2 percentage points to 24.6%.

Q2 revenue rose 47% year-on-year to RMB4,429.2 million. Reported net profit was RMB1,065.2 million, up 45% when compared with the same quarter last year. The strong growth from non-acoustic revenue was the main contributor. Non-acoustic business grew by 74% year-on-year, contributing over 45% of total sales in the second quarter of 2017. We demonstrated strong execution in fulfilling order for advanced solutions to meet customers' requirements. Q2 gross margin, due to product mix change, delivered 40.4%; the overall profitability of the Company will be improving when the technology and production platforms mature. The Company continues to focus on investing in R&D which accounted for about 8.8% of Q2 sales. Net profit margin was 24.1%.

## INTERIM DIVIDEND

The Board has declared an interim dividend for the first half of 2017 of HK\$0.40 (30 June 2016: HK\$0.30) per ordinary share, 33% higher than the corresponding period of last year. The interim dividend will be paid on Tuesday, 26 September 2017 to shareholders of record on Tuesday, 19 September 2017.

# CHAIRMAN'S STATEMENT

## 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 been incorporated into our business, not only to address today's pressing issues, namely climate change, talent acquisition and corporate transparency, but also to create value for our operations. The Company is mindful that there is still a lot of room for improvement. In May 2017, the Company published its fourth annual Sustainability Report that highlighted its corporate social responsibilities initiatives in the year 2016. AAC Technologies is recognized and is one of the 30 constituents of the "Hang Seng Corporate Sustainability Index".

We promote a corporate culture of continuous learning, improvement, and innovation. Reflecting this culture, we successfully obtained 123 additional patents in the first half of 2017, of which 65 are for the non-acoustic segment, bringing our intellectual property portfolio to a total of 2,160 patents. We filed another 558 patent applications, which bring us to a total of 1,330 patents pending.

## PROSPECT

Technology in our industry is always changing, but the Company has always maintained a clear strategic vision with strong focus on the development of technology platforms. The Company not only invests in advanced materials research, innovative product design and strong intellectual property portfolio, but also provides comprehensive technology solutions, through the setting and control of technical standards, to obtain better pricing capabilities.

At the same time, through continuous investment in automated production lines, the advancement in manufacturing technology continues to achieve an industry-leading level of efficiency and yield. This sets the foundation for maintaining profitability. We believe innovation in diverse technology disciplines will enable us to strengthen and expand our industry leadership.

The Company started and found success in acoustic products. Through the continuous development and innovation of technology platforms, we have steadily diversified into a range of new non-acoustic business segments and offered unique, innovative and integrated solutions since 2014. The non-acoustic segments now account for about half of the Company's revenues, underlining the progress we have made in strategically building substantial businesses in new sectors. We believe that the continuing development and innovation of technology platforms would set the foundation for the Company to extend into different product lines.

Going forward, we aim to continue to lead in the audio and haptic business and continue to develop competitive RF Mechanical solutions for our customers. We believe our next growth driver is in optics business. After years of R&D and building our intellectual property portfolios, the Company has established research and manufacturing platforms for proprietary optics technology, covering design, precision mold manufacturing to assembly processes, which not only include traditional plastic lenses with strong competitive advantages, but also unique wafer level glass lenses and glass-plastic hybrid lenses technology to create industry opportunities over the next decade. The monthly production capacity of optical lenses (specifications not less than 5P or 13M) has already ramped up to over 10 million sets this year. We are now ready to start building a track record with support from more customer projects contributing to high sales growth. We remain positive about the opportunities to grow this business further. We are well placed to capitalize on the growth potential in both acoustic and non-acoustic segments globally through our cutting-edge technology innovation.

With technology developments as the cornerstone, the Company will join hands with all the staff to embrace new challenges in a dynamic market environment and deliver sustainable and stable growth.

**Koh Boon Hwee**

*Chairman*

25 August 2017



# MANAGEMENT DISCUSSION AND ANALYSIS

## COMPANY OVERVIEW

AAC Technologies is a total solution-provider offering cutting-edge and most advanced miniaturized technology components to the consumer electronics industry worldwide. AAC Technologies believes that, continuously enhancing the Company's core competitiveness, constantly strengthening the capabilities of the Company's technology platforms and constructing an IP "moat" are the basic strategies to raise the Company's intrinsic value.

While strengthening our role as the leading global supplier of miniaturized acoustic components including a broad range of miniature speaker modules, speakers, receivers and MEMS microphones, the Company also delivers integrated solutions across multiple segments incorporating haptics vibrators, RF Mechanical and optical components, and builds a formidable "moat" of the Company through continuous technology innovation. Our products are found in smart devices such as smartphones, tablets, wearables and ultra slim notebooks. We are global in scope with research and development centers and customer service offices in key markets serving a large number of geographically diverse customers.

As a global leading technology company, AAC Technologies always focuses on the research and development of technologies and products. After years of effort and improvements, we have established stronger and independent research and development capabilities as well as abundant and valid intellectual property reserve. Management is committed to identifying and evaluating appropriate opportunities to invest in or to form alliances with other global technology companies, thereby creating long-term and effective synergies with the Company's existing technology capabilities.

## PERFORMANCE OF BUSINESS SEGMENTS

The Company is operating in the smart component area which is characterized by rapid developments and continuous upgrade. In becoming an innovative solution provider, the Company has always nimbly responded to changing customers' design specifications and production requirements to ensure our leading status regarding technology and services throughout the world.

For the six months ended 30 June 2017, the Group's total revenue reached RMB8,644.3 million, representing a year-on-year increase of 55%. The Company's two core business segments, Acoustics (Dynamic components) and Haptics and RF Mechanical, contributed 48% and 48.5% of total sales respectively. AAC Technologies will continue to build a more diversified product structure to drive revenue growth with a more balanced customer portfolio.

### Acoustic Business

The Company's acoustic business represents dynamic components. Dynamic components are components that actively produce sound, including miniature speaker modules, speakers and receivers. In the first half of 2017, revenue of the dynamic components segment was RMB4,140.7 million, representing 48% of the total revenue and a year-on-year increase of 22%. Miniature speaker module was the main revenue contributor, accounting for 30% of the total sales, while receivers and speakers delivered 13% and 5% respectively. Overall gross margin exceeded 40% amidst spec upgrade cycle and changing platform mix.

