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 ANNUAL REPORT

AAC TECHNOLOGIES HOLDINGS INC. ("AAC Technologies" or the "Company") is a total solution-provider utilising the latest miniaturized technology components across acoustic, haptic, radio frequency and optical segments. The Company is 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 haptic 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 smart devices such as smartphones, tablets, wearables and ultra-slim 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, Vietnam and the Philippines, and technical support offices throughout the world.

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

This annual report is printed on environmentally friendly paper

PRINTED WITH SOY INK TM

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Director

Ms. Wu Ingrid Chun Yuan

Independent Non-executive Directors

Mr. Koh Boon Hwee (Chairman)
Mr. Poon Chung Yin Joseph
Dato' Tan Bian Ee
Ms. Chang Carmen I-Hua
Mr. Au Siu Cheung Albert
(Appointed on 1 February 2018)
Mr. Kwok Lam Kwong Larry
(Appointed on 1 February 2018)

AUDIT AND RISK COMMITTEE

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

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. Pan Benjamin Zhengmin
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

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10 Harcourt Road
Central, Hong Kong

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Cayman Islands

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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.
Hang Seng Bank Limited
Ping An Bank
The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

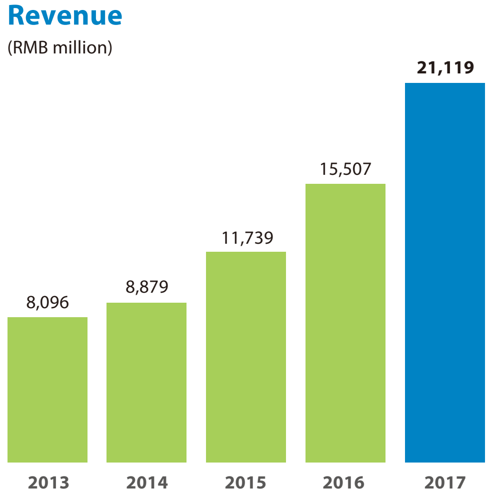
02018

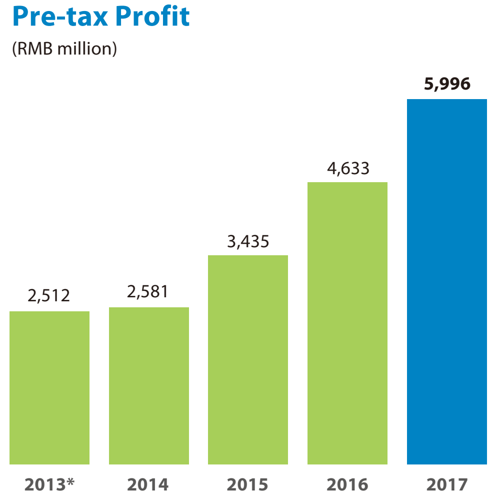
WEBSITE

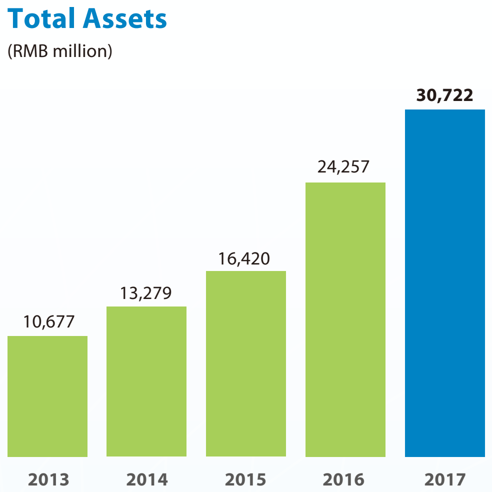
www.aactechnologies.com

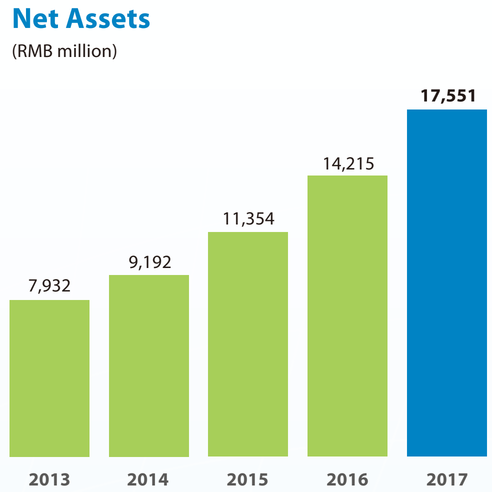
5-YEAR FINANCIAL HIGHLIGHTS

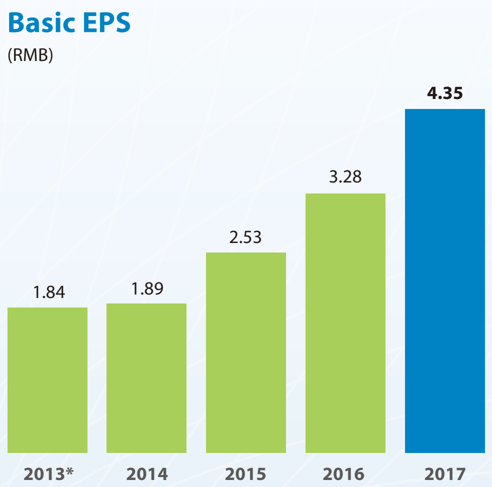
(detailed financial summary of results and assets and liabilities of the Group for 2013-2017 on page 131)

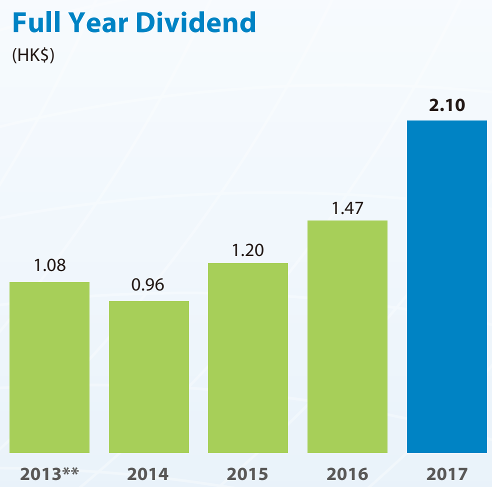












* The figures of 2013 was adjusted for one off items

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

2017 is another fulfilling year for AAC Technologies. The Company posted its eighth consecutive year of growth and reported sales exceeding RMB21 billion. Year-on-year 36% sales growth was driven by both Acoustics (up 20%) and, Haptic and RF/Mechanical solutions (up 51%). Gross margins of both continued to deliver 40%+. Annual net profit of more than RMB5.3 billion, grew by 32% year on year driving up our annualized return on average equity (ROE) to 33.6% from 31.6%.

This year, around three-quarters of the total CAPEX invested were for upgrading specific automated lines and improving production efficiency, continually raising overall labour productivity significantly. Our sustained investments in research and development and smart manufacturing for a variety of high precision technology components are already paying off.

The major developments in each segment are as below:

- In acoustics (37% of total CAPEX): monthly production capacity has reached in excess of 130 million pieces. The first generation of a new design platform, Super Linear Structure ("SLS"), has been widely adopted by customers. As a total new technology platform, SLS is designed with advanced algorithm to resolve the trade-off between form-factor and strong acoustic performance for miniaturised speakers in achieving better audio quality within a smaller space. SLS will be capable to elevate the acoustic performances for high, mid and low-end smart devices, creating a new peak user experience. SLS will help to extend the Company's acoustics business to smart speakers, AR/VR and automotive industry markets;

- For optics (17%): Wafer level glass (WLG) solutions have received wide market attention and positive interests and its development is on track. The 3D structural light has endorsed hybrid lens encrypted with WLG technologies. And, the unique properties of WLG will deliver a wide perspective for 3D sensing applications. As photography users continue to demand better imaging quality, our customers are showing strong interests in the large aperture, low flare and small form factor specs of the WLG hybrid lens. This will accelerate the implementation of the project. At present, the Company has a production plan of 5 million sets per month for WLG and continue to accelerate with the capacity expansion and project development. Also, with the successful commencement of major customers' projects, the plastic lens, mainly for 5P (small portion for 4P), has recorded monthly shipment in excess of 10 million sets at end of 2017, while capacity already at 20 million sets per month now, will continue to expand;

- In haptics (10%): the automation level and the efficiency of the production lines for haptics have continued to rise. There will be enormous opportunities in delivering better user experience demanded by Android customers. The Company will develop a range of new products to meet the gradual specs upgrade expectations in the market, and, continue to collaborate with third party software and new applications to extend our presence in the ecosystem;

- RF/Mechanical (10%): as planned, saw annual capacities of metallic cases/frames and 3D cover glass, respectively, reach 40 million and 15 million units. Our solutions achieved wide penetration into Android flagships; our goals here are to improve antenna design capabilities and precision manufacturing to deliver higher efficiency and automation. The Company, eagerly awaiting the arrival of 5G, is investing extensively in research and development of new products such as MIMO in preparing a solid foundation for the next generation of antenna solutions; and

- In MEMS: the annual production capacity of MEMS microphones, already reached 800 million units, and is planned for further expansion. The digital ASIC chips developed by the Company are in mass production stage already. During the year, the acquisition of the MEMS dies designs and IPs portfolio from an established industry player has increased the mix of our own proprietary design MEMS dies within our MEMS microphones business. This will enhance significantly the Company's value in the MEMS business segment and provide a base for expansion of the MEMS product lines.

At year-end, the Company has a solid balance sheet: cash on hand of RMB4.0 billion, and relatively low gross and net gearing ratios of 20.5% and 7.3% respectively. With that, the Company proposes a total dividend of HK$2.10 per share for the whole year of 2017, representing a 43% growth over last year.

MARKET REVIEW

This year, smart phone OEMs continued to innovate and differentiate through design and quality. So, although annual total shipments of 1.5 billion units in our present addressable smartphone market are nearly unchanged from the previous year, the intense competition has driven major smartphone brands to continue to refresh and upgrade their products. This has led to increasing demand for AAC's higher end innovative solutions, thus contributing to continued growth for AAC.

Improved acoustics and optical hardware solutions enhance and generate new user experiences, such as stereo sound and dual cameras powered by advanced algorithms. In particular, the design of minimal bezels for full screen display accentuated the importance of revamping miniaturized hardware solutions. Antenna design continued to evolve with different materials and mechanical structures, such as metal casings, glass covers, metallic mid-frames, to encompass more efficient wireless charging and radio frequency transmission solutions.

Such demanding design features present technical challenges to hardware integration and production. In return, these challenges represent growing business opportunities for capable solutions providers. AAC Technologies is well positioned to generate robust growth across these different technology segments to deliver the most advanced upgrades and exciting solutions for user experience enhancement.

BUSINESS REVIEW

The Company posted total revenue of RMB21.1 billion, representing a rise of 36% year-on-year, for the year ended 31 December 2017. For the last 3 years, the Company has achieved annual revenue growth of more than 30%. Furthermore, this year, Haptic and RF/Mechanical sales, as expected, have exceeded that of the acoustics segment. Haptic and RF/Mechanical business, driven by higher customer penetration contributed 50% of total revenue, up 51% year-on-year. Acoustics segment continued with accelerated trend of better audio performance, leading to 20% year-on-year revenue growth, and, accounted for 45% of total revenue.

During this growth phase, high gross margin of 41.3% has been maintained, a level sustained in the last 3 years. Research and development spending increased to 7.9% in 2017, from 7.5% in 2016, causing net profit margin to reduce slightly to 25.2%. Nevertheless, the Company delivered record annual net profit of RMB5.3 billion and record basic EPS of RMB4.35 for the full year, up by 32% and 33%, respectively.

In the fourth quarter of 2017, on a year-on-year basis, with higher volume shipments for customers' new products launches, quarterly revenue rose 25% to RMB7.1 billion, a record high. In addition, the new optics business plastic lens, ramped up to expected scale, made incremental material revenue contributions in the quarter. Meanwhile, the high gross margin of 41.7%, same as the previous year, has been maintained in this quarter of strong revenue growth. Net profit margin was impacted by one-off incremental operating expenses and dropped slightly by 1.8 percentage points to 25.6%.

CHAIRMAN'S STATEMENT

FINAL DIVIDEND

The Company continues to generate strong earnings and cash flow, further enhancing its already strong financial position, with cash balance at year-end of RMB4.0 billion. The Board proposed a final dividend of HK$1.70 (2016: HK$1.17) per share. Together with the interim dividend of HK$0.40 per share, the full year dividend will be HK$2.10 (2016: HK$1.47) per share, an increase of 43% year-on-year. The Company maintains a consistent total annual dividend amounts close to a payout ratio of about 40%.

Subject to Shareholders' approval at the forthcoming annual general meeting to be held on 28 May 2018, the said final dividend will be payable to Shareholders of the Company, whose names appear on the register of members of the Company on 13 June 2018. Payment will be made on or about 27 June 2018.

SUSTAINABILITY

AAC Technologies has defined 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 value creation with its stakeholders. Sustainability has been incorporated into our business to address climate change, talent acquisition, corporate transparency, and, to create value for our operations. Although AAC Technologies has been recognized as one of the 30 constituents of the "Hang Seng Corporate Sustainability Index", the Company is aware that there is scope for further improvement on related practices and polices to be implemented. Full details of our sustainability initiatives for 2017 will be made available in our fifth annual Sustainability Report, scheduled to be published around May 2018. This report, in addition to adopting the latest GRI Standards and meeting the disclosure requirements of the environmental, social and governance (ESG) Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), will consider the Company's own ESG performances with the United Nations' Sustainable Development Goals (SDGs).

Meanwhile, it is of utmost importance to continue to endorse and practice our corporate culture of continuous learning, improvement, and innovation. This year, we successfully obtained 480 additional patents of which 281 are for the non-acoustic segment, bringing our intellectual property portfolio to a total of 2,503 patents. We filed another 1,567 patent applications, which bring us to a total of 2,377 patents pending.

PROSPECT

Smart device designs have become increasingly sophisticated to provide functionality as well as enhance user experience. Market players compete to innovate and improve performance, creating unprecedented business opportunities for the Company. The Company focuses on delivering the latest miniaturized solutions across acoustic, haptic, radio frequency and optical segments.