Sales revenue of the three major product lines among dynamic components have different year-on-year outcomes reflecting difference between stages of products specifications upgrade cycles and penetration market shares of individual customers: miniature speaker modules and receivers grew 32% and 28% respectively, while speakers were down 26% compared to the first half of 2016. The increasing adoption of miniature speaker modules instead of speakers by Android customers mainly contributed to the growth of miniature speaker modules sales. Audio enhancement, waterproof and stereo sound features of smartphones resulted in higher selling price of miniature speaker modules and receivers and stimulated growth of both product lines.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Haptics and RF Businesses

During the six months 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 increased 130% to RMB4,188.7 million from the same period of last year and contributed 48.5% of the total revenue. Haptics was the largest revenue contributor. Gross margin of this combined segment was 44%, better than the 43% of the same period of last year. The Company has successfully demonstrated both design and production capabilities on delivering more complicated and sophisticated solutions. For Haptics business, as the technology pioneer with a strong intellectual property reserve, the Company is able to meet the most demanding technological specifications and requirements from its customers. Together with good execution in production, the Company has secured its position as one of the major suppliers in this area.

The Company has successfully built the business foundation for RF Mechanical in previous year to prepare for this second year of growth. In the first half of 2017, the Company has further grasped more business opportunities and expanded its customer portfolio from Chinese customers to include other international Android customers. The Company offers unique cross-platform solutions for different form factor design and new materials adopted by new smart devices, enabling cross-integration in acoustic, mechanical and RF designs, being the foundation of the Company to be the technology leader in the industry. As we move towards 5G era, the Company has planned ahead and built the technology and production platform for 3D cover glass and has achieved small scale of production in the first half of this year. We are optimistic about the opportunities of the 3D cover glass being the standard package of the smartphone in the 5G era. We believe the unique advantage of the Company in the design and production of RF Mechanical and glass molding processing will create long-term synergy with this and become our new revenue driver.

## Optical Products

We believe our next growth driver is in optics business. After years of R&D and building our intellectual property portfolios, the Company has established research and manufacturing platforms for proprietary optics technology, covering design, precision mold manufacturing to assembly processes, which not only include traditional plastic lenses with strong competitive advantages, but also unique wafer level glass lenses and glass-plastic hybrid lenses technology to create industry opportunities over the next decade. The monthly production capacity of optical lenses (specification not less than 5P or 13M) has already ramped up to over 10 million sets this year. We are now ready to start building a track record with support from more customer projects. The Company is confident that, with the continuous improvement in optical designs and production platform technology, this segment will become a significant long-term growth driver to the Company in the future.

## MEMS Components: MEMS Microphones

The revenue of this segment declined 8% year-on-year to RMB275.6 million, accounting for 3% of total sales. Gross margin achieved was 12.5%. MEMS remains the key technology direction for the Company.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Summary of First Half Results

AAC Technologies achieved solid financial results in the first half of 2017. For the six months ended 30 June 2017, 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 has recorded a net operating cash inflow of RMB2,337.2 million. Total revenue rose to RMB8,644.3 million for the six months ended 30 June 2017, up RMB3,080.7 million or 55.4% compared with the first half of 2016. Our overall gross profit reached RMB3,541.2 million, representing an increase of RMB1,252.0 million or 54.7% compared to the first half of 2016. Gross profit margin was 41.0%, similar to last year's level. Profit attributable to owners of the Company grew by 57.0% from RMB1,354.8 million in the first half of 2016 to RMB2,126.8 million. Basic earnings per share amounted to RMB1.73, up 57.0% from RMB1.10 for the first half of 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, mainland China, Singapore and Vietnam where different laws and regulations, and specific concessionary incentives apply for some specific locations. During the six months ended 30 June 2017, the Group's tax expenses have not been materially impacted by any major changes in these taxation laws and regulations.

### Liquidity and Financial Resources

Our Group continued to maintain a healthy liquidity position as well as a steady cash inflow from operating activities. EBITDA to sales in the first half of 2017 stood at 36.0%, up 0.6% compared with the first half of 2016 though a minor drop from 36.6% for 2016 year-end.

Recently, the Company received strong indications of interest from financial institutions to form strategic cooperation alliances with the Company. This attests to the financial strength and good reputation of the Company. Such alliances will add valuable support to the future growth of the Company. In June 2017, the Group signed strategic cooperation agreements with 中信銀行股份有限公司南京分行 (China CITIC Bank Corporation Limited (Nanjing Branch)\*) and 平安銀行股份有限公司深圳分行 (Ping An Bank Co., Ltd. (Shenzhen Branch)\*).

\* for identification purpose

### Cash and Cash Equivalents

As at 30 June 2017, the unencumbered cash and cash equivalents of the Group amounted to RMB3,088.1 million (31 December 2016: RMB3,864.4 million), of which 54.5% (31 December 2016: 26.8%) was denominated in RMB, 28.2% (31 December 2016: 70.8%) was denominated in US dollar, 15.1% (31 December 2016: 0.4%) was denominated in Hong Kong dollar, 1.0% (31 December 2016: 0.4%) was denominated in Singapore dollar, 0.3% (31 December 2016: 0.6%) was denominated in Japanese Yen, 0.2% (31 December 2016: 0.2%) was denominated in Euros and 0.7% (31 December 2016: 0.8%) was denominated in other currencies.

### Repurchase and Cancellation of Shares

The Company believes that the repurchase of the Company's shares continuously, the increase of earnings per share and the intrinsic value per share are important metrics to enhance long-term value of our shareholders.

At the annual general meeting (the "AGM") on 24 May 2017, the Company's shareholders granted a general mandate to the Directors to repurchase shares of the Company (the "Repurchase Mandate"). Pursuant to the Repurchase Mandate, the Company is allowed to repurchase up to 10% of the total number of issued shares of the Company as at the date of the AGM (the "then Issued Shares").

# MANAGEMENT DISCUSSION AND ANALYSIS

Up to 30 June 2017, the Company had repurchased, under the Repurchase Mandate, a total of 3,000,000 shares, representing approximately 0.24% of the then Issued Shares. The aggregate consideration for the repurchase was HK\$286.8 million. 1,000,000 of these repurchased shares were cancelled in June 2017.