In optics, 3D sensing and hybrid lens cameras have emerged. Although still early they render special optical augmented-reality functionalities and create new user experiences. The Company has successfully demonstrated our proprietary capabilities in plastic lens and WLG lens. We are already well prepared at this stage to capitalize on the new opportunities for providing different hybrid lens solutions for 3D sensing and imaging designs. Our dedicated commitment for plastic lens and WLG design and production technologies will present a clear definitive roadmap for performance upgrades and growth.

CHAIRMAN'S STATEMENT

In the radio frequency segment, the performance of 5G connectivity will be critical to user experience of the next generation smart device. In the past, the Company has been building up various antenna design and production capabilities to offer new radio frequency solutions: laser direct structure (LDS) antenna on speaker modules, plastic middle housings for multiple antennas, high performance unibody metallic casings, and, multiple-antennas metal frames. Going forward, the calls for increased complexity of smart antenna designs and ultra-precision manufacturing in integrating different mechanical structures, such as glass covers and inner amorphous metallic frames, for initial design preparation of 5G connectivity, will put AAC in a good position to capitalise on these opportunities.

Generations of our advanced acoustics and haptic solutions enable our customers to create new innovative user experience differentiation in their products. The Company commits to lead the specifications upgrades and promote new standards in both technologies. Continuous R&D efforts will strengthen our established technological roadmap in order to deliver more innovating designs.

The Company has a successful track record in continuously upgrading technological platforms and rendering new designs for enhanced hardware performance. In the midst of the pending arrival of a new generation of smart devices, we believe that wider market adoption of our new advanced solutions will continue to drive dollar content increase, maintain good profitability and deliver another growth cycle for the Company.

APPRECIATION

On behalf of the Board, I would like to express my heartfelt appreciation to our staff and management for their hard work and stakeholders for their loyal support, which in all have contributed to the Company's outstanding performance this year. We look forward to their continuous support and trust. Finally, I would like to welcome two new Board Directors, Mr. Albert Au and Mr. Larry Kwok, and announce Ms. Carmen Chang's upcoming retirement. I extend my sincere thanks to my fellow Board members for their contributions during the year and, especially, Carmen for her invaluable guidance during her directorship and wish her the best.

Koh Boon Hwee
Chairman
27 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY OVERVIEW

AAC Technologies is a total solution-provider offering cutting-edge advanced miniaturized technology components to the consumer electronics industry worldwide. AAC Technologies believes that, continuously enhancing the Company's core competitiveness in line with market changes, 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 haptic vibrators, RF/Mechanical and optical components, and builds a formidable "moat" for 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 technical support 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. 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 responded nimbly to changing customers' design specifications and production requirements to ensure our leading status regarding technology and services throughout the world.

For the year ended 31 December 2017, the Group's total revenue reached RMB21,118.6 million, representing a year-on-year increase of 36%. The Company's two core business segments, Acoustic (Dynamic components) and Haptic and RF/Mechanical, contributed 45% and 50% 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 2017, revenue of the dynamic components segment was RMB9,579.7 million, representing 45% of the total revenue and a year-on-year increase of 20%. Miniature speaker module was the main revenue contributor, accounting for 30% of the total sales, while receivers and speakers delivered 11.6% and 3.6% respectively. Overall gross (blended) margin maintained over 40%. In 2017, major design changes took place in the speaker module: a more complicated speaker module structure giving better acoustic performance has managed to fetch a higher selling price.

Varying sales revenue of the three major product lines reflect the various penetration market shares of individual customers. For this year, miniature speaker modules grew 42%, while receivers and speakers were down 6% and 11% respectively compared to 2016. The increasing adoption of miniature speaker modules instead of speakers by Android customers continued from the previous year and contributed to the growth of miniature speaker modules while speaker sales saw a drop.

Haptic and RF/Mechanical Businesses

During the year, Haptic and RF/Mechanical business has continued to deliver strong growth, driven by specs upgrade and a wider customer base. Combined sales of Haptic and RF/Mechanical increased 51% to RMB10,495.5 million compared to 2016 and contributed 50% of total revenue. Gross margin of this combined segment exceeded 43%, up from 40% in 2016.

This year, the Company continued to meet the most demanding technological specifications and design requirements of haptic from its customers and has proved to be the technology pioneer with strong production execution. Wider adoption of advanced haptic solutions by the market has also contributed to revenue and profit growth in this segment.

For RF/Mechanical, the Company continued to leverage on the technology platforms built in previous years. During the year, we have successfully delivered our integrated solutions to most major Android customers. Platform solutions for different form factor designs and new materials adopted by new smart devices, enabling cross-integration in acoustic, mechanical and RF modules, laid the important technology foundation to prepare for the 5G era. The Company believes that there are challenges, and, business opportunities at the same time, in offering advanced RF designs requiring precision processing capability.

Optics Business

In 2017, the Company started mass production of smartphone camera plastic lens and volume shipments to our major PRC customers. We are excited that we have achieved the goal of producing 10 million sets (specification not less than 5P or 13M) monthly, while increasing monthly production capacity to 20 million sets. In this initial phase, our design and quality have already achieved wide market recognition and we were the primary supplier in some of the projects.

As production ramped up, the Company's proprietary production process, covering precision mold manufacturing to assembly, has begun to pay off. Production yields and margins are improving and we see scope for further improvement as capacity expands. During the year, the Company started promoting WLG lenses and glass-plastic hybrid lenses. So far, the Company has received enthusiastic endorsement in the market for enhanced optical performance and better user experience from applications (such as augmented reality). We are confident the technology could continuously deliver and improve over time. We perceive that this would create significant market opportunities and the Company intends to leverage on established research and proprietary manufacturing platforms to deliver business growth over the next decade.

MEMS Components: MEMS Microphones

Sales of MEMS microphones accounted for 4% of total sales. Driven by shipment growth, revenue increased 58% year-on-year to RMB847.6 million. Gross margin improved to 22.4%, based on scale efficiency. For further strengthening our market position, an acquisition of some IPs portfolio on MEMS dies design from an established industry player was conducted in early 2017 and MEMS remains a key technology direction for the Company.

FINANCIAL REVIEW

Summary of Annual Results

AAC Technologies achieved solid financial results in 2017. For the year ended 31 December 2017, the Group delivered robust operating performance with organic growth in all business segments. Our financial position remains strong 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 RMB5,287.0 million. Total revenue rose to RMB21,118.6 million for 2017, up RMB5,611.8 million or 36% compared with 2016. Our overall gross profit reached RMB8,719.9 million, representing an increase of RMB2,277.4 million or 35% compared to 2016. Gross profit margin achieved with a more diversified product structure maintained at 41.3%. Profit attributable to owners of the Company grew by 32% from RMB4,025.7 million in 2016 to RMB5,324.6 million. Basic EPS amounted to RMB4.35, up 33% from RMB3.28 in 2016, consistent with the growth in profit attributable to owners of the Company.

As for the taxation for the year ended 31 December 2017, the increase of RMB62.6 million was mainly attributable to the growth in earnings. The Group's actual effective tax rate was 11.2% during the year, as compared with 13.1% for previous year. The Group's major operating subsidiaries fall under different tax regimes in Hong Kong, the PRC, Singapore and Vietnam where different laws and regulations, and specific concessionary incentives applied, for example, certain PRC subsidiaries are endorsed as High-New Technology Enterprises ("HNTEs") with preferential tax rates. The Group's tax expenses have not been materially impacted by any changes in these taxation laws and regulations.

Liquidity and Financial Resources

Announced 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)*). Such indications of interest attest to the long-term operating performance and financial strength of the Group.

* for identification purpose

Meanwhile, the Group continued to maintain a healthy liquidity position. Cash flows from our operating, investing and financing activities, summarised for the years ended 31 December 2017 and 2016, are as below:

	For the years ended 31 December	
	2017 **RMB'000**	**2016** **RMB'000**
Net cash from operating activities	**5,287.0**	4,812.0
Net cash (used in) investing activities	**(5,008.6)**	(4,117.3)
Net cash (used in) from financing activities	**(14.1)**	796.7

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipts from Group's sales. Cash outflows are related to the raw materials purchases, payroll, selling and distribution expenses, expenses incurred in R&D, administrative items and taxation charges. Net cash generated from operating activities was RMB5,287.0 million for the financial year of 2017 and RMB4,812.0 million for 2016. The increase in the net cash generated from operating activities was mainly attributable to the increase in profit before tax and the improvement in the overall cash conversion cycle (receivables and payables turnover) days. The Group will continue to monitor and look for sensible improvements in this metric.

i. Trade Receivables and Payables

As at 31 December 2017, the turnover days of trade receivables dropped by 7 days to 88 days as compared to 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 RMB5,300.3 million (31 December 2016: RMB4,096.6 million), RMB320.5 million (31 December 2016: RMB363.3 million) and RMB91.1 million (31 December 2016: RMB59.5 million) respectively. We have received subsequent settlement totaling RMB5,071.0 million up to 28 February 2018, representing 89% 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 2016. Aging of trade payables based on invoice dates between 0-90 days, 91-180 days and over 180 days were RMB3,878.6 million (31 December 2016: RMB3,459.4 million), RMB497.3 million (31 December 2016: RMB491.7 million) and RMB22.5 million (31 December 2016: RMB0.4 million) respectively.

ii. ***Inventory Turnover***

The inventory turnover days (average balance of inventories/cost of goods sold × 365 days) increased to 89 days for the year of 2017 from 87 days for 2016. The increase in the inventory turnover days was mainly because the Group has produced more finished goods for the strong sales in January 2018.

Investing Activities

Net cash invested in the two years 2017 and 2016, amounted to RMB5,008.6 million and RMB4,117.3 million, respectively. Investing activities are focused on CAPEX programs per the Group's business progress. Such CAPEX will include acquisition of land use rights, additional production plant and property, and, latest automation machinery and equipment for upgrades and capacity expansion. For the years ended 31 December 2017 and 2016, total CAPEX incurred were respectively RMB5,286.2 million and RMB4,137.6 million.

The Group will continue to invest in CAPEX over time to capture new market opportunities and support its long-term business strategies. CAPEX are funded by internal resources and bank loans, and are subject to annual CAPEX budgeting and approval by the Board.

Financing Activities

The Group recorded net cash used in financing activities of approximately RMB14.1 million for the financial year 2017. Major outflows were dividends paid to Shareholders of RMB1,662.3 million (2016: RMB1,314.3 million) and repurchases of shares of RMB512.7 million (2016: nil). The inflow mainly came from net new bank borrowings raised of RMB2,362.2 million (2016: RMB2,200.9 million).

Cash and Cash Equivalents

As at 31 December 2017, the unencumbered cash and cash equivalents of the Group amounted to RMB4,034.1 million (31 December 2016: RMB3,864.4 million), of which 57.4% (31 December 2016: 70.8%) was denominated in US dollar, 34.8% (31 December 2016: 26.8%) was denominated in RMB, 5.5% (31 December 2016: 0.4%) was denominated in Hong Kong dollar, 0.9% (31 December 2016: 0.6%) was denominated in Japanese Yen, 0.3% (31 December 2016: 0.4%) was denominated in Singapore dollar, 0.4% (31 December 2016: 0.2%) was denominated in Euros and 0.7% (31 December 2016: 0.8%) was denominated in other currencies.

Gearing Ratio and Indebtedness

As at 31 December 2017, the Group's gearing ratio was 20.5% (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 7.3% (31 December 2016: 0.9%).

The short-term bank loans and long-term bank loans of the Group as at 31 December 2017 amounted to RMB4,349.4 million (31 December 2016: RMB3,303.3 million) and RMB1,940.5 million (31 December 2016: RMB789.1 million) respectively.

In September 2017, the Group signed an agreement with four of our standing commercial banks for a US$300,000,000 5-year term loan facility. The Group also entered into an interest rate swap contract to manage the related interest rate exposure. 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.

Charges on Group Assets

Apart from bank deposits amounting to RMB9.0 million that were pledged to banks mainly in relation to the construction of new plant as at 31 December 2017 (31 December 2016: RMB111.1 million), no other Group assets were charged to any financial institutions.

OFF-BALANCE SHEET TRANSACTIONS

As at 31 December 2017, the Group did not enter into any material off-balance sheet transactions.

KEY RISK FACTORS

The Company has a structured risk management and internal control systems for the management of strategic, market, operational, financial and compliance risks. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Some key business and market risks factors 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 annual report 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 Key Customers

The Group's five largest customers, which accounted for 83% of the Group's total revenue, are all related to a dynamic consumer mobile devices industry, where innovation and enhancing user experience are paramount. Loss of or changes in market position 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 6 years.

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

The majority of the Group's trade receivables are from the key established customers whom the Group has strong established working relationships. The credit terms granted to them are in the range of 60- to 90-days and are in line with those granted to other customers. As part of the audit procedures, subsequent settlements of trade receivables after the year-end have been reviewed and are satisfactory, requiring no provisions.

Operational and Obsolescence Risks

The Group's operation is subject to a number of risk factors specific to designing and providing new technology solutions. Our business continues to focus on miniature components and develop new products and technologies platforms. In meeting future design specifications and production quality requirements, our successful track record 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 strive for innovation and maintain a competitive position with a wide lead in knowledge. The Company has consistently reinvested significant resources on research and development to build broad sustainable technology roadmaps and intellectual property portfolios.

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.

Liquidity and Interest Rate Risk

The Group manages liquidity risk by maintaining an adequate level of cash and cash equivalents through continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group is exposed to interest rate risks on its bank loans for working capital and capital expenditures that are associated with the expansion of the Group. Upward fluctuations in interest rates increase the costs of both existing and new loans. During the year ended 31 December 2017, there was heightened expectation of US interest rate hikes. The Federal Reserve, in total, raised interest rates three times with the result that the Group's effective interest rate on fixed rate bank loans was higher in the range of 2.60% to 4.45% per annum, while the effective interest on variable-rate bank loans was from 0.65% to 4.65% per annum. Although to some extent, the Group's US dollars deposits served as a natural hedge to this emerging risk of interest rate increase, the Group has entered into an interest rate swap contract in order to manage the variable interest rate risk of one 5-year term loan facility.

The Group's financial assets include bank balances and cash, pledged bank deposits, short-term fixed deposits, trade and other receivables, amounts due from related parties and available-for-sale investments, which represent the Group's maximum exposure to credit risk in relation to financial assets. The credit risk on liquidity is limited because the counterparties are established banks with good credit-ratings.

Foreign Exchange Risks

Given our international operations and presence, the Group faces foreign exchange exposure including transaction and translation exposure. The Group's reporting currency is RMB and our sales to overseas customers are predominantly denominated in USD, therefore the Group is exposed to exchange rate risks that could impact financial reporting results.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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. 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.

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 foreign exchange trading purposes.

PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

The performance and the results of operation of the Group as set out in this annual report are historical in nature and past performance is not a guarantee of future performance. This annual 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 document; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Pan Benjamin Zhengmin ("Mr. Pan"), aged 49, is an executive Director and Chief Executive Officer ("CEO") of the Company. Mr. Pan co-founded the Group in 1993. Mr. Pan is responsible for providing strategic direction and leadership and for developing and implementing the Group's strategic objectives and business plans. Specifically, Mr. Pan is responsible for overseeing the coordination between sales and marketing, research and development, manufacturing. Mr. Pan has been instrumental in spearheading the Group's expansion outside the PRC. In 1996, he co-founded and was appointed President and CEO of American Audio Component Inc. ("AAC U.S."). Mr. Pan also co-founded Shenzhen Meiou Electronics Corporation ("Shenzhen Meiou") in 1998 and American Audio Components (Changzhou) Co., Ltd. ("Changzhou AAC") in 2000. In addition to his experience in sales and marketing, manufacturing and management, he has also been instrumental in leading our research and development strategy, and has developed a number of patents used in the design and manufacturing some of the Company's acoustic products. Mr. Pan graduated from the 江蘇省武進師範學校 (Jiangsu Province Wujin Teacher School) in 1987. Mr. Pan is the spouse of Ms. Wu Ingrid Chun Yuan ("Ms. Wu"), the non-executive Director and a substantial Shareholder of the Company.

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

The term of appointment of Mr. Pan is set out in the "Directors and Service Contracts" section of the Directors' Report on page 25 of this annual report. Mr. Pan is subject to retirement by rotation and re-election in accordance with the article of association of the Company (the "Articles"). He is entitled to a basic salary of approximately US$700,000 per year (effective from 1 July 2015) and will be paid monthly in arrears which is determined upon negotiation between Mr. Pan and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions and which is subject to review periodically as determined by the Company.

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

Name of Director	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
Mr. Pan	Beneficial owner/interest of spouse/ interest of controlled corporation/ founder of a discretionary trust	495,317,652 (Note)	40.53%

Note:

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

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

(ii) 262,820,525 shares representing the aggregate of (a) 134,828,594 shares which are beneficially owned by Sapphire Hill Holdings Limited, a company wholly-owned by Ms. Wu; and (b) 127,991,931 shares which are beneficially owned by Ms. Wu and as Ms. Wu is his spouse, he is deemed to be interested in such 262,820,525 shares; and

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

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

Mr. Mok Joe Kuen Richard ("Mr. Mok"), aged 54, is an executive Director of the Company. Mr. Mok is responsible for the finance operations and legal and compliance of the Group. Mr. Mok joined the Group as an independent non-executive Director in April 2005 and was re-designated to executive Director in October 2009. He has over 30 years of experience in the financial services industry, including employments with international accountancy firms such as KPMG, the Hong Kong-listed brokerage South China Group, Asian Capital Partners Group and the Hong Kong-listed banking group Dah Sing Financial Holdings. Mr. Mok is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Mok held a diploma in applied psychology from Hong Kong Baptist University and graduated with a Bachelor degree of Economics from the London School of Economics and Political Science, London University.

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

The term of appointment of Mr. Mok is set out in the "Directors and Service Contracts" section of the Directors' Report on page 25 of this annual report. Mr. Mok is subject to retirement by rotation and re-election in accordance with the Articles. He is entitled to a basic salary of approximately HK$2,557,500 per year and will be paid monthly in arrears which is determined upon negotiation between Mr. Mok and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions, and, is subject to review periodically as determined by the Company.

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

Name of Director	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
Mr. Mok	Beneficial owner	100,000	0.01%

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Ms. Wu, aged 47, is a non-executive Director of the Company and a member of the Audit and Risk Committee of the Company (the "Audit and Risk Committee"). Ms. Wu co-founded the Group in 1993. In 1996, she co-founded and later became chief financial officer of AAC U.S.. She also co-founded Shenzhen Meiou in 1998, Changzhou AAC in 2000, and YEC Electronics Limited in 2001. Before Mr. Du Kuang-Yang joined the Group as the chief operating officer in March 2005, Ms. Wu was responsible for the day-to-day operations of these companies. Ms. Wu graduated from 常州衛生學校 (Changzhou School of Public Health) in 1989. Ms. Wu is the spouse of Mr. Pan, the executive Director, CEO and a substantial Shareholder of the Company. She has directorship in a number of subsidiaries of the Company. She has resigned from the board of 瀋陽中北通磁科技股份有限公司 (Shenyang General Magnetic Co., Ltd.) on 26 June 2017.

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

The term of appointment of Ms. Wu is set out in the "Directors and Service Contracts" section of the Directors' Report on page 25 of this annual report. Ms. Wu is subject to retirement by rotation and re-election in accordance with the Articles. She is entitled to the director's fee of US$66,300 per year or such other sum as the Company may from time to time decide, which is determined upon negotiation between Ms. Wu and the Company at arm's length on the basis of her previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. Her director's fee is subject to Shareholders' approval at the annual general meeting.

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

Name of Director	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
Ms. Wu	Beneficial owner/interest of spouse/ interest of controlled corporation/ founder of a discretionary trust	495,317,652 (Note)	40.53%

Note:

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

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

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

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koh Boon Hwee ("Mr. Koh"), aged 67, is the Chairman of the Board and an independent non-executive Director. He is Chairman of the Remuneration Committee (the "Remuneration Committee") and a member of the Audit and Risk Committee. Mr. Koh has been appointed to the Board since 9 November 2004. He brings with him extensive management experience and leadership, and has over 30 years of experience in the IT-related and electronics industries.

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

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

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

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

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

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

The term of appointment of Mr. Koh is set out in the "Directors and Service Contracts" section of the Directors' Report on page 25 of this annual report. Mr. Koh is subject to retirement by rotation and re-election in accordance with the Articles. He is entitled to the director's fee of US$139,000 per year or such other sum as the Company may from time to time decide, which is determined upon negotiation between Mr. Koh and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. His director's fee is subject to Shareholders' approval at the annual general meeting.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

Name of Director	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
Mr. Koh	Beneficial owner	795,562	0.07%

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

Dato' Tan Bian Ee ("Dato' Tan"), aged 71, was appointed as an independent non-executive Director, the Chairman of the Nomination Committee (the "Nomination Committee") and a member of the Remuneration Committee of the Company on 11 September 2009. In December 2014, he was re-appointed as the CEO and executive director of MFS Technology (S) Pte Ltd., a company listed in Singapore from which he retired in February 2014. He stepped down from Singapore Airlines Engineering Company on July 2010 after 6 years of service. Dato' Tan was the chief operating officer of Avago Technologies and Worldwide Sales and Global Operations prior to his retirement in February 2009. He joined Hewlett-Packard in 1973 and was promoted to Hewlett-Packard Malaysia managing director in 1989. He was then appointed as the President of Agilent Technologies Malaysia and Singapore in 1999 when Hewlett-Packard spun off its Semiconductor Component Operations to form Agilent Technologies Inc.. Dato' Tan has been council member in the Industrial Coordination Council under the Ministry of International Trade & Industry of Malaysia since 2000. Dato' Tan was a director of Singapore Workforce Development Agency under the Singapore Ministry of Manpower from 2004-2005. He was also the Northern Region chairman for Young Enterprise from 2003-2004, a community educational programme under the auspices of the American Malaysian Chamber of Commerce and a founder member of Penang Skills Development Corporation.

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

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

The term of appointment of Dato' Tan is set out in the "Directors and Service Contracts" section of the Directors' Report on page 25 of this annual report. Dato' Tan is subject to retirement by rotation and re-election in accordance with the Articles. Dato' Tan is entitled to a director's fee of US$56,200 per year or such other sum as the Company may from time to time decide, which is determined upon negotiation between Dato' Tan and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. His director's fee is subject to Shareholders' approval at the annual general meeting.

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

Mr. Poon Chung Yin Joseph ("Mr. Poon"), aged 63, was appointed as an independent non-executive Director, the Chairman of the Audit and Risk Committee and a member of the Nomination Committee of the Company on 5 October 2009. He is group managing director and deputy CEO of a private company and an independent non-executive director of Hysan Development Company Ltd., a company listed in Hong Kong. Mr. Poon was formerly the managing director and deputy chief executive of Hang Seng Bank Limited and had held several senior management posts in HSBC Group and a number of international renowned financial institutions. Mr. Poon was the former chairman of Hang Seng Index Advisory Committee of Hang Seng Indexes Company Limited, former member of the board of Inland Revenue of Hong Kong Special Administrative Region and the Environmental and Conservation Fund Investment Committee, and a former committee member of the Chinese General Chamber of Commerce. Mr. Poon holds a Bachelor of Commerce degree from the University of Western Australia, is a member of Chartered Accountants Australia and New Zealand, and the Hong Kong Institute of Certified Public Accountants. Mr. Poon is also a fellow of the Hong Kong Institute of Directors.

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

The term of appointment of Mr. Poon is set out in the "Directors and Service Contracts" section of the Directors' Report on page 25 of this annual report. Mr. Poon is subject to retirement by rotation and re-election in accordance with the Articles. He is entitled to the director's fee of US$89,300 per year or such other sum as the Company may from time to time decide, which is determined upon negotiation between Mr. Poon and the Company at arm's length on the basis of his previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. His director's fee is subject to Shareholders' approval at the annual general meeting.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Chang Carmen I-Hua ("Ms. Chang"), aged 70, was appointed as an independent non-executive Director, a member of the Remuneration Committee and a member of the Nomination Committee of the Company on 3 May 2010. She was appointed as an independent non-executive director of Semiconductor Manufacturing International Corporation on 1 September 2014, a company listed in Hong Kong and USA. Ms. Chang is a partner at New Enterprise Associates ("NEA"), a U.S. venture fund, and serves as its managing director, Asia (ex-India). Prior to joining NEA, Ms. Chang was a U.S. corporate and securities lawyer and was involved in many of the seminal technology transactions and companies in China, including the first foreign investments in China Netcom, Baidu and other companies and in numerous other capital markets and merger and acquisition transactions involving Lenovo, Foxconn, Google, Tencent, Netease, CEC, China Mobile, Spreadtrum, SMIC and others.

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

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

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

The term of appointment of Ms. Chang is set out in the "Directors and Service Contracts" section of the Directors' Report on page 25 of this annual report. Ms. Chang is subject to retirement by rotation and re-election in accordance with the Articles. She is entitled to the director's fee of US$52,900 per year or such other sum as the Company may from time to time decide, which is determined upon negotiation between Ms. Chang and the Company at arm's length on the basis of her previous experience, professional qualifications, responsibilities to be involved in the Company and the amount of time devoted to the Company's business as well as the current financial position of the Company and the prevailing market conditions. Her director's fee is subject to Shareholders' approval at the annual general meeting.

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

Mr. Au Siu Cheung Albert ("Mr. Au"), Bronze Bauhinia Star (BBS), aged 66, was appointed as an independent non-executive Director of the Company on 1 February 2018. He is currently the Special Advisor of BDO Limited. He is a non-executive director of the Securities and Futures Commission (SFC). He is also chairman of the SFC's Audit Committee and deputy chairman of the Budget Committee and sits on the SFC (HKEC Listing) Appeals Committee, the Investment Committee and the Remuneration Committee. Mr. Au is an independent non-executive director and the chairman of the Audit Committee of Café de Coral Holdings Limited, a company listed in Hong Kong and an independent non-executive director of Hong Kong International Theme Parks Limited. He is the chairman of the Hong Kong Trade Development Council's Professional Services Advisory Committee.

Previously, Mr. Au was the founder and chairman of BDO Limited. Mr. Au has more than 40 years of experience in the accountancy profession. He was president of the Hong Kong Institute of Certified Public Accountants. In addition, he was chairman of the Independent Commission Against Corruption's Corruption Prevention Advisory Committee and served as a member of its Advisory Committee on Corruption. Mr. Au was the vice chairman of the Hong Kong Coalition of Professional Services Limited. He was a member of the Air Transport Licensing Authority, the Federation of Hong Kong Industries General Committee, the Hong Kong Productivity Council where he was also Audit Committee chairman, and the Hong Kong Housing Authority.

Mr. Au is a Fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a member of the Canadian Institute of Chartered Accountants.

Mr. Au has entered into a letter of appointment with the Company for a term commencing from 1 February 2018 up to the conclusion of the annual general meeting in 2020. He is subject to retirement and re-election at the next following annual general meeting of the Company after his appointment and thereafter subject to retirement by rotation and re-election at least once every three years in accordance with the Articles. Mr. Au is entitled to a director's fee of US$60,000 per annum (or a pro rata amount for the duration of his directorship for an incomplete year) which was determined by the Board, based on the recommendations of the Remuneration Committee of the Company and subject to approval/authorization granted by Shareholders at the annual general meeting, with reference to his duties and responsibilities with the Company and the prevailing market rate for his position as an independent non-executive Director.

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

Mr. Kwok Lam Kwong Larry ("Mr. Kwok"), Silver Bauhinia Star (SBS), Justice of the Peace (JP), aged 62, was appointed as an independent non-executive Director of the Company on 1 February 2018. He is currently an independent non-executive director of Café de Coral Holdings Limited. He is also an independent non-executive director of Shenwan Hongyuan (H.K.) Limited and Starlite Holdings Limited and a non-executive director of First Shanghai Investments Limited. Previously, Mr. Kwok was an independent non-executive director of Pacific Andes International Holdings Limited and Qianhai Health Holdings Limited. All companies are listed in Hong Kong.

Mr. Kwok is a practicing solicitor in Hong Kong, and is a Partner of Kwok Yih & Chan, Solicitors. He is also qualified to practice as a solicitor in Australia, England and Wales and Singapore. Mr. Kwok is a fellow member of the Hong Kong Institute of Certified Public Accountants, CPA Australia and The Institute of Chartered Accountants in England and Wales. Mr. Kwok graduated from the University of Sydney, Australia with Bachelor's Degrees in Economics and Laws respectively and a Master's Degree in Laws. He also obtained the Advanced Management Program Diploma from the Harvard Business School.