Up to the date of this interim report, the Company had repurchased a total of 6,000,000 shares (including the 3,000,000 shares mentioned in the preceding paragraph), representing approximately 0.49% of the then Issued Shares. The aggregate consideration for the repurchase was HK\$592.9 million. All repurchased shares have been cancelled as at the date of this interim report. The share repurchase reflects the Company's solid financial position and the Board's strong confidence in the Company's future business prospects. The Directors believe that the share repurchase was in the interest of shareholders as a whole, enhancing the net asset value per share and earnings per share of the Company.

## 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 30 June 2017, the turnover days of trade receivables dropped by 9 days to 86 days as compared to year-end of 2016. Aging of trade receivables (net of allowance for doubtful debts) based on invoice dates between 0-90 days, 91-180 days and over 180 days were RMB3,463.3 million (31 December 2016: RMB4,096.6 million), RMB204.3 million (31 December 2016: RMB363.3 million) and RMB28.7 million (31 December 2016: RMB59.5 million) respectively. We have received subsequent settlement totalling RMB1,258.5 million up to 31 July 2017, representing 34.0% of the total amount outstanding, net of allowances, as at the end of the reporting period.

The Group's trade payables turnover days rose by 2 days to 123 days as compared to year-end of 2016. Aging of trade payables based on invoice dates between 0-90 days, 91-180 days and over 180 days were RMB2,537.3 million (31 December 2016: RMB3,459.4 million), RMB480.0 million (31 December 2016: RMB491.7 million) and RMB18.0 million (31 December 2016: RMB0.4 million) respectively. The Group 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 30 June 2017, the Group's gearing ratio was 19.4% (31 December 2016: 16.9%), which is calculated by dividing total loans and borrowings by total assets. Netting off cash and cash equivalents, net gearing ratio was 6.8% (31 December 2016: 0.9%).

The short-term bank loans and long-term bank loans of the Group as at 30 June 2017 amounted to RMB4,094.4 million (31 December 2016: RMB3,303.3 million) and RMB673.6 million (31 December 2016: RMB789.1 million) respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Charges on Group Assets

Apart from bank deposits amounting to RMB62.6 million that were pledged to banks mainly in relation to the purchase of fixed assets for Optics business as at 30 June 2017 (31 December 2016: RMB111.1 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 six months ended 30 June 2017, capital expenditure incurred by the Group amounted to RMB2,329.0 million (six months ended 30 June 2016: RMB2,140.0 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 30 June 2017, the Group employed 60,215 permanent employees, an increase of 39% from 43,442 employees as at 30 June 2016, due to the needs for the development of RF Mechanical and for the early capacity preparation for customers' projects in the second half of the year.

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. 20,245,500 shares as at 30 June 2017, which has been adjusted to 20,163,000 shares as at 25 August 2017 due to the cancellation of repurchased 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. 6,135,000 shares as at 30 June 2017, which has been adjusted to 6,110,000 shares as at 25 August 2017 due to the cancellation of repurchased 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 of Hong Kong Limited (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 discretionary scheme of the Company.



# MANAGEMENT DISCUSSION AND ANALYSIS

Since the date of adoption of the Scheme and up to 30 June 2017, 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.

## 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 Number of Key Customers

The Group's five largest customers, which accounted for 79% of the Group's total revenue, are all related to the dynamic consumer mobile devices industry, characterized by innovation-driven and user experience-oriented. 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 focused on technology innovation to ensure user experience, and has strong established relationships with these major customers; all of them have been our customers for over 5 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 six months 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.

During the last eight months, one of our previous major customers has publicly acknowledged that its financial position is under stress. Due to our Company's strong credit risk management policies and control measures, our substantial receivables risk related to this customer was properly mitigated, and outstanding balances have either been repaid or covered by insurance resulting in no bad debt provisions for this account.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 guarantee continual success. 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.

We believe that the Company has a seasoned process in ensuring that we meet 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 a 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 interim report are historical in nature and past performance is not a guarantee of future performance. This interim report 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 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 interim report; 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.

# CORPORATE GOVERNANCE

The Board and the Company are committed to achieving high standards of corporate governance that properly protect and promote the interests of the 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. A more comprehensive corporate governance overview covering the following key components of the Company's governance framework is available on the Company's website [www.aactechnologies.com](http://www.aactechnologies.com):

- 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

For the six months ended 30 June 2017, the Company met the Code Provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules ("CG Code"). The Company has a culture of adopting governance best practices even though they were not required by the prevailing regulations where the Board deemed adoption would enhance the Company's governance standards. Some examples of this are quarterly financial results reporting and whistle-blowing policy.

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 Transactions by Directors of Listed Issuers (the "Model Code").

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 six months ended 30 June 2017.

## **CHANGE IN DIRECTORS' INFORMATION DISCLOSED UNDER RULE 13.51B(1) OF THE LISTING RULES**

Change in Directors' information since the date of the 2016 annual report of the Company, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

Mr. Koh Boon Hwee ("Mr. Koh"), Chairman of the Board and an independent non-executive Director, was appointed as Chairman of Agilent Technologies, Inc. (publicly-listed in USA) on 15 March 2017.

Save as disclosed above, the Directors are not aware of any other change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2016 annual report of the Company.

# CORPORATE GOVERNANCE

## 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.

### Audit and Risk Committee

The Audit and Risk Committee was established in April 2005 and is currently chaired by Mr. Poon Chung Yin Joseph (an independent non-executive Director) with two other members, Mr. Koh Boon Hwee (Chairman of the Board and an independent non-executive Director) and Ms. Ingrid Chunyuan 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 auditors.

Adopting a recommended best practice in the CG Code, the Company, since the first date of listing, has been announcing and publishing quarterly financial results. 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.

The Audit and Risk Committee and the auditor of the Company, Deloitte Touche Tohmatsu, have reviewed and discussed with the management the Company's unaudited condensed consolidated financial statements for the six months ended 30 June 2017. The Audit and Risk Committee has also reviewed this interim report.

### Nomination Committee

The Nomination Committee was established in April 2005 and is currently chaired by Dato' Tan Bian Ee (an independent non-executive Director) with two other members who are also independent non-executive Directors, namely, Mr. Poon Chung Yin Joseph and Ms. Chang Carmen I-Hua.

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.

# CORPORATE GOVERNANCE

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.

During the six months ended 30 June 2017, there was no change in the directorship of the Company and the composition of the Board.

## Board Diversity Policy

The Board's composition under diversified perspectives as at the date of this interim report was summarized as follows:

1.	Designation	Executive Director (2)		Non-executive Director (1)	
		Independent Non-executive Director (4)			
2.	Gender	Male (5)		Female (2)	
3.	Nationality	Australia (1)		British (1)	
		Singapore (3)		USA (2)	
4.	Age group	61-70 (4)	51-60 (1)	40-50 (2)	
5.	Length of service (year)	11-15 (4)		6-10 (3)	
6.	Skills, knowledge and professional experience <sup>(Note 1)</sup>	Investment (5)		Management & Commercial (5)	
		Technologies & Manufacturing (4)		Accounting & Finance (4)	
		Investor Relations (4)		Banking (2)	
		Human Resources (2)		Legal (1)	
7.	Academic background	University (5)			

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.

## Remuneration Committee

The Remuneration Committee was established in April 2005 and is currently chaired by Mr. Koh Boon Hwee (Chairman of the Board and an independent non-executive Director) with two other members who are also independent non-executive Directors, namely, Dato' Tan Bian Ee and Ms. Chang Carmen I-Hua.

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.



# CORPORATE GOVERNANCE

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

As at 30 June 2017, 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 Securities and Future Ordinance (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 in Appendix 10 of the Listing Rules, were as follows:

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

Name of Directors	Capacity	Number of ordinary shares					Total	Percentage of the Company's issued shares as at 30 June 2017 <sup>(1)</sup>
		Personal interests	Joint interests	Corporate interests	Spouse interests	Other interests		
Mr. Benjamin Zhengmin Pan ("Mr. Pan") <sup>(2)</sup>	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	40.37%
Ms. Ingrid Chunyuan Wu ("Ms. Wu") <sup>(3)</sup>	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	40.37%
Mr. Koh	Beneficial owner	795,562	-	-	-	-	795,562	0.06%
Mr. Mok Joe Kuen Richard ("Mr. Mok")	Beneficial owner	100,000	-	-	-	-	100,000	0.01%

### Notes:

- (1) Percentage was computed based on the issued 1,227,000,000 shares as at 30 June 2017;
- (2) 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.

# CORPORATE GOVERNANCE

- (3) 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 30 June 2017, 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.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, the register of interests and short positions kept by the Company under Section 336 of the SFO, other than the Directors and chief executive as disclosed in the section "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" above, showed that the following corporations or persons held interests or short position(s) in the Company's shares:

Name of shareholders	Capacity	Number of shares	Derivative interest	Percentage of the Company's issued shares as at 30 June 2017 <sup>(1)</sup>
JPMorgan Chase & Co. <sup>(2)</sup>	Beneficial owner/	183,741,266(L)	7,591,527(L)	14.97%
	Investment Manager/	9,641,999(S)	5,401,999(S)	0.79%
	Trustee/Custodian	18,536,418(P)	-	1.51%
	corporation/Approved lending agent			
The Capital Group Companies, Inc. <sup>(3)</sup>	Interest of controlled corporation	161,159,707(L)	-	13.13%

*L – Long position*

*S – Short position*

*P – Lending pool*

# CORPORATE GOVERNANCE

## Notes:

- (1) Percentage was computed based on the issued 1,227,000,000 shares as at 30 June 2017.
- (2) JPMorgan Chase & Co., through its various 100% controlled corporations ("JPMorgan Group"), is interested in (i) an aggregate of 183,741,266 shares and listed derivative interests of 3,086,430 shares with physically settled, listed derivative interests of 60,400 shares with cash settled, unlisted derivative interests of 4,351,197 shares with physically settled, and unlisted derivative interests of 93,500 shares with cash settled in long position; and (ii) an aggregate of 9,641,999 shares and listed derivative interests of 1,024,000 shares with physically settled, listed derivative interests of 1,990,600 shares with cash settled, unlisted derivative interests of 1,979,713 shares with physically settled, and unlisted derivative interests of 407,686 shares with cash settled in short position. Among them, 111,554,812 shares were 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 18,536,418 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.

- (3) 161,159,707 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 161,159,707 shares held directly by Capital Research and Management Company.

Save as the interests and short positions disclosed above, as at 30 June 2017, so far as was known to any Directors of the Company, no other persons had an interest or short position in the shares, equity derivatives or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or their interests were recorded under Section 336 of the SFO or, who were interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

# CORPORATE GOVERNANCE

## PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2017, the Company repurchased 3.0 million on the Stock Exchange and cancelled 1.0 million of its own shares. Particulars of the shares repurchased are as follow:

Month	Number of ordinary shares repurchased	Repurchase price			Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	Average HK\$	
June 2017	3,000,000 <sup>(1)</sup>	98.45	91.30	95.37	286,769 <sup>(2)</sup>

Notes:

- (1) 1,000,000 shares were cancelled in June 2017 and the remaining 2,000,000 shares were cancelled in July 2017.  
(2) Including brokerage, taxation expense and transaction cost of HK\$666,000.

Save as disclosed above and the section headed Share Award Scheme in this interim report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

## CLOSURE OF REGISTER OF MEMBERS FOR INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.40 (2016: HK\$0.30) per ordinary share for the six months ended 30 June 2017 which will be paid on Tuesday, 26 September 2017.

For the purpose of determining shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Thursday, 14 September 2017 to Tuesday, 19 September 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's 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, not later than 4:30 pm on Wednesday, 13 September 2017. Shares of the Company will be traded ex-dividend as from Tuesday, 12 September 2017.