Mr. Kwok has entered into a letter of appointment with the Company for a term commencing from 1 February 2018 up to the conclusion of the annual general meeting in 2020. He is subject to retirement and re-election at the next following annual general meeting of the Company after his appointment and thereafter subject to retirement by rotation and re-election at least once every three years in accordance with the Articles. Mr. Kwok is entitled to a director's fee of US$60,000 per annum (or a pro rata amount for the duration of his directorship for an incomplete year) which was determined by the Board, based on the recommendations of the Remuneration Committee of the Company and subject to approval/authorization granted by Shareholders at the annual general meeting, with reference to his duties and responsibilities with the Company and the prevailing market rate for his position as an independent non-executive Director.

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

SENIOR MANAGEMENT

Mr. Jack Y. Duan ("Mr. Duan"), aged 45, is the chief operating officer of the Company effective from 1 October 2014. Mr. Duan joined the Company on 1 January 2014 as Senior Vice President of Sales and Marketing. Mr. Duan is experienced in the electronics sales, marketing industry and global supply management. Mr. Duan has held senior sales, marketing and global supply management positions at various electronics companies in the PRC and the USA, such as Foxconn and Hewlett-Packard. Mr. Duan obtained Master degrees in Engineering from University of Southern California and University of California, San Diego, and Bachelor of Science degree in Engineering Physics from Peking University in 1996.

Mr. David Plekenpol ("Mr. Plekenpol"), aged 58, is the chief strategy officer of the Company. Mr. Plekenpol is responsible for future business strategy, including assessing and identifying technology trends and development for the Company and reports directly to the CEO. Mr. Plekenpol has spent twenty years in the telecom industry, with executive positions in both Lucent and Alcatel. He founded two Silicon Valley VC-backed startup companies, led sales & marketing for an optical component startup in Scotland and spent two years with a VC-backed Chinese mobile design startup in Shanghai before joining AAC Technologies. He has an undergraduate degree from Dartmouth College and an MBA from the Graduate School of Business at Stanford University. Mr. Plekenpol is a member of the International Advisory Board for the University of Edinburgh Business School. Mr. Plekenpol joined AAC Technologies in February 2010.

DIRECTORS' REPORT

The Directors of the Company present their annual report and the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 40 to the consolidated financial statements.

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement on pages 4 to 7 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 35 to the consolidated financial statements. Details of principal risks and uncertainties affecting the Company are provided in Management Discussion and Analysis on pages 12 to 14 of this annual report. An analysis of the Group's performance is provided in the summary of the results and of the assets and liabilities of the Group for the last five financial years as set out on page 131 of this annual report. Analysis using financial key performance indicators (KPIs) are provided in the 5-Year Financial Highlights on page 3 and Management Discussion and Analysis on pages 8 to 11 of this annual report. In addition, discussions on the Group's environmental, social and governance policies, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Corporate Governance Report and section of Sustainability on pages 35 to 62 of this annual report. The sustainability report for 2017 will be available on the Company's corporate website in May 2018.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 68.

An interim dividend of HK$0.40 was paid during the year. The Directors of the Company have resolved to recommend the payment of a final dividend of HK$1.70 per share.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of the retained profits, the share premium accounts and the special reserve which amounted to RMB2,212,117,000 (2016: RMB2,169,950,000). Under the section 34 of Cayman Islands Companies Law, the share premium of the Company is available for distribution or paying dividends to Shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHT

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

SHARE CAPITAL

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

DIRECTORS' REPORT

DIRECTORS AND SERVICE CONTRACTS

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

Executive Directors:

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

Non-executive Director:

Ms. Wu Ingrid Chun Yuan

Independent non-executive Directors:

Mr. Koh Boon Hwee (Chairman)
Mr. Poon Chung Yin Joseph
Dato' Tan Bian Ee
Ms. Chang Carmen I-Hua
Mr. Au Siu Cheung Albert (Appointed on 1 February 2018)
Mr. Kwok Lam Kwong Larry (Appointed on 1 February 2018)

Appointment and Re-election of the Directors of the Company

In accordance with Article 84 of the Articles, Mr. Koh, Mr. Mok and Ms. Chang will retire by rotation. Except Ms. Chang, who had notified the Company that she will not seek for re-election, Mr. Koh and Mr. Mok, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Article 83 of the Articles, Mr. Au and Mr. Kwok are additional Directors of the Company newly appointed by the Board, shall hold office only until the next following annual general meeting of the Company after their appointment, and shall then be eligible for re-election at that meeting, and thereafter subject to retirement by rotation and re-election at least once every three years in accordance with the Articles.

Directors' Service Contract

Each of Mr. Pan, Mr. Mok, Ms. Wu, Mr. Koh, Mr. Poon, Dato' Tan and Ms. Chang has entered into a letter of appointment with the Company for a term from the date of 2017 annual general meeting held on 24 May 2017 until the conclusion of the annual general meeting of the Company to be held in 2019, which can be terminated on whenever is the earlier of (i) the date of expiry of the above period; or (ii) ceasing to be a Director of the Company for any reason pursuant to the Articles or any other applicable law.

Each of Messrs. Au and Kwok has entered into a letter of appointment with the Company for a term from 1 February 2018 until the conclusion of the annual general meeting of the Company to be held in 2020, which can be terminated on whenever is the earlier of (i) the date of expiry of the above period; or (ii) ceasing to be a Director of the Company for any reason pursuant to the Articles or any other applicable law.

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

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

After review of the market information and recommendation provided by Remuneration Committee (none of the Remuneration Committee members participated in the decision of his/her remuneration) that the remuneration for the non-executive Director and independent non-executive Directors would have an increment in director's fees, subject to Shareholders' authorization, effective retrospectively from 1 January 2018. Accordingly, the new basic annual director's fee payable to each non-executive Director/independent non-executive Director would be US$60,000. The chairpersons of the Board, Audit and Risk Committee, Nomination Committee and Remuneration Committee would be entitled to additional annual director's fees of US$85,000, US$50,000, US$9,000 and US$9,000 respectively. Members of Audit and Risk Committee, Nomination Committee and Remuneration Committee would be entitled to additional annual director's fees of US$25,000, US$4,500 and US$4,500 respectively.

Biographical details of the Directors of the Company and senior management of the Group as at the date of the annual report are set out on pages 15 to 23.

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

As at 31 December 2017, the beneficial interests of the Directors of the Company and chief executive in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions) which they are taken or deemed to have taken under such provisions of the SFO and pursuant to the Model Code, were as follows:

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

Name of Directors of the Company	Capacity	Number of ordinary shares						Percentage of the Company's issued shares as at 31 December 2017[1]
		Personal interests	Joint interests	Corporate interests	Spouse interests	Other interests	Total number of shares	
Mr. Pan [2]	Beneficial owner/interest of spouse/ interest of controlled corporation/ founder of a discretionary trust	69,512,565	–	51,439,440	262,820,525	111,545,122	495,317,652	40.53%
Ms. Wu [3]	Beneficial owner/interest of spouse/ interest of controlled corporation/ founder of a discretionary trust	127,991,931	–	134,828,594	120,952,005	111,545,122	495,317,652	40.53%
Mr. Koh	Beneficial owner	795,562	–	–	–	–	795,562	0.07%
Mr. Mok	Beneficial owner	100,000	–	–	–	–	100,000	0.01%

Notes:

(1) Percentage was computed based on the issued 1,222,000,000 shares as at 31 December 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. They have no discretion over distributions or investments in their trusts until distribution is made to them.

(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. They have no discretion over distributions or investments in their trusts until distribution is made to them.

Other than as disclosed above, as at 31 December 2017, none of the Directors of the Company, 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors 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.

CONTINUING CONNECTED TRANSACTIONS

During 2017, the Group had entered into the continuing connected transactions with certain connected persons of the Company reported in this section. They constituted non-exempt continuing connected transactions subject only to the announcement, reporting and annual review requirement under Chapter 14A of the Listing Rules.

2017 Lease Agreements

The Group entered into certain lease agreements ("2017 Lease Agreements") with respective lessors for the lease of offices and production facilities necessary for the business activities of the Group on 16 December 2016 (as amended by subsequent supplemental agreements). A brief recap and actual amount of applicable taxes required to be paid of the transactions is as follows:

Date of agreement	Lessee	Lessor	Location of Premises	Term	Annual Caps RMB'000	2017 Actual RMB'000
16.12.2016	The Group	深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd.) ("Shenzhen Yuanyu")	1A01, 6-10A, 6-8C, Roof A, Nanda Building, Nanshan, Shenzhen, PRC	1.1.2017 – 31.12.2019	2017 – 12,168 2018 – 12,168 2019 – 12,168	12,167
16.12.2016	The Group	江蘇遠宇電子集團有限公司 (自2017年11月起改名為江蘇遠宇電子投資集團有限公司) (Jiangsu Yuanyu Electronics Group Co., Ltd., renamed as Jiangsu Yuanyu Electronics Investment Group Co., Ltd. from Nov 2017) ("Jiangsu Yuanyu")	Yuanyu Technologies Building, Science & Education Mega Centre, Changzhou, Jiangsu Province, PRC	1.1.2017 – 31.12.2019	2017 – 10,607 2018 – 10,607 2019 – 10,716	10,534
16.12.2016	The Group	常州來方圓電子有限公司 (Changzhou Laifangyuan Electronics Co., Ltd.) ("Changzhou LFY")	Nanxiashu Town, Wujin District, Changzhou, Jiangsu Province, PRC	1.1.2017 – 31.12.2019	2017 – 2,357 2018 – 2,357 2019 – 2,395	2,159
16.12.2016	The Group	紅光(越南)塑業有限公司 (Hongguang Viet Nam Plastic Company Limited) ("HVPC")	Lot E3-3 Que Vo IP, Van Duong Commune, Bac Ninh city, Bac Ninh Province, Viet Nam	1.1.2017 – 31.12.2019	2017 – US$232,512 2018 – US$232,512 2019 – US$232,512	US$225,000

2017 Purchase Agreements

The Group entered into certain purchase agreements ("2017 Purchase Agreements" and "The Supplemental 2017 HGCJ Master Purchase Agreement") with respective supplier for the purchase of raw materials necessary for the production activities of the Group on 16 December 2016 and 10 November 2017. A brief recap and actual amount of applicable taxes required to be paid of the transactions is as follows:

Date of agreement	Purchaser Group	Supplier Group	Materials for purchase	Term	Annual Caps RMB'000	2017 Actual RMB'000
16.12.2016	The Group	常州市友晟電子有限公司 (Changzhou Yousheng Electronics Co., Ltd.) ("Changzhou Yousheng")	Acoustic component parts e.g. adhesives, domes and mesh	1.1.2017 – 31.12.2019	2017 – 76,050 2018 – 91,260 2019 – 100,620	52,350
16.12.2016 (revised on 10.11.2017)	The Group	常州市武進湖塘何家紅光沖件廠(自2017年12月起改名為常州市武進紅光沖件有限公司) (Wujin Hutang Hejia Hongguang Stamping Factory renamed to Wujin Hongguang Stamping Co., Ltd. from Dec 2017) ("HGCJ")	Packaging and stamping materials e.g. foam blocks, plastic boards, etc.	1.1.2017 – 31.12.2019	2017 – 67,760 2018 – 94,864 2019 – 119,025	57,660
16.12.2016	The Group	常州遠宇精密模具製造有限公司 (Changzhou Yuanyu Precise Model Manufacturing Co., Ltd.) ("Changzhou Model")	Supplement materials in manufacturing process e.g. modules and stamping components of acoustic products	1.1.2017 – 31.12.2019	2017 – 58,500 2018 – 81,900 2019 – 105,300	28,918
16.12.2016	The Group	成都中科來方能源科技有限公司 (Chengdu Zhongke Laifang Power Science & Technology Co., Ltd.) ("Chengdu ZKLP")	Materials e.g. chemical materials	1.1.2017 – 31.12.2019	2017 – 35,100 2018 – 58,500 2019 – 93,600	1,216

The independent non-executive Directors had reviewed the continuing connected transactions in 2017 and are satisfied that the transactions were entered into by the Group (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) that the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company has engaged its external auditor to review the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Directors of the Company also confirmed that the auditor had confirmed the matters set out in rule 14A.56 of the Listing Rules regarding the continuing connected transactions for the year ended 31 December 2017.

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

The Connected Relationship

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

The connected party	The person in relation with connected party
Changzhou LFY	A company owned by Mr. Pan's Father and Mr. Pan's Mother each as to 50%
Changzhou Model	A company wholly-owned by Mr. Pan's Father
Changzhou Yousheng	A company owned by Mr. Pan's Mother as to 30% and Ms. Pan Lijun, sister of Mr. Pan as to 70%
Chengdu ZKLP	A subsidiary of Jiangsu Yuanyu
HGCJ	A company wholly-owned by Ms. Wu's Mother
HVPC	A subsidiary of HGCJ
Jiangsu Yuanyu	A company owned by Changzhou LFY and Changzhou Yulai (a company beneficially owned as to 50% by each of the Mr. Pan's Father and Mr. Pan's Mother)
Shenzhen Yuanyu	A company wholly-owned by Ms. Ye Huamei, mother of Ms. Wu

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the year are set out in note 39 to the consolidated financial statements and include transactions that constitute continuing connected transactions for which the disclosure requirements under the Listing Rules have been complied.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the register of interests and short positions kept by the Company under Section 336 of the SFO, other than the Directors of the Company and chief executive, showed that the following persons held interests or short positions in the Company's shares:

Name of Shareholders	Capacity	Number of shares	Derivative interest	Percentage of the Company's issued shares as at 31 December 2017 (1)
JPMorgan Chase & Co. (2)	Beneficial owner/Investment Manager/Trustee/ Approved lending agent	151,330,823(L) 698,500(S) 17,857,112(P)	2,360,120(L) 1,700,315(S) –	12.57% 0.19% 1.46%
The Capital Group Companies, Inc. (3)	Interest of controlled corporation	146,606,695(L)	90(L)	12.00%

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

Notes:

(1) Percentage was computed based on the issued 1,222,000,000 shares as at 31 December 2017;

(2) JPMorgan Chase & Co., through its various 100% controlled corporations ("JPMorgan Group"), is interested in (i) an aggregate of 151,330,823 shares and listed derivative interests of 1,626,170 shares with physically settled, listed derivative interests of 232,450 shares with cash settled, and unlisted derivative interests of 501,500 shares with physically settled in long position; and (ii) an aggregate of 698,500 shares and listed derivative interests of 106,000 shares with physically settled, listed derivative interests of 877,900 shares with cash settled, unlisted derivative interests of 276,598 shares with physically settled, and unlisted derivative interests of 439,817 shares with cash settled in short position. Among them, 111,555,672 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 17,857,112 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) The Capital Group Companies, Inc., through its various 100% controlled corporations, is interested in an aggregate of 146,606,695 shares and unlisted derivative interests of 90 shares with physically settled in long position.