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Deloitte.**

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**TO THE BOARD OF DIRECTORS OF AAC TECHNOLOGIES HOLDINGS INC.**

*(incorporated in the Cayman Islands with limited liability)*

## **Introduction**

We have reviewed the condensed consolidated financial statements of AAC Technologies Holdings Inc. (the “Company”) and its subsidiaries set out on pages 22 to 35, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

## **Scope of Review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

25 August 2017



# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	NOTES	1.1.2017 to 30.6.2017 (Unaudited) RMB'000	1.1.2016 to 30.6.2016 (Unaudited) RMB'000
Revenue	3	8,644,272	5,563,560
Cost of goods sold		(5,103,082)	(3,274,319)
Gross profit		3,541,190	2,289,241
Other income, gains and losses		91,564	48,880
Distribution and selling expenses		(130,267)	(116,755)
Administrative expenses		(245,127)	(208,089)
Research and development costs		(728,354)	(490,504)
Share of results of associates		(3,762)	(3,277)
Exchange (loss) gain		(16,431)	14,762
Finance costs		(67,727)	(19,988)
Profit before taxation	4	2,441,086	1,514,270
Taxation	5	(313,958)	(159,712)
Profit for the period		2,127,128	1,354,558
Other comprehensive income (expense):			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Fair value changes on available-for-sale investments		239,223	–
Exchange differences arising from translation		(73,433)	41,138
Total comprehensive income for the period		2,292,918	1,395,696
Profit (loss) for the period attributable to:			
Owners of the Company		2,126,824	1,354,779
Non-controlling interests		304	(221)
		2,127,128	1,354,558
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		2,292,738	1,396,264
Non-controlling interests		180	(568)
		2,292,918	1,395,696
Earnings per share – Basic	7	RMB1.73	RMB1.10

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	30.6.2017 (Unaudited) RMB'000	31.12.2016 (Audited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	8	11,344,583	9,494,014
Goodwill		89,217	89,217
Prepaid lease payments	8	419,461	339,583
Deposits for acquisition of property, plant and equipment		684,315	918,358
Investment properties	8	16,646	–
Available-for-sale investments	9	524,122	385,676
Interests in associates		10,384	14,146
Intangible assets		177,147	167,259
Loan receivable from a non-controlling shareholder of a subsidiary		19,679	19,994
		<b>13,285,554</b>	11,428,247
<b>Current assets</b>			
Inventories		2,809,643	2,622,931
Trade and other receivables	10	5,297,926	6,155,767
Amounts due from related companies		3,127	2,933
Taxation recoverable		12,380	71,832
Pledged bank deposits		62,612	111,108
Bank balances and cash		3,088,120	3,864,386
		<b>11,273,808</b>	12,828,957
<b>Current liabilities</b>			
Trade and other payables	11	4,449,266	5,345,908
Amounts due to related companies		49,916	50,705
Taxation payable		181,893	425,161
Short-term bank loans	12	4,094,418	3,303,293
Other short-term borrowings		341	347
		<b>8,775,834</b>	9,125,414
Net current assets		<b>2,497,974</b>	3,703,543
Total assets less current liabilities		<b>15,783,528</b>	15,131,790
<b>Non-current liabilities</b>			
Long-term bank loans	12	673,610	789,135
Government grants		77,700	80,040
Deferred tax liabilities		46,929	47,818
		<b>798,239</b>	916,993
Net assets		<b>14,985,289</b>	14,214,797
<b>Capital and reserves</b>			
Share capital	13	99,637	99,718
Reserves		14,875,371	14,089,161
Equity attributable to owners of the Company		<b>14,975,008</b>	14,188,879
Non-controlling interests		10,281	25,918
Total equity		<b>14,985,289</b>	14,214,797

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company												
	Share capital	Share premium	Treasury shares	Special reserve	Capital reserve	Translation reserve	Investments revaluation reserve	Non-distributable reserve	PRC statutory reserves	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016 (audited)	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	-	-	-	-	-	41,485	-	-	-	-	41,485	(347)	41,138
Profit for the period	-	-	-	-	-	-	-	-	-	1,354,779	1,354,779	(221)	1,354,558
Total comprehensive income (expense) for the period	-	-	-	-	-	41,485	-	-	-	1,354,779	1,396,264	(568)	1,395,696
Dividends paid (note 6)	-	-	-	-	-	-	-	-	-	(997,093)	(997,093)	-	(997,093)
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	(841)	(841)	-	(841)
Capital reduction of a subsidiary (note 17)	-	-	-	-	-	-	-	-	-	-	-	(20,593)	(20,593)
Transfer to reserve	-	-	-	-	-	-	-	-	1,733	(1,733)	-	-	-
At 30 June 2016 (unaudited)	99,718	746,957	-	1,135	23,391	18,743	-	87,245	355,913	10,372,170	11,705,272	25,980	11,731,252
At 1 January 2017 (audited)	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
Exchange differences arising from translation	-	-	-	-	-	(73,309)	-	-	-	-	(73,309)	(124)	(73,433)
Fair value changes on available-for-sale investments	-	-	-	-	-	-	239,223	-	-	-	239,223	-	239,223
Profit for the period	-	-	-	-	-	-	-	-	-	2,126,824	2,126,824	304	2,127,128
Total comprehensive income (expense) for the period	-	-	-	-	-	(73,309)	239,223	-	-	2,126,824	2,292,738	180	2,292,918
Dividends paid (note 6)	-	-	-	-	-	-	-	-	-	(1,246,964)	(1,246,964)	-	(1,246,964)
Shares repurchased (note 13)	-	-	(248,887)	-	-	-	-	-	-	-	(248,887)	-	(248,887)
Shares cancelled (note 13)	(81)	(79,815)	79,896	-	-	-	-	-	-	-	-	-	-
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	(10,758)	(10,758)	(15,817)	(26,575)
Transfer to reserve	-	-	-	-	-	-	-	-	18,970	(18,970)	-	-	-
At 30 June 2017 (unaudited)	99,637	667,142	(168,991)	1,135	23,391	79,487	239,223	87,245	375,977	13,570,762	14,975,008	10,281	14,985,289

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	NOTES	1.1.2017 to 30.6.2017 (Unaudited) RMB'000	1.1.2016 to 30.6.2016 (Unaudited) RMB'000
Net cash from operating activities		2,337,181	1,767,733
Net cash used in investing activities			
Purchase of property, plant and equipment		(1,526,803)	(1,646,697)
Deposits paid for acquisition of property, plant and equipment		(684,315)	(469,825)
Prepaid rentals on prepaid lease payments		(87,953)	(23,439)
Additions to intangible assets		(9,787)	(8,617)
Contingent consideration paid in respect of an acquisition of a subsidiary		(5,041)	(14,920)
Acquisition of an available-for-sale investment		(3,562)	–
Placement of pledged bank deposits		(410)	(5,742)
Investment in an associate		–	(9,887)
Withdrawal of pledged bank deposits		48,906	60
Proceeds from disposal of an available-for-sale investment		23,419	–
Interest received		17,156	13,925
Proceeds from disposal of property, plant and equipment	8	3,659	18,201
Other investing cash flows		–	5,580
		(2,224,731)	(2,141,361)
Net cash used in financing activities			
Bank loans raised		3,787,762	886,600
Repayment of bank loans		(3,075,688)	(399,120)
Dividends paid	6	(1,246,964)	(997,093)
Repurchase of shares	13	(248,887)	–
Interest paid		(67,727)	(19,988)
Acquisition of additional interests in subsidiaries		(26,575)	(841)
		(878,079)	(530,442)
Net decrease in cash and cash equivalents		(765,629)	(904,070)
Cash and cash equivalents at 1 January		3,864,386	2,223,864
Effect of foreign exchange rate changes		(10,637)	10,091
Cash and cash equivalents at 30 June, represented by bank balances and cash		3,088,120	1,329,885