EMOLUMENT POLICY

The Board has delegated the Remuneration Committee with assisting the Board on formulating remuneration policy and reviewing the emoluments of senior management and the Directors of the Company. Responsibilities and work performed in 2017 by the Remuneration Committee are stated on pages 48 to 50 in the Corporate Governance Report.

PERMITTED INDEMNITY PROVISION

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

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. 20,163,000 shares as at 31 December 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. 6,110,000 shares as at 31 December 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, 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 Listing Rules, and is a discretional scheme of the Company.

Since the date of adoption of the Scheme and up to 31 December 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 capitalised 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.

EQUITY-LINKED AGREEMENTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company believes that in addition to the sustained increase of EPS and the intrinsic value per share, the repurchase of the Company's shares at the appropriate timing could also be an important metric 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 of the Company 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").

Up to 31 December 2017, the Company had repurchased, under the Repurchase Mandate, a total of 6,000,000 shares, representing approximately 0.49% of the then Issued Shares. The aggregate consideration of HK$592.9 million for the repurchase was paid out from the Company's retained profits.

All repurchased shares have been cancelled as at the date of this annual 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 of the Company believe that the share repurchase was in the interest of Shareholders as a whole, enhancing the net asset value per share and EPS of the Company.

Details of the repurchases are as follows:

Month	Total number of the ordinary shares	Highest price paid per share (HK$)	Lowest price paid per share (HK$)	Aggregate consideration[1] (HK$'000)
June 2017	3,000,000	98.45	91.30	286,769
July 2017	3,000,000	109.00	95.00	306,160

Notes:

(1) Including brokerage, taxation expense and transaction cost of HK$1,377,000.
(2) All 6,000,000 shares repurchased were cancelled on deliver of the share certificates during the year.

Apart from the above, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company during the year ended 31 December 2017.

HUMAN RESOURCES

As at 31 December 2017, the Group employed 52,171 permanent employees, an increase of 12% from 46,396 employees as at 31 December 2016, due to the expanded production and research & development capabilities of existing and new product range.

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 employees. In addition to basic salaries, allowances, social insurance and mandatory pension fund contribution, certain employees and employee groups are also eligible for the Group's bonus plan and share award scheme. As required by the relevant regulations, the Group participates in the social insurance schemes operated by the relevant local government authorities in the PRC. The Group also participates in the mandatory pension fund and social insurance schemes for our employees in Hong Kong, Taiwan, Singapore, South Korea, Japan, India, Vietnam, Philippines, USA and various countries in Europe.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 83.2% of the Group's total revenue from sales while the revenue from sales attributable to the Group's largest customer was approximately 56.6% of the Group's total revenue from sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers were 32.3% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 11.8% of the Group's total purchases.

As at 31 December 2017, Ms. Wu, a Director of the Company, holding more than 5% of the Company's share capital, had beneficial interests in one of the Group's five largest customers. The customer has the usual trading terms as any other customers of the Group. At no time during the year and up to the date of this report, had Ms. Wu's interests in the customer exceeded 1%. The Capital Group Companies, Inc. holding 12% of the Company's share capital, as disclosed as one substantial Shareholder on page 31, had beneficial interests in two of the Group's five largest customers and one of the Group's five largest suppliers. These customers and suppliers have the usual trading terms as any other customers and suppliers of the Group.

To the knowledge of the Directors of the Company, both Ms. Wu and The Capital Group Companies, Inc. have never been directors of these customers or the suppliers nor involved in their management.

Save as disclosed above, none of the Directors of the Company, their close associates or any Shareholder (which to the knowledge of the Directors of the Company, owns more than 5% of the Company's share capital) had an interest in any of the five largest customers or suppliers.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

In accordance with the publicly available information and as far as the Directors of the Company are aware, the Company has maintained a public float of more than 25% of the Company's issued shares throughout the financial year ended 31 December 2017 and has continued to maintain the public float as at the date of this annual report.

AUDITOR

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

On behalf of the Board
AAC Technologies Holdings Inc.

Koh Boon Hwee
Chairman
27 March 2018

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE POLICY AND PRACTICES

The Board and the Company consider effective corporate governance not only a safeguard of the interests and confidence of our stakeholders, but also a key component in the Group's sustainable long term development and value creation. Our Board is at the centre of our corporate governance structure, setting, regularly reviewing and refining the principles, policies and practices appropriate to the conduct and growth of the Group's operations. Our sound corporate governance structure includes a quality Board, high standards of corporate responsibility and sustainability awareness, a high degree of transparency, accountability and independence, and, an effective design, implementation and enforcement of the risk management and internal control systems.

Based on regular reviews of the Company's actual performance against the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules, the Board is satisfied that throughout the financial year ended 31 December 2017, the Company complied with all the code provisions of the CG Code (the "Code Provision(s)"). Furthermore, the Company aims to go beyond Code Provisions compliance by embracing the latest best and recommended corporate governance practices, such as linking a significant proportion of the executive Directors' remuneration to corporate and individual performances, and having effective whistleblowing policy in place.

The Board recognizes the need to continuously adapt and improve our corporate governance policies and practices in light of our experience, increasingly stringent regulatory requirements, international developments and stakeholders expectations. It is committed to high standards of disclosure as well as to excellence in corporate governance. The Company's Corporate Governance framework comprises the following key components:

I. Board of Directors and Executive Management
II. Governance Structure and Board Committees
III. Corporate Governance Code
IV. Legal and Regulatory Compliance
V. Company Secretary
VI. Internal Audit, Risk Management and Internal Control
VII. External Statutory Audit
VIII. Code of Conduct and Whistleblowing Policy
IX. Shareholders Engagement and Value
X. Shareholders' Rights

Details of the key components related to Corporate Governance framework are also available on the website of the Company.

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

The overall stewardship of the Company's operations is vested in the Board. The Board takes central responsibilities to formulate, approve, evaluate and regulate the overall strategic directions and policies of the Company. In doing so, the Board will oversee and review the Company's business including operating performance, effectiveness of risk management and internal control systems, corporate governance policies, compliance, organization structure and management's performance.

During the year, the day-to-day operating requirements and the related financial limits of a schedule of matters designated for management are discussed, reviewed, approved and updated by the Board. Management is to submit business plans or investment proposals to the Board if they fall outside the designated limits. The Board also reviews and approves the annual operating and capital budgets, and when appropriate, incremental items/amounts outside the approved budgets will be raised to the Board for approval. Under the supervision of the CEO, management is responsible for the daily operations of the Group. The CEO and senior management report on business operations, financial results and strategic matters to the Board on a quarterly basis, and provide key updates on a monthly basis.

Delegation by the Board

In addition to the individual board committees, established to assist the full Board in specific areas, the responsibilities for delivering the Company's strategies and objectives, and day-to-day management of the Group's businesses are delegated to the executive Directors, and the team of senior management.

Board Activities and Work Done in 2017 and to date

During the year and up to the date of this report, the Board performed, considered and/or resolved the following matters:

In relation to policies:

- reviewed the Company's policies including Board Diversity Policy, Corporate Disclosure Policy, Shareholders' Communication Policy and Whistleblowing Policy;

In relation to corporate governance matters:

- performed the duties of corporate governance functions under Code Provision D.3.1;
- reviewed and approved new connected transactions;
- reviewed the segregation of duties between Chairman & CEO;
- reviewed and evaluated the Enterprise Risk Management ("ERM") system for the Group;
- reviewed and evaluated internal audit reports and the effectiveness of the risk management and internal control systems over financial, operational and compliance matters;
- reviewed the follow up actions of internal evaluation of the Board performance;

In relation to business and financial operations:

- reviewed the strategic plans for the Company's core businesses to meet short-term objectives and to strengthen medium-term competitiveness; ongoing assessment of the Company's technology capabilities, with a view to enabling the Company to reach another level of commercial success and sustainability;
- reviewed new opportunities in our core business portfolio with management;
- reviewed and considered the annual budget, disposals and acquisitions proposals and other significant operational and financial matters;
- reviewed accounting principles and practices and approved the relevant quarterly, interim and annual results and financial statements and the related announcements;
- reviewed monthly operations and financial updates;
- reviewed the Environmental, Social and Governance ("ESG") policy;
- approved and published our 4th annual Sustainability Report for the year 2016;

In relation to stakeholders:

- reviewed, declared and recommended dividend payments;
- reviewed investor relations program and strategies;

In relation to Board Committees:

- reviewed terms of reference for the Remuneration Committee, and Board & Directors' Duties;
- adopted revised terms of reference for the Audit Committee (renamed Audit and Risk Committee with effect from 22 March 2017 with revised Terms of Reference);
- adopted the new Nomination Policy with effect from 27 March 2018;
- renewed the appropriate insurance coverage for Directors and Officers arranged by the Company;
- reviewed and approved the proposal on the remuneration of the Directors to be effective from 2018 as recommended by the Remuneration Committee; and
- reviewed and approved the recommendations made by the Nomination Committee.

CORPORATE GOVERNANCE REPORT

Board Leadership Structure

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

Mr. Koh has served the Company for more than 10 years. He is familiar with the Company's business. His experience and knowledge of the business of the Company and the industry in which the Company operates continue to contribute significantly to the Company. Through exercising the scrutinizing and monitoring function of Chairman and an independent non-executive Director, he had contributed to an upright and efficient Board for the interest of Shareholders. During his tenure, Mr. Koh has been able to fulfill all the requirements regarding independence of an independent non-executive Director and provide annual confirmation of independence to the Company under Rule 3.13 of the Listing Rules.

An updated list of Directors identifying their roles and functions and whether they are independent non-executive Directors has been published on 1 February 2018 on the websites of the Stock Exchange and the Company, and under the section of Biographies of Directors and Senior Management of this annual report on pages 15 to 23. Terms of employment for all non-executive Directors (including independent non-executive Directors) were set out in the Directors' Report on page 25.

Ms. Wu, a non-executive Director, is not considered as independent, as she is the spouse of the CEO and together with the CEO and their family, has a substantial interest (holding approximately 40.53% interest (after the cancellation of repurchased shares) in the Company as at the date of this report). Her knowledge and experience of the business of the Company and the industry in which the Company operates continue to contribute valuably to the functioning of the Board as a whole. In common with all Directors, she is aware of her responsibilities as a Director to all Shareholders. The Company's strong Shareholders Engagement program ensures that in the unlikely event that interests of the major Shareholder and other Shareholders are not aligned, the Board would take heed on a timely basis.

Directors' Time and Directorship Commitments

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

Disclosure of Conflict of Interest and Independence of Directors

Directors are requested to declare their personal or business interests, if any, in any transactions to be considered by the Board and such declaration of interest would be reviewed and discussed at the beginning of Board meetings and, as appropriate, Directors will or will be asked to withdraw from the meetings.

As disclosed in Directors' Report on page 33, as at 31 December 2017, Ms. Wu, a Director of the Company, holding more than 5% of the Company's share capital, had beneficial interests in one of the Group's five largest customers. The customer has the usual trading terms as any other customers of the Group. At no time during the year and up to the date of this report, had Ms. Wu's interests in the customer exceeded 1%. Ms. Wu has never been director of the customer nor involved in its management.

Save as disclosed above, none of the Directors of the Company, their close associates had an interest in any of the five largest customers or suppliers.

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

Board Process and Committees

Board meetings are held regularly and at least four times a year at approximately quarterly intervals with active participation of the Directors, either in person or through electronic communication. Apart from the regular scheduled Board meetings, other Board meetings will be held in occasions when appropriate, such as publishing announcements.

In addition, the non-executive Directors held meetings in the absence of the executive Directors during 2017 to evaluate the performance of the executive Directors and the effectiveness of the Board on 22 March and 25 August 2017.

Directors' Attendance in Board Meeting & AGM

During the financial year ended 31 December 2017, the Board convened a total of 12 Board meetings and the annual general meeting. Each Director is expected to attend each meeting of the Board and the committees of the Board (the "Committees") on which he or she serves. No Director attended less than 80% (2016: not less than 80%) of the aggregate of the total number of Board meetings and all Director attended all meetings held by all Committees on which he or she served. Directors are also expected to attend the Company's annual general meeting of Shareholders or otherwise absent with a valid reason. All Directors attended the Company's 2017 annual general meeting of Shareholders (2016: five out of seven).