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 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 condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) "Interim financial reporting" issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

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

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as describe below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards ("IFRSs") that are mandatorily effective for the current interim period. The application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements. Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to IAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

Also, in the current interim period, the Group transferred certain of its property, plant and equipment and prepaid lease payments to investment properties upon the change in use of those properties (see note 8 for details). Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured using the cost model. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Also, in the current interim period, the Group received certain shares in a listed company as part of its disposal of an available-for-sale investment (see note 9 for details). The listed shares are classified as available-for-sale investments and are measured at fair value at the end of each reporting period. Changes in the carrying amount of the investment are recognised in other comprehensive income (expense) and accumulated under the heading of investments revaluation reserve. When the investment is disposed of, or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Also, in the current interim period, the Company repurchased certain number of its shares in the market (see note 13 for details). The repurchase of the Company's own equity instruments is deducted directly in equity and recognised as treasury shares. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instrument.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 3. 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 segments and assess their performance. The chief operating decision maker of the Group has been identified as the Chief Executive Officer ("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 are dynamic components (including miniature speaker modules, receivers and speakers), haptics & radio frequency mechanical module ("Haptics & RF Mechanical"), Micro Electro-Mechanical System ("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.

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

	1.1.2017 to 30.6.2017 RMB'000 (Unaudited)	1.1.2016 to 30.6.2016 RMB'000 (Unaudited)
<b>Operating and reportable segments</b>		
Segment revenue		
Dynamic components	4,140,723	3,403,505
Haptics & RF Mechanical	4,188,655	1,822,692
MEMS components	275,637	298,091
Other products	39,257	39,272
Revenue	<b>8,644,272</b>	5,563,560
Segment results		
Dynamic components	1,679,037	1,463,894
Haptics & RF Mechanical	1,821,818	781,745
MEMS components	34,408	42,844
Other products	5,927	758
Total profit for operating and reportable segments – gross profit	<b>3,541,190</b>	2,289,241
Unallocated amounts:		
Interest income	26,921	13,925
Other income, gains and losses	64,643	34,955
Distribution and selling expenses	(130,267)	(116,755)
Administrative expenses	(245,127)	(208,089)
Research and development costs	(728,354)	(490,504)
Share of results of associates	(3,762)	(3,277)
Exchange (loss) gain	(16,431)	14,762
Finance costs	(67,727)	(19,988)
Profit before taxation	<b>2,441,086</b>	1,514,270



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 3. SEGMENT INFORMATION (CONTINUED)

No analysis of the Group's assets and liabilities by operating and reportable segments is disclosed as such information is not regularly provided to the CEO for review.

Segment profit represents the profit earned by each segment without allocation of finance costs, interest income, administrative expenses, research and development costs, distribution and selling expenses, other income, gains and losses, share of results of associates and exchange (loss) gain.

## 4. PROFIT BEFORE TAXATION

	1.1.2017 to 30.6.2017 RMB'000 (Unaudited)	1.1.2016 to 30.6.2016 RMB'000 (Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of intangible assets	4,794	4,740
Reversal for obsolete inventories, included in cost of goods sold	(1,654)	(54,311)
Depreciation	595,059	426,206
Release of prepaid lease payments	4,055	3,276
Gain on disposal of property, plant and equipment, net	(55)	(738)

## 5. TAXATION

	1.1.2017 to 30.6.2017 RMB'000 (Unaudited)	1.1.2016 to 30.6.2016 RMB'000 (Unaudited)
The tax charge comprises:		
People's Republic of China (the "PRC") Enterprise Income Tax	248,112	146,116
Other jurisdictions	66,786	13,782
	314,898	159,898
Deferred tax	(940)	(186)
	313,958	159,712

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 5. TAXATION (CONTINUED)

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements for the six months period ended 30 June 2017 and 30 June 2016 as the Group has no assessable profits under Hong Kong Profits Tax for both periods.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiaries is 25%.

According to a joint circular of Ministry of Finance and the State Administrative of Taxation of the PRC, Cai Shui [2008] No. 1, only the profits earned by foreign-investment enterprise prior to 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 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 regulations 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.

## 6. DIVIDENDS

During the current interim period, a final dividend of HK\$1.17 per share in respect of the year ended 31 December 2016 (six months ended 30 June 2016: final dividend of HK\$0.95 per share in respect of the year ended 31 December 2015) was paid to shareholders of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK\$1,436,760,000 (equivalent to approximately RMB1,246,964,000) (six months ended 30 June 2016: HK\$1,166,600,000 (equivalent to approximately RMB997,093,000)).

Subsequent to the end of the interim period, the directors have resolved that an interim dividend of HK\$0.40 per share (2016 interim dividend: HK\$0.30 per share) will be paid to the shareholders of the Company.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2017 is based on the profit for the period attributable to owners of the Company of RMB2,126,824,000 (six months ended 30 June 2016: RMB1,354,779,000) and on the weighted average of 1,227,815,000 (six months ended 30 June 2016: 1,228,000,000) number of shares in issue during the period.

No diluted earnings per share are presented as the Group does not have any potential dilutive ordinary shares outstanding.

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, PREPAID LEASE PAYMENTS AND INVESTMENT PROPERTIES

During the period, the Group acquired property, plant and equipment of RMB2,475,120,000 (six months ended 30 June 2016: RMB1,903,358,000). Part of the consideration of RMB918,358,000 (six months ended 30 June 2016: RMB256,661,000) was paid up in advance in prior year.