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

	Meetings Attended/Held	
Directors	**Board**	**AGM**
Executive Directors		
Mr. Pan Benjamin Zhengmin (CEO)	12/12	1/1
Mr. Mok Joe Kuen Richard	12/12	1/1
Non-executive Director		
Ms. Wu Ingrid Chun Yuan	12/12	1/1
Independent Non-executive Directors		
Mr. Koh Boon Hwee (Chairman)	12/12	1/1
Mr. Poon Chung Yin Joseph	12/12	1/1
Dato' Tan Bian Ee	12/12	1/1
Ms. Chang Carmen I-Hua	10/12	1*/1
Mr. Au Siu Cheung Alert#	N/A	N/A
Mr. Kwok Lam Kwong Larry#	N/A	N/A

* *Joined by electronic communication*

\# *Mr. Au and Mr. Kwok were appointed on 1 February 2018*

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

Board Agenda Schedule

Quarters	Discussion Items
January – March	– Reporting from Audit and Risk Committee and other committees (if appropriate) – Annual Results and Report – Recommended Final Dividend – Evaluation of Board – Audit Matters – Connected Transactions/Continuing Connected Transactions – Directors' and Officers' Liability Insurance – Sustainability Report – Risk Management & Internal Controls – Corporate Governance Compliance – AGM Matters
April – June	– Reporting from Audit and Risk Committee and other committees (if appropriate) – Quarterly Results – Risk Management & Internal Controls – Connected Transactions/Continuing Connected Transactions
July – September	– Reporting from Audit and Risk Committee and other committees (if appropriate) – Interim Results and Report – Declared Interim Dividend – Audit Matters – Risk Management & Internal Controls – Connected Transactions/Continuing Connected Transactions
October – December	– Reporting from Audit and Risk Committee and other committees (if appropriate) – Quarterly Results – Budget for the forthcoming year – Connected Transactions/Continuing Connected Transactions

Directors' Continuous Training and Development

In addition to attendance at meetings and review of papers and materials sent by the management, including regular legal and regulatory updates, all Directors recognized the importance of continuous professional development to ensure their contributions to the Board remains informed and relevant. During the year ended 31 December 2017, the Company provided Directors briefing and updates on business, operations, corporate governance, regulatory development and other relevant topics. All Directors had provided to the Company records of training they received during the year. The Board is of the view that all Directors have demonstrated sufficient participation in developing and refreshing required knowledge and skills as part of the continuous professional development programme during the year. Set out below are the details of all directors' participation in continuous professional development during the financial year ended 31 December 2017:

Directors	Perusing legal, regulatory & industry related updates prepared by AAC	Briefing and updates by the Company on business, operations, corporate governance regulatory development and other relevant topics
Executive Directors		
Mr. Pan Benjamin Zhengmin (CEO)	√	√
Mr. Mok Joe Kuen Richard	√	√
Non-executive Director		
Ms. Wu Ingrid Chun Yuan	√	√
Independent Non-executive Directors		
Mr. Koh Boon Hwee (Chairman)	√	√
Mr. Poon Chung Yin Joseph	√	√
Dato' Tan Bian Ee	√	√
Ms. Chang Carmen I-Hua	√	√

GOVERNANCE STRUCTURE & BOARD COMMITTEES

Key Matters Reserved for Board Approval

Matters which required approval by the full Board and the key responsibilities reserved for the Board are:

1) **Strategy & Management**

The Board will formulate, update and refine the Group's strategy and business objectives. Every quarter, major investing and financing activities will be approved and management is evaluated on the implementation progress to monitor the Group's businesses against plan and budget.

2) **Corporate Governance, Risk Management & Sustainability**

The Board will approve policies amendments and review implementations related to Group's Corporate Governance, internal controls and sustainability practices.

3) **Financial Results**

The Board will approve the Group's annual budgets, financial statements and results announcements, recommend reappointment of external auditor and declare interim and final dividends.

4) **Effectiveness of Committees**

The performance of the Board and the Committees is the responsibility of the Board. All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

CORPORATE GOVERNANCE REPORT

In discharging its governance and other responsibilities, the Board has established individual Board Committees with defined terms of reference to assist the full Board. The three Board Committees, all chaired by independent non-executive Directors and comprising a majority of independent non-executive Directors, are illustrated in the following governance structure:

STAKEHOLDERS

↓ ↑

BOARD OF DIRECTORS

– Collectively responsible for long-term success of the Group
– Oversees overall governance, financial performance and sustainability development of the Group

↓

EXECUTIVE DIRECTORS	AUDIT & RISK COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE
– Delivering the Company's strategies and objectives – Day-to-day management of the Group's businesses	– Ensures proper financial reporting and disclosure – Reviews risk management, compliance and internal control systems – Monitors internal audit, oversees the relationship and coordination between the Company, Head of internal audit and external auditor	– Recommends Board appointments and ensuring proper and transparent procedures – Reviews Board structure, size, composition and diversity of the Board – Assesses independence of independent non-executive Director – Succession planning for Chairman and CEO – Being consulted upon the hiring, promotion and appointment of senior management	– Sets remuneration policy and structure for executive Directors, non-executive Directors and senior management – Plans and reviews management's remuneration proposals with reference to the Board's corporate goals and objectives – Determines executive Directors' and senior management's remuneration and incentives
↓	↓	↓	
Operations	**Internal Audit Team/ External Auditor**	**Human Resources**	

Details of the responsibilities of the Board Committees are set out below. Their terms of reference, including their duties, have been published on the websites of the Stock Exchange and the Company.

Board and Committees Evaluation

We undertake a performance evaluation of our Board and Committees internally on a yearly basis. In March 2017, the Board, Audit and Risk Committee, Nomination Committee and Remuneration Committee underwent an annual evaluation of their effectiveness and performance with regard to the year 2016 through completion of questionnaires by the Board and Committee members.

The following evaluation areas are included:

(i) Structure and Composition of the Board and Committees, such as size, selection process, responsiveness to special incidents, diversity of board members;
(ii) Board Culture and collegiality;
(iii) Board information quality: accuracy, relevance, digestibility, timeliness and access to management;
(iv) Board process and adequacy of meetings; and
(v) Relationship with management (performance measures; visibility; mutual trust).

The results of the evaluation were such that the Board and all Committees were found to be operating effectively, nothing significant had affected board performance and no material issue needed to be tabled for discussion. Reporting of matters by all the Committees to the Board were found to be clear and adequate. The Directors are satisfied that the Board and its Committees have the right mix of expertise, experience and skills.

Audit and Risk Committee

Composition

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

Roles and Authority

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 Company has a structured risk management and internal control systems for the management of strategic, market, operational, financial and compliance risks. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. 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 auditor also provide the Audit and Risk Committee with assurance regarding the Company's financial reporting and any material weaknesses in internal control and risk management that they might come across as part of their review considered relevant to the audit.

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

Quarterly Review and Connected Parties Transactions

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.

By its terms of reference, the Audit and Risk Committee has the power and authority delegated by the Board for reviewing any connected party transactions, continuing connected party transactions and conflicts of interest that may arise, and, the related monitoring compliance with the applicable rules and regulations. The Committee will also ensure strict adherence that Directors with a conflict of interest shall not vote on any related resolutions. The central role in determining, assessing and approving transactions with conflicts are undertaken by the Board and, if required, independent Board Committee comprising all the independent non-executive Directors shall be formed.

As such, every quarter, the Audit and Risk Committee will review and ensure the effectiveness of the internal control system related to connected parties transactions. The identification and capturing of connected parties are proactively managed by senior management of the supporting services, procurement and financial departments. The working and updatedness of this system are vouched by internal and external auditor. Major terms of the connected parties transactions are contracted on a formal basis. The commercial beneficial reasons and the arm's length pricings are ascertained by internal audit and subsequently reviewed by the external auditor. The integrity of the existing accounting system will ensure the accounting accuracy and completeness of such transactions. Our compliance lawyer will be involved in the review of regulatory disclosure.

Meetings Schedule & Members' Attendance

During the financial year ended 31 December 2017, the Audit and Risk Committee held 4 meetings and the Audit and Risk Committee Chairman had an additional audit planning meeting in 2017 with executive Director and the internal auditor to review the three-year cycle audit plan and other governance matters. Chairman of the Committee was consulted for the agenda items for the March 2018 Audit and Risk Committee meeting. To reinforce the Company's ERM focus, high-risk areas identified in the external auditor's planning memorandum were discussed and special internal audit procedures were agreed where deemed appropriate. Details of members' attendance at the regular quarterly meetings are as follows:

Members	Meetings Attended/Held
Mr. Poon Chung Yin Joseph	4/4
Mr. Koh Boon Hwee	4/4
Ms. Wu Ingrid Chun Yuan	4/4

Activities and Work Done in 2017 and to date

Between 1 January 2017 and the date of this annual report (the "Relevant Period"), the Audit and Risk Committee discharged its responsibilities in its review of the quarterly, half-yearly and annual results, risk management and internal control systems and its other duties on corporate governance. The Audit and Risk Committee reviewed the financial statements for the year ended 31 December 2017, including the Group's adopted accounting principles and practices, and significant judgment and estimation issues, in conjunction with the internal and external auditors. The Audit and Risk Committee also reviewed the compliance by the Company with the Code Provisions throughout the year ended 31 December 2017. All continuing connected transactions/connected transactions were first reviewed by the Audit and Risk Committee before recommending to the full Board, including all independent non-executive Directors, for approval and action.

On 20 March 2018, the Audit and Risk Committee reviewed this annual report, including the Corporate Governance Report, the Director's Report and financial statements for the year ended 31 December 2017 and the annual results announcement with a recommendation to the Board for approval. The Audit and Risk Committee reviewed changes in accounting policies arising from revised financial reporting standards, the internal audit review for 2017 and internal audit plan for 2018.

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

In relation to financial information:

- the 2016 annual report including the Corporate Governance Report, the Directors' Report and financial statements for the year ended 31 December 2016 and the annual results announcement, with a recommendation to the Board for approval;
- the 2017 first quarterly results including the Group's first quarterly financial statements for the three months ended 31 March 2017 and the relevant results announcement, with a recommendation to the Board for approval;
- the 2017 interim report including the Group's interim financial statements for the six months ended 30 June 2017 and the interim results announcement, with a recommendation to the Board for approval;
- the 2017 third quarterly results including the Group's third quarterly financial statements for the nine months ended 30 September 2017 and the relevant results announcement, with a recommendation to the Board for approval;
- the Group's tax review report carried out by an independent professional firm;
- reports on new investments of the Group;
- compliance by the Company with the Code Provisions throughout the year ended 31 December 2016 and throughout the six months ended 30 June 2017;
- the Company's compliance with the Listing Rules, Companies Laws of the Cayman Islands, Hong Kong Companies Ordinance and Securities and Futures Ordinance throughout the year ended 31 December 2017. To the best of knowledge of the Audit and Risk Committee's members, no breaches were identified;
- overall compliance with Code Provisions and Recommended Best Practices of the CG Code and other legal and regulatory compliance matters;

In relation to external auditor:

- the report and management letter submitted by external auditor, which summarized matters arising from the audit on the Group for the year ended 31 December 2016, including auditing, accounting and tax matters, and internal controls, together with management's progress in addressing matters raised, and the confirmation from external auditor that there were no high-risk matters identified which were not satisfactorily resolved or being addressed;
- the audit fees payable to external auditor for the year ended 31 December 2016 and external auditor's scope, plan and fees for the year ended 31 December 2017 with a recommendation for approval by the Board;
- the effectiveness of the external auditor giving due consideration to the quality and contents of their reports to the Audit and Risk Committee, feedback from management and compliance with relevant regulatory, professional requirements and their independence, with a recommendation for their re-appointment for the financial year 2017, subject to final approval by Shareholders (given on 24 May 2017);
- the safeguard of external auditor objectivity and independence in proposed engagement in respect of audit-related and permissible non-audit services; met with the external auditor and discussed the audit report to management;

In relation to risk management and internal control systems:

- the adequacy of resources, staff qualifications and experience of the Group's accounting and financial reporting function, and that of the Group's Internal Audit;
- the quarterly reports from Internal Audit and a three-year cycle audit plan and alignment with ERM;
- the IT and cyber risks referencing CoBit (Control Objectives for Information and related Technology) and CSC (Critical Security Control) frameworks specially;
- the risk management system including the established ERM framework;
- the internal controls reviewed by Internal Audit with regard to Connected Transactions; and
- the whistleblowing reports and the related follow-up process to ensure all matters of concerns were addressed.

Nomination Committee

Composition

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

Board Diversity

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

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

The current Board's composition under diversified perspectives was summarized as follows:
(the numbers in brackets refer to the number of Directors under the relevant category)

Designation	Executive Director (2)	Non-executive Director (1)		
	Independent Non-executive Director (6)			
Gender	Male (7)	Female (2)		
Nationality	Australia (1)	British (1)		
	Canadian (1)	Chinese (1)		
	Singapore (3)	USA (2)		
Age group	71-80 (1)	61-70 (5)	51-60 (1)	41-50 (2)
Length of service (year)	11-15 (4)	6-10 (3)	0-5 (2)	
Skills, knowledge and professional experience (Note)	Investment (7)	Management & Commercial (7)		
	Technologies & Manufacturing (4)	Accounting & Finance (6)		
	Investor Relations (4)	Banking (2)		
	Human Resources (2)	Legal (2)		
Academic background	University (7)			

Note: Directors may possess multiple skills, knowledge and professional experience.

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

Roles and Authority

The Nomination Committee is responsible for reviewing, advising and making recommendations to the Board on matters in relation to the composition, structure, size and diversity of the Board, the appointment and re-appointment of Directors and the assessment on independence of independent non-executive Directors, and ensuring the proper and transparent procedures for the appointment and re-appointment of Directors, succession planning for Chairman and CEO. The Committee is also consulted upon the hiring, promotion and appointment of senior management.

The current practice to appoint new Directors falls on the Nomination Committee to identify, assess and nominate suitable candidates, including those proposed by the Shareholders. Criteria include knowledge, skill and experience. During this year, the Company has adopted a nomination policy for setting up a formal, considered and transparent procedure to help identifying and nomination of candidates for independent non-executive Directors. 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.

Process of Appointing New Directors & Re-election

Potential new Directors are identified and considered for appointment at any time by the Board upon the recommendation of the Nomination Committee of the Company. Nomination Committee considers the candidates based on merit having regard to the knowledge, experience, skills and expertise as well as the overall board diversity which, in the opinion of the Directors, will enable them to make positive contributions on the performance of the Board and makes recommendations to the Board as appropriate. Emoluments of new directors will be considered by the Remuneration Committee.

Newly appointed members by the Board to fill a casual vacancy on the Board is subject to re-election by Shareholders at the first general meeting after their appointment or as addition to the existing Board is subject to re-election by Shareholders at the first annual general meeting after their appointment. All executive Directors and non-executive Directors are subject to re-election by Shareholders every three years.