Also, during the period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB3,604,000 (six months ended 30 June 2016: RMB17,463,000) for proceeds of RMB3,659,000 (six months ended 30 June 2016: RMB18,201,000) and resulting in a gain on disposal of RMB55,000 (six months ended 30 June 2016: RMB738,000).

Also, during the period, the Group had additions to prepaid lease payments of RMB87,953,000 (six months ended 30 June 2016: RMB23,439,000).

In addition, during the period, the Group transferred certain property, plant and equipment and prepaid lease payments with an aggregate carrying amount of RMB17,243,000 to investment properties upon the change in use of those properties. Depreciation on the investment properties amounted to RMB597,000 is charged to the profit or loss during the period.

## 9. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2017 RMB'000 (Unaudited)	31.12.2016 RMB'000 (Audited)
Unlisted shares, at cost (Note a)	27,243	385,676
Listed shares, at fair value (Note b)	496,879	–
	524,122	385,676

Notes:

- (a) 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 9. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

- (b) In January 2017, the Group completed its disposal of its entire interest in an unlisted available-for-sale investment, Heptagon Advanced Micro-Optics Pte. Ltd. (“Heptagon”) to AMS AG (“AMS”). AMS is a Swiss listed company incorporated in Austria and is engaged in the manufacturing of sensor and analog solutions. As at 31 December 2016, the carrying amount of Heptagon was RMB361,995,000. As the consideration for the disposal of Heptagon, the Group received upfront cash payment of approximately US\$4,166,000 (equivalent to approximately RMB28,574,000) in cash (of which 18% of cash received is held under the stakeholder’s account and recognised as an other receivable), 1,126,000 shares of AMS with a market value of approximately RMB257,656,000 at the date of completion of the disposal, representing 1.33% equity in AMS and earn-out consideration receivable (with varying amount of AMS shares and cash) recognised as an other receivable with estimated equivalent amount of RMB75,888,000, to be released in mid-2018 based on the milestone relating to the product revenue of Heptagon in 2017. The directors expect that the milestone can be achieved.

The gain or loss arising from the disposal of Heptagon was insignificant to the Group’s result. As at 30 June 2017, the fair value of the AMS shares held by the Group, determined by reference to the quoted market bid prices available, amounted to approximately RMB496,879,000. In accordance with the disposal agreement, the Group’s interest in AMS shares are subject to lock up of different tranches on various dates up to July 2018.

## 10. TRADE AND OTHER RECEIVABLES

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 days to 120 days of issuance. The Group may accept bank acceptance bills with maturities ranging from 30 days to 180 days at the end of the credit terms in lieu of cash payment. As at 30 June 2017, included in trade and other receivables, the Group has bank acceptance and commercial bills amounting to RMB36,675,000 (31 December 2016: RMB55,583,000). The following is an aged analysis of trade and bills receivables presented based on the invoice date, which approximates the revenue recognition dates. The analysis below is net of allowance for doubtful debts.

	30.6.2017 RMB’000 (Unaudited)	31.12.2016 RMB’000 (Audited)
Age		
0 – 90 days	3,463,255	4,096,594
91 – 180 days	204,290	363,261
Over 180 days	28,777	59,554
	<b>3,696,322</b>	<b>4,519,409</b>

Included in the other receivables are loans made to certain suppliers of RMB515,657,000 (31 December 2016: RMB644,949,000). The amounts carry interest ranging from 4% to 5% per annum (31 December 2016: 4% to 5% per annum) and majority of the amounts are secured. The amounts are repayable in 1 year. Included in the balance are loans (the “Loans”) of an aggregate amount of RMB420,000,000 (31 December 2016: RMB503,000,000) advanced to a supplier (the “Supplier”) which is originally to be fully settled by August 2017, however as at date of issuance of these condensed consolidated financial statements, the Loans have not yet been settled and its maturity has been extended to December 2017. The Directors are of the opinion that no provision is necessary over the Loans, as the value of the assets pledged to secure the Loans exceeds its carrying amount.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30.6.2017 RMB'000 (Unaudited)	31.12.2016 RMB'000 (Audited)
Age		
0 – 90 days	2,537,269	3,459,399
91 – 180 days	480,056	491,681
Over 180 days	17,969	382
	<b>3,035,294</b>	<b>3,951,462</b>

## 12. BANK LOANS

Bank loans carry interest ranging from 1.35% to 4.45% per annum (31 December 2016: carry interest ranging from 0.55% to 4.05% per annum). The Company has issued guarantees to respective banks to secure the borrowings.

## 13. SHARE CAPITAL

	Number of shares	Amount US\$'000
Shares of US\$0.01 each		
Authorised:		
Ordinary shares at 1 January 2016, 1 January 2017 and 30 June 2017	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1 January 2016 and 1 January 2017	1,228,000,000	12,280
Shares repurchased and cancelled	(1,000,000)	(10)
Ordinary shares at 30 June 2017	<b>1,227,000,000</b>	<b>12,270</b>
		<b>RMB'000</b>
Presented in the condensed consolidated statement of financial position		
As at 1 January 2016 and 1 January 2017		99,718
Shares repurchased and cancelled		(81)
As at 30 June 2017		<b>99,637</b>



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 13. SHARE CAPITAL (CONTINUED)

During the current interim period, the Company repurchased a total of 3,000,000 issued ordinary shares of the Company in the market for a consideration of HK\$286,769,000 (equivalent to approximately RMB248,887,000). Out of these repurchased shares, 1,000,000 ordinary shares were cancelled during the period ended 30 June 2017.

Subsequent to 30 June 2017, the Company further repurchased a total of 3,000,000 of issued ordinary shares of the Company in the market for a total consideration of approximately HK\$306,160,000 (equivalent to approximately RMB263,787,000). Subsequent to 30 June 2017 and up to the date of issuance of these condensed consolidated financial statements, 5,000,000 of the repurchased shares have been cancelled.

## 14. 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 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 period, no new shares were 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.