Meetings Schedule and Members' Attendance

The Nomination Committee convened two meetings during the year ended 31 December 2017 to review the structure, size and composition of the Board and Board Diversity Policy, to assess the independence of independent non-executive Directors, and recommending to the Board on re-election of retiring Directors. Details of the attendance of its meetings are as follows:

Members	Meetings Attended/Held
Dato' Tan Bian Ee	2/2
Mr. Poon Chung Yin Joseph	2/2
Ms. Chang Carmen I-Hua	2/2

Activities and Work Done in 2017 and to date

The Nomination Committee had reviewed and recommended to the Board the terms of appointment of the non-executive Directors (including independent non-executive Directors), which are set out in the "Directors and service contracts" section of the "Directors' Report" on pages 25 to 26 of this annual report. Furthermore, in relation to the requirement set out in the Articles and in compliance with the Code Provision A.4.2, all Directors (including executive Directors, non-executive Director and independent non-executive Directors) are subject to retirement by rotation at least once every three years and the annual list of retiring Directors are reviewed and agreed by the Nomination Committee.

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

The Nomination Committee had reviewed and assessed the regular updates submitted by the Directors on their commitments to other public companies or organizations, their personal and any other business interests, and, any circumstances that may affect independence status of the independent non-executive Directors. There was no change of the Board composition during 2017. The Nomination Committee followed the nomination process stated in the Nomination Policy and nominated two candidates to be new independent non-executive Directors. Two new independent non-executive Directors were recommended to the Board whose appointments were approved and made effective from 1 February 2018. The Nomination Committee is of the view that the balance of the new structure, size, composition and diversity of the current Board is adequate to its effective performance.

The Directors' biographical information is set out in the section headed "Biographies of Directors and Senior Management" on pages 15 to 23 of this annual report. Except for the family relationship between Mr. Pan and Ms. Wu, as disclosed in Directors' biographical information on pages 15 to 18 of this annual report, there is no financial, business, family or other material relationship between any members of the Board, and, in particular, between the Chairman and the CEO.

Remuneration Committee

Composition

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

Roles and Authority

The principal responsibilities of the Remuneration Committee are to advise the Board in relation to the overall 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.

Meetings Schedule & Members' Attendance

The Remuneration Committee convened one meeting during the year ended 31 December 2017. Details of the attendance of its meetings are as follows:

Members	Meetings Attended/Held
Mr. Koh Boon Hwee	1/1
Dato' Tan Bian Ee	1/1
Ms. Chang Carmen I-Hua	1/1

Activities and Work Done in 2017 and to date

The work performed by the Remuneration Committee in 2017 included reviews of:

- the policy for the remuneration package of executive Directors, assessing performance of executive Directors, and making recommendation to the Board;
- the Group performance for 2016 and 2017 and Group targets for 2017 and 2018;
- senior executive remuneration, including annual incentive payments for 2015 and 2016 and annual pay review for 2017 and 2018; and
- remuneration of non-executive Director and independent non-executive Directors.

The Remuneration Committee also reviewed the remuneration packages of the candidates who would be appointed as new independent non-executive Directors in February 2018.

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

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 8 to the financial statements.

Director Compensation Arrangements

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

The compensation amounts of the Directors are reviewed on an annual basis and recommended by the Remuneration Committee and approved by the Board, having regard to the individuals' qualifications, experience, responsibilities and comparable market benchmarks. No Director takes part in any discussion on his/her own remuneration.

The current non-employee Directors' remuneration was increased on 1 January 2016 and the following table sets forth, by responsibilities for their Board service, the annual Directors' fees paid in cash to non-employee Directors during the fiscal year ended 31 December 2017:

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

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

Group Emoluments Arrangement

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

The remuneration of members of the senior management by band for the year ended 31 December 2017 is set out below:

Remuneration bands	Number of individuals
HK$5,500,001 to HK$6,000,000	1
HK$17,000,001 to HK$17,500,000	1

Directors' and Officers' Insurance

The Directors and officers are indemnified under a directors' and officers' liability insurance against any liability incurred by them in the discharge of their duties while holding offices as the Directors and officers of the Group. The Directors and officers shall not be indemnified where there is any negligence, fraud, breach of duty or breach of trust proven against them.

Share Award Scheme

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

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

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

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

CORPORATE GOVERNANCE CODE

The Company has continued to fully comply with requirements of the Code Provisions for the financial year ended 31 December 2017. The Board has ensured that all Board Committees were represented through the Directors in attendance at the annual general meeting to answer questions that might be raised. To ensure a balanced understanding of the views of Shareholders is maintained by all independent non-executive Directors, the Company provides regular Shareholders' feedback from the Company's investor relations programme.

The Company has always aimed to go beyond compliance with the Code Provisions by adopting the Recommended Best Practices of the CG Code. The table below illustrates how and in what way the Company has already adopted these items:

Recommended Best Practices	Adopted by the Company
Quarterly financial results	Since listing, the Company has adopted quarterly reporting of financial results. p. 43 has more details.
A significant proportion of the executive Directors' remuneration should link rewards to corporate and individual performance	A significant proportion of an executive Director remuneration has been linked to corporate and individual performance since his appointment. p. 49 has more details.
Whistleblowing Policy for employees and other stakeholders (e.g. customers and suppliers)	A whistleblowing policy and an established process has been in place since 2012 to ensure all matters of concerns are addressed. p. 55 has more details.
Regular Board Evaluation	The Board conducts an annual evaluation of its and the committees' performance. p. 42 has more details.
Management's confirmation on the effectiveness of risk management and internal control systems	The Board has received confirmation from management on a semi-annual basis. p. 54 has more details.

LEGAL AND REGULATORY COMPLIANCE

Compliance

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

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

Model Code For Securities Transactions by Directors

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

On specific enquiries made, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding the Directors' securities transactions during the year ended 31 December 2017. Furthermore, as discussed, the Nomination Committee has reviewed and assessed the information submitted by the Directors and is of the view that the Directors are in compliance with the required standard.

COMPANY SECRETARY

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

INTERNAL AUDIT, RISK MANAGEMENT AND INTERNAL CONTROL

Effective risk management and internal control systems are fundamental to the achievement of our strategic objectives. The Company has in place an ERM framework to effectively identify, assess, mitigate and monitor key strategy, market, financial, operational and compliance risks. The framework enables us to adopt a proactive and structured approach to identifying and managing risks across the organization with on-going monitoring and review. Our Board, acting through the Audit and Risk Committee in the first instance, is responsible for overseeing and evaluating management in the design, implementation and maintaining a sound and effective risk management and internal control systems. The governance framework is illustrated as follows:

<table>
<tr><th colspan="3">Governance Framework – Internal Control & Risk Management Process</th></tr>
<tr><th>Role</th><th>Accountability/ In Charge</th><th>Responsibilities</th></tr>
<tr><td rowspan="2">“Top-down”

Identification & management of strategic and business risks at corporate level</td><td>The Board (through Audit & Risk Committee)</td><td>The Board

– Oversees the Company’s risk management policies and process.
– Determines the nature and extent of the outstanding and newly emerging risks.
– Reviews that the Group has maintained effective and adequate risk management and internal control systems and ensures that all processes are properly carried out.</td></tr>
<tr><td>Audit & Risk Committee assisted by Internal Audit</td><td>Regular Risk Review, Communication & Confirmation to Board

– Conducts quarterly reviews with management the Company’s major financial and regulatory risk exposures and the steps management has taken to monitor and control such exposures.
– Evaluates the management’s effectiveness in the design, implementation and monitoring of the internal controls and ERM.
– Reviews the adequacy of resources, staff qualifications and experience, training programs and budget of the Group’s accounting, internal audit and financial reporting functions and ensure these functions were maintained properly.
– Oversees the Company’s risk profile and assess if key risks are appropriately mitigated.
– Ensures that an ongoing review of the effectiveness of the risk management and internal control systems has been conducted and provides such confirmation to the Board.</td></tr>
<tr><td rowspan="2">“Bottom-up”

Risk assessment, monitoring and effective communication through operation units/ departments

Identification, management & report of risks at operation level</td><td>Heads of departments along with verification by Internal Audit</td><td>Risk & Control Monitoring

– Identifying, assessing and managing the significant operating risks facing the Company.
– Monitoring the risk management and internal control systems and implementing new controls.</td></tr>
<tr><td>Business/ Operation Units</td><td>Operation Risks & Internal Controls Ownership

– Risk identification, assessment and mitigation performed across organization’s various departments.
– Risk management process and internal controls practised across organization’s business operations and functional areas.</td></tr>
<tr><td>Independent</td><td>External Auditor/ External professional firms</td><td>Report and discuss with the Audit and Risk Committee any weaknesses in the internal controls of the accounting and, operating systems revealed by their work.</td></tr>
</table>

Risk Governance & Oversight

The Company has always valued the importance of the internal control systems, and has been referencing certain critical aspects of organizational governance, business ethics, fraud and financial reporting established by COSO (the Committee of Sponsoring Organizations of the Treadway Commission) by Internal Audit in their audit planning and objectives when assessing the effectiveness of internal controls. Also, key IT audit focuses on IT risks in respect of strategy, operations, compliance, reputation and infrastructure. During this year, the Company obtained the certification of ISO27001 providing the foundation for implementing phase-by-phase cyber risk vulnerability controls management and evaluation objectives with reference to CoBit and Critical Security Controls (published by the Centre of Internet Security). Report of the evaluation and implementation of such information security plans, policies and processes are discussed quarterly, and modified as appropriate, by the Audit and Risk Committee. Internal Audit has already included in its work scope to cover internal and external financial reporting objectives and has increased focus on operations, compliance and non-financial reporting objectives such as the procurement and materials usage processes adopted by procurement and production departments respectively. On the basis of the evaluation carried out by Internal Audit during the year, management has formed the conclusion that, for the financial year ended 31 December 2017, the Company's internal controls over the Company's financial and non-financial reporting were effective.

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

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

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

Key risk factors are set out in the Management Discussion and Analysis section from pages 12 to 14 of this report. The procedures and internal controls for the handling and dissemination of inside information are set out under the below section headed "Corporate Disclosure" of this annual report.

Enterprise Risk Management

Since 2012 the Company has embarked on the journey of building an ERM system with a view to enhancing the risk management and corporate governance practice and improving the effectiveness and efficiency of internal control system across the whole Company. In 2018, the Company has procured and allocated more resources, including external professional resources, to continue to refine ERM and the risk-driven approach for its internal audit plan. Relevant departments, assisted by the additional resources, will conduct deep-dive reviews and updates on risk assessment and internal controls by key management processes.

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

1. Enterprise risk assessment (ERA) – to identify and prioritize the Company's key business risks; and
2. Process level control assessment – to assess the related internal control matters and risk mitigating measures.

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

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

Effectiveness Review of Risk Management and Internal Control Systems

The review of the effectiveness of the Company's risk management and internal control systems has been discussed on pages 52 to 53.

EXTERNAL STATUTORY AUDIT

The Directors acknowledge responsibilities for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these Financial Statements for the year ended 31 December 2017, the Directors have selected suitable and applied consistent accounting policies, made reasonable judgments and prudent estimates in preparing the Financial Statements on a going concern basis. Reporting responsibilities of the external auditor of the Company are set out on pages 65 to 67 of this annual report. Directors acknowledge their responsibilities for the preparation and the true and fair presentation of the Financial Statements for the year ended 31 December 2017 in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. Furthermore, the Directors are aware of the responsibility for keeping proper accounting records which could provide the financial position of the Company with reasonable accuracy at all times.

Auditor's Remuneration

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

On completion of their annual audit, Deloitte will review its audit work process and plan for the next year's audit. A proposed audit fee and work plan, incorporating expansion plans, new business operations and organization changes of the Company, will be submitted to the Audit and Risk Committee. Their proposal will also be reviewed along with internal management feedback on Deloitte's audit work and the appointment of auditor will be discussed and recommendation made to the Board.

During the year ended 31 December 2017, the services provided to the Company by Deloitte, and the respective fees paid are set out below:

Types of service	2017 HK$'000
Audit services (including continuing connected transactions limited assurance)	3,429
Non-audit - Interim Financial Information review	1,137
Total	4,566

The representative of Deloitte has been attending the annual general meetings, and as usual in 2017, to answer questions from Shareholders.

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

CODE OF CONDUCT AND WHISTLEBLOWING POLICY

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

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

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

CORPORATE GOVERNANCE REPORT

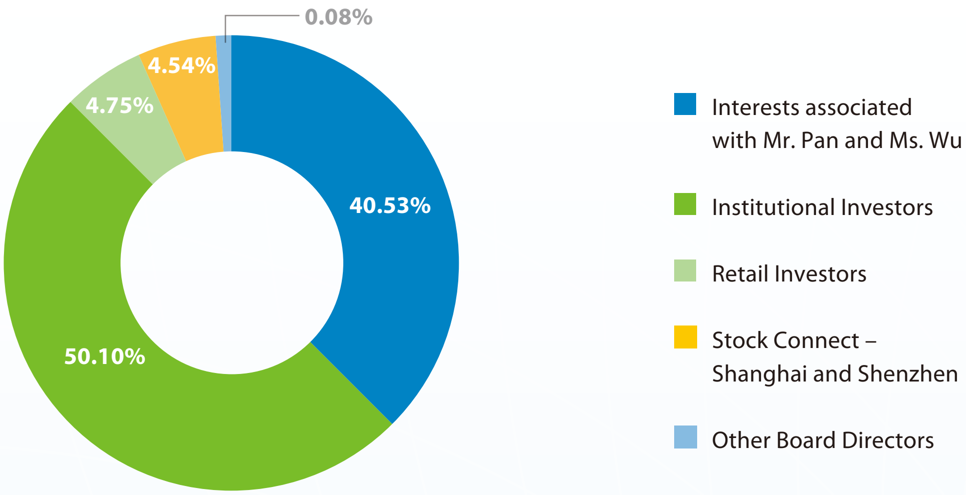
SHAREHOLDERS ENGAGEMENT AND VALUE

Shareholders

Almost all the Company's Shareholders are holding the Company's shares through nominees or intermediaries such as HKSCC Nominees Limited. Hence, the register of members of the Company only had 35 direct registered Shareholders as at 31 December 2017. Separately, as the Company's shares are eligible for trading in the Shanghai/Shenzhen-Hong Kong Stock Connect, an aggregate shareholding was held through China Securities Depository and Clearing Corporation Limited as one single Shareholder, which as at 31 December 2017, amounted to 55.6 million shares, or representing 4.54% of total issued shares, of the Company.