## 15. CAPITAL COMMITMENTS

	30.6.2017 RMB'000 (Unaudited)	31.12.2016 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	680,752	439,694

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 16. RELATED PARTY TRANSACTIONS

Apart from the balances disclosed elsewhere in these condensed consolidated financial statements, during the period the Group had the following significant transactions with related parties:

Relationship of related parties	Nature of transactions	1.1.2017	1.1.2016
		to	to
		30.6.2017	30.6.2016
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Companies controlled by close family members of the substantial shareholders of the Company (Note)	Purchase of raw materials	62,874	51,197
	Property rentals paid	11,540	11,215
	Property rentals received	743	777
	Sales of raw materials	1,780	1,006
Close family members of the substantial shareholders of the Company (Note)	Property rentals paid	–	1,929

		USD'000	USD'000
		(Unaudited)	(Unaudited)
Companies controlled by close family members of the substantial shareholders of the Company (Note)	Property rentals paid	92	–

Note: The substantial shareholders have a shareholding which gives them significant influence over the Company. They are also directors of the Company.

During the period, the emoluments paid to the key management personnel of the Company, who represent the directors of the Company, was RMB4,462,000 (six months ended 30 June 2016: RMB11,099,000).

## 17. MAJOR NON-CASH TRANSACTION

During the period ended 30 June 2016, the capital reduction of a subsidiary of approximately RMB20,593,000 was set off with amounts due from related companies.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 18. CONTINGENT LIABILITY

During the year ended 31 December 2016, 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. The amount including legal costs which the plaintiff is seeking to recover is insignificant to the Group. On 8 March 2017, the district court handed down a judgement in favour of the plaintiff and ordered the parties to commence settlement negotiation. On 20 April 2017, the Company filed a motion for reconsideration. As of date of issuance of these condensed consolidated financial statements, the motion remains pending and a fact discovery on the remaining claims is scheduled to end in October 2017.

The directors believe that the Company's arguments remain valid and consider that no provision for liability is required under the current circumstances.

## 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique (s) and key input (s)
	30.6.2017 RMB'000 (Unaudited)	31.12.2016 RMB'000 (Audited)		
Available-for-sale investments – Listed shares	496,879	Nil	Level 1	Quoted bid prices in an active market

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

# INVESTORS INFORMATION

## KEY DATES FOR SHAREHOLDERS IN 2017

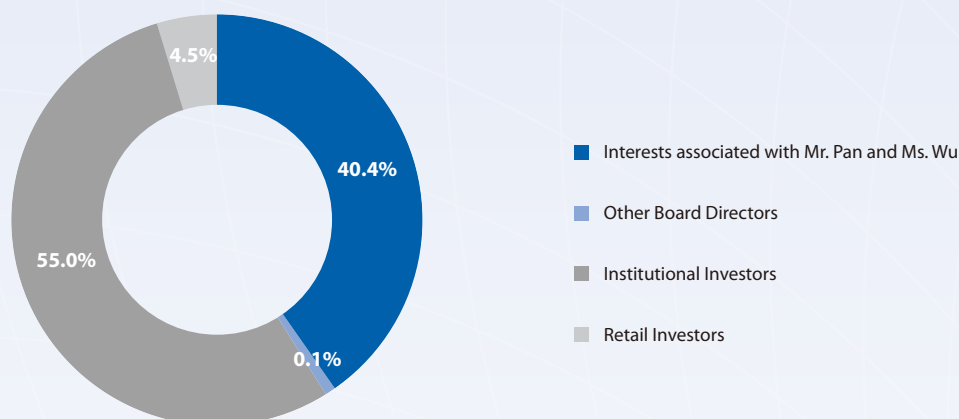
25 August 2017	2017 Interim Results Announcement
13 September 2017	2017 Interim Report available on website
14 September 2017	2017 Interim Report posted to Shareholders
14-19 September 2017 (both days inclusive)	Book closure date for Interim Dividend
19 September 2017	Record date for Interim Dividend
26 September 2017	Payment of Interim Dividend
Mid-November 2017	2017 Third Quarter Results Announcement
31 December 2017	Financial year end

## COMPANY'S REGISTRAR

Computershare Hong Kong Investor Services Limited  
 Address: Shops 1712-1716, 17th Floor, Hopewell Centre,  
 183 Queen's Road East, Wanchai, Hong Kong  
 Tel: (852) 2862 8628  
 Fax: (852) 2865 0990

## A GLIMPSE OF SHAREHOLDING STRUCTURE

(per shareholder analysis as at 30 June 2017, rounded-up %)



By Domicile	% of issued share capital
Hong Kong	52.4
North America	26.5
United Kingdom	5.0
Singapore	5.0
Europe (ex-United Kingdom)	3.3
China	2.7
Rest of World	5.1
<b>TOTAL</b>	<b>100.0</b>

Notes:

1. The shareholding in Hong Kong included the interests associated with Mr. Pan and Ms. Wu.
2. The approximate percentage of shareholding is calculated on the basis of 1,227,000,000 shares in issue as at 30 June 2017.

# INVESTORS INFORMATION

## SHARE LISTING

AAC shares are listed on the Stock Exchange and are one of the eligible stocks included in Southbound trading through Shanghai/Shenzhen-Hong Kong Stock Connect.

## INDEX RECOGNITION

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  
FTSE Hong Kong Index

## STOCK CODE

The Stock Exchange of Hong Kong Limited: 02018  
Bloomberg: 2018:HK  
Reuters: 2018.HK  
ISIN: KYG2953R1149

## HALF-YEAR RELATIVE PERFORMANCE OF THE COMPANY VS HSI FROM 1 JANUARY TO 30 JUNE 2017 IS SET OUT BELOW:



Base: 31 December 2016=1.0

Source: Bloomberg



# INVESTORS INFORMATION

## FINANCIAL REPORTS

The Company's financial reports are printed in English and Chinese language and are available at the Company's website: [www.aactechnologies.com](http://www.aactechnologies.com) and on the website of Hong Kong Exchanges and Clearing Limited at [www.hkex.com.hk](http://www.hkex.com.hk). Shareholders may at any time choose to receive the financial reports in printed form or by electronic means. Shareholders who have chosen to receive the financial reports using electronic means and who for any reason have difficulty in receiving or gaining access to the financial reports will promptly upon request be sent a printed copy free of charge.

Shareholders may at any time change their means of receipt of the financial reports by reasonable notice in writing (not less than 7 days) to the Company or the Company's Registrar at the address above or via e-mail ([aac.ecom@computershare.com.hk](mailto:aac.ecom@computershare.com.hk)). The Change Request Form may be downloaded from the Company's website under the section of "Announcement" at [www.aactechnologies.com](http://www.aactechnologies.com).

## CONTACT US

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