The Company analyses its shareholding structure on a regular basis, including a review of the register of institutional and retail investors, to keep track of changes in shareholdings by type of investors. A shareholding register analysis was conducted as at 31 December 2017 and revealed the shareholding structure as follows:

I) Shareholders by Category:
(per Shareholder Analysis as at 31 December 2017, rounded to nearest 0.01%)



II) Shareholders by Domicile:

	% of Total Issued Shares
Hong Kong	53.70
North America	27.18
China	5.49
United Kingdom	4.36
Singapore	4.15
Europe (ex-United Kingdom)	3.19
Rest of World	1.93
TOTAL	100.00

Notes:

1. The shareholding in Hong Kong included the interests associated with Mr. Pan and Ms. Wu (40.53%).
2. 99.99% of all issued shares were held through HKSCC Nominees Limited.
3. The approximate percentage of shareholding is calculated on the basis of 1,222,000,000 shares in issue (after the cancellation of repurchased shares as at the date of this report) as of 31 December 2017.

Corporate Disclosure

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

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

Communications with Shareholders and Investment Community

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

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

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

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

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

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

During 2017, the Company held a series of activities in relation to its quarterly, interim and annual results announcements, including panel discussions with Shareholders and the investment community via webcast/teleconferencing and participation in different conferences, forums and non-deal roadshows in Hong Kong and other parts of the world organized by different brokers. Factory visits were also organized periodically for Shareholders and the investment community. This helps the Company meet the goal of establishing sound relationships with Shareholders and the investment community and maintaining a solid and diverse Shareholder base. Furthermore, there are regular sessions held with local-based securities brokers, the local and overseas press and media representatives for timely distribution of information to non-institutional investors.

At the 2017 annual general meeting held on 24 May 2017, a resolution was proposed by the Chairman in respect of each separate issue itemized on the agenda, including re-election of retiring Directors. Procedures for conducting a poll were explained by the Chairman at the meeting. The Chairman of the Board and members of Board Committees were present, prepared to answer questions, if any, from Shareholders. All resolutions were voted by way of poll. The Company appointed the branch share registrar of the Company to act as scrutineers and to ensure votes cast were properly counted and recorded, and announced the results of the poll on the websites of the Stock Exchange and the Company in accordance with the Listing Rules on the same date. No other general meeting was held during the year.

SHAREHOLDERS' RIGHTS

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

Procedures for Shareholders to Convene EGM

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

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

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

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

- Not less than 14 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company; and
- Not less than 21 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes a special resolution of the Company.

Procedures for Putting Enquiries to the Board

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

Procedures for Putting Forward Proposals at General Meetings

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

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

Constitutional Documents

Shareholders' rights are specified in the Articles. During the year ended 31 December 2017, there was no change to the Company's constitutional documents.

SUSTAINABILITY

STRIVING TO CREATE VALUE FROM ESG MANAGEMENT

The management of ESG is spearheaded by the CEO and the Executive Director, then further cascading down to respective departments and divisions which are responsible for day-to-day management and operations. In their strategic decision-making, the responsible departments are charged with the tasks of assessing and mitigating current ESG risks and identifying opportunities to formulate and enhance ESG policies and practices.

The Company has increasingly been embedding sustainability into its operations, aiming to add value for the business, as well as bearing its fair share of corporate social responsibility to tackle pressing issues such as emissions reduction and talent acquisition.

Detailed ESG performances will be published in our fifth Sustainability Report which can be found on the websites of the Stock Exchange and the Company in May 2018. This report in many respects exceeds the disclosure requirements of the ESG Reporting Guide set out in Appendix 27 to the Listing Rules. In addition to adopting the latest GRI Standards, the upcoming Sustainability Report will start aligning the Company's own ESG performance with the United Nations' Sustainable Development Goals (SDGs), catering for the rising expectations from our stakeholders including institutional investors.

STAKEHOLDERS ENGAGEMENT

On an ongoing basis, the Company intends to broaden its dialogues with different stakeholder groups through established channels such as interactive activities, meetings and publications. Our key stakeholder groups include customers, employees, shareholders, local communities, governments, and non-governmental organisations, national and international trade associations and suppliers. We strive to continually maintain close relationship with our stakeholders and respond to their key topics and concerns through ESG reporting.

Employees

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

Talent is key to drive the growth of our Company. Subsequent to the introduction of comprehensive assessment of individual strengths aiming to create a clearer career development channel for talent retention, this year we have further optimized our training into three layers, offering specific roadmaps for our managers, engineers, and specialists. For ongoing training programmes, we collaborate with renowned business school and university to make sure our employees receive the necessary knowledge and skillsets for their career development.

The Company has made great strides in strengthening its health and safety system. Along with increased resources putting into optimizing various measures, such as internal assessment, certifications, management procedure, etc., a health and safety governance structure led by senior management has been established to oversee the ongoing safety performance.

On giving back to community, the Company has been focusing on youth education, in addition to participating in a number of community activities outside work. In 2017, we continue to deepen our cooperation with an NGO in supporting the underprivileged children in rural China.

Customers

We believe in delivering innovative solutions to our customers by engaging them right from the beginning of the product design stage and keeping them involved throughout the production process. This engagement approach makes sure that we are able to offer excellent products and services to our customers, maintaining a high level of customer satisfaction over the years. In 2017, one of our major customers raised its rating on the Company to A, epitomizing our increased efforts of engaging customers. In addition to conventional engaging approach, we aim to enrich the customer experience by strengthening the methodology of tracking their satisfaction levels in the areas of quality, service, delivery and technology.

Suppliers

The Company maintains stringent evaluation criteria to monitor its suppliers' environmental and social performance. Building on the risk-based assessment methodology adopted in the supply chain management where suppliers who fail to meet the expected criteria would face reduced share of the business or removal from the suppliers' list, we revised the Supplier Code of Conduct by incorporating a rating system, making sure suppliers' performance with regards to the environment, health and safety, and social responsibility will be monitored and evaluated on a regular basis. By working together with our suppliers through capacity building, we aim to ensure their business principles, conduct, and standards are aligned with our own.

Our raw material procurement contracts state that suppliers should procure materials in accordance with the requirements set out in the EICC, ensuring there will be no conflict minerals originating from those regions in the Democratic Republic of Congo and its adjoining countries.

ENVIRONMENTAL MANAGEMENT

The Company endeavors to continue to identify, assess and control potential and existing risks, and monitor all relevant environmental performances. Building on what the Company has achieved for the past few years and in conjunction with our growth in operation, we allocated more resources on environmental management and established a three-year plan on further strengthening our work on emissions reduction and resources conservation this year.

The Group operates in international markets and industries which require compliance with numerous regulations. To embrace the more stringent environmental laws and regulations, our environmental management department continues to keep abreast of the latest regulatory developments and make sure our team is able to fully grasp such implications. Internally, we foster regular dialogue between different units which enables us to strictly control the use of harmful substances in our electronic and electrical products as early as during the development stage.

The Company has strictly complied with the environmental laws and regulations in locations where we have operations in 2017. Our major manufacturing bases in the PRC have obtained ISO 14001 environmental management system certification and operate in compliance with numerous regulations in China, such as the Environment Protection Tax regulation, the Prevention and Control of Environmental Pollution of Solid Waste, Environmental Noise, Air Pollution and Water Pollution, the Promotion of Clean Production, the Appraisal of Environment Impacts, the Administrative Regulations on Environmental Protection for Construction Project and Conserving Energy. The failure to be responsive to changes to such regulations may adversely affect the Group's reputation, operations and financial performance.

SUSTAINABILITY

In 2017, we are not aware of any material non-compliance of laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, or generation of hazardous and non-hazardous waste.

The Company seeks to ensure compliance with these requirements through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels of the Group. While these measures require considerable internal resources and result in additional operational cost, the Group highly values the importance of ensuring compliance with applicable legal and regulatory requirements.

SUSTAINABILITY RECOGNITION

AAC Technologies has been listed on the Hang Seng Corporate Sustainability Index and Hang Seng (Mainland China and Hong Kong) Corporate Sustainability Index for the third year running since 2014. Selection is based on a sustainability assessment undertaken by Hong Kong Quality Assurance Agency (HKQAA), an independent and professional assessment body based in Hong Kong.

The Company has been putting more resources into its sustainability reporting practice, strengthening both performance measurement and management. For its 2016 Sustainability Report, the Company received the accolades of "Best in ESG" and "Best in Reporting" from the inaugural BDO ESG Awards and commendation from Hong Kong Management Association on ESG disclosure. The Company was recognized by FinanceAsia as the "Top 10 of Best at Corporate Social Responsibility Company" and "Top 10 of Most Committed to Corporate Governance". It also received the "Hong Kong Outstanding Corporate Citizenship" from Hong Kong Productivity Council. Our two offices in Hong Kong were awarded World Green Organization's "Green Office and Eco-Healthy Workplace Awards" labels.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of AAC Technologies Holding Inc. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 68 to 130, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matters
Inventory costing and estimated allowance of inventories	
We identified inventory costing and the estimated allowance of inventories as a key audit matter due to the fact that inventories and the related cost of goods sold are significant to the consolidated financial statements as a whole as well as the use of judgement and estimates by the management in estimating the allowance of inventories. Cost of inventories are determined on a weighted average method and management reviews the inventory costing on a regular basis to ensure accuracy. In respect of the allowance of inventories the management determines the allowance with reference to the aging analysis and the estimated net realisable value for obsolete and/or slow-moving inventory items that are no longer suitable for use in operation at the end of each reporting period (refer to notes 4 and 21 to the consolidated financial statements). As at 31 December 2017, the carrying amount of the Group's inventories was RMB3,397,629,000. During the year, the Group recognised and charged an allowance for obsolete inventories of RMB85,482,000 to the consolidated statement of profit or loss and other comprehensive income. Details of the Group's inventories are set out in note 21 to the consolidated financial statements.	Our procedures in relation to inventory costing and estimated allowance of inventories included: • Obtaining an understanding on how costing of inventories is determined and calculated and how management estimates the allowance of obsolete and slow-moving inventory items; • Understanding the key controls relating to the costing of inventories, identification of aged and obsolete inventories and preparation of aging analysis of inventories; • Reperforming the calculations of the costing of inventories on a sample basis and agreeing to source documents; • Obtaining the inventory aging analysis and agreeing its classification by age on a sample basis, to source documents; • Evaluating the reasonableness of the allowance of obsolete and/or slow-moving inventories as identified from the inventory aging analysis; and • Testing subsequent sales or usage of inventories on a sample basis.

Other Information

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue		**21,118,566**	15,506,828
Cost of goods sold		**(12,398,639)**	(9,064,317)
Gross profit		**8,719,927**	6,442,511
Other income		**171,203**	148,997
Distribution and selling expenses		**(365,195)**	(291,150)
Administrative expenses		**(609,991)**	(472,102)
Research and development costs		**(1,663,667)**	(1,165,669)
Share of results of associates		**(6,616)**	(8,535)
Gain on disposal of a subsidiary	32	**–**	428
Exchange (loss) gain		**(29,129)**	45,322
Finance costs	6	**(164,711)**	(66,812)
Other expenses and losses		**(55,524)**	–
Profit before taxation	7	**5,996,297**	4,632,990
Taxation	9	**(671,120)**	(608,555)
Profit for the year		**5,325,177**	4,024,435
Other comprehensive income (expense):			
Items that may be subsequently reclassified to profit or loss:			
Fair value changes on available-for-sale investments		**436,545**	–
Fair value changes on derivative financial instruments		**4,438**	–
Exchange differences arising on translation		**(183,432)**	175,172
Total comprehensive income for the year		**5,582,728**	4,199,607
Profit (loss) for the year attributable to:			
Owners of the Company		**5,324,579**	4,025,665
Non-controlling interests		**598**	(1,230)
		5,325,177	4,024,435
Total comprehensive income (expense) attributable to:			
Owners of the Company		**5,581,925**	4,201,203
Non-controlling interests		**803**	(1,596)
		5,582,728	4,199,607
Earnings per share – Basic	11	**RMB4.35**	RMB3.28

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	12	**13,526,391**	9,494,014
Goodwill	13	**89,217**	89,217
Prepaid lease payments	14	**538,149**	339,583
Deposits made for acquisition of property, plant and equipment		**913,987**	918,358
Investment properties	15	**16,049**	–
Available-for-sale investments	16	**751,923**	385,676
Interests in associates	17	**–**	14,146
Intangible assets	18	**255,839**	167,259
Loan receivable	19	**19,132**	19,994
Derivative financial instruments	20	**4,438**	–
		16,115,125	11,428,247
Current assets			
Inventories	21	**3,397,629**	2,622,931
Trade and other receivables	22	**7,154,960**	6,155,767
Amounts due from related companies	23	**1,776**	2,933
Taxation recoverable		**9,346**	71,832
Pledged bank deposits	24	**9,028**	111,108
Bank balances and cash	24	**4,034,082**	3,864,386
		14,606,821	12,828,957
Current liabilities			
Trade and other payables	25	**6,369,178**	5,345,908
Amounts due to related companies	23	**47,017**	50,705
Taxation payable		**331,783**	425,161
Bank loans	26	**4,349,365**	3,303,293
Other borrowing		**–**	347
		11,097,343	9,125,414
Net current assets		**3,509,478**	3,703,543
Total assets less current liabilities		**19,624,603**	15,131,790

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Bank loans	26	**1,940,549**	789,135
Government grants	27	**87,162**	80,040
Deferred tax liabilities	28	**45,952**	47,818
		2,073,663	916,993
Net assets		**17,550,940**	14,214,797
Capital and reserves			
Share capital	29	**99,231**	99,718
Reserves		**17,451,709**	14,089,161
Equity attributable to owners of the Company		**17,550,940**	14,188,879
Non-controlling interests		**–**	25,918
Total equity		**17,550,940**	14,214,797

The consolidated financial statements on pages 68 to 130 were approved and authorised for issue by the Board of Directors on 27 March 2018 and are signed on its behalf by:

PAN BENJAMIN ZHENGMIN	**MOK JOE KUEN RICHARD**
DIRECTOR	DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to owners of the Group												Non-controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Non-distributable reserve RMB'000	PRC statutory reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000		
At 1 January 2016	99,718	746,957	–	1,135	23,391	(22,742)	–	87,245	354,180	–	10,017,058	11,306,942	47,141	11,354,083
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	–	175,538	–	–	–	–	–	175,538	(366)	175,172
Profit for the year	–	–	–	–	–	–	–	–	–	–	4,025,665	4,025,665	(1,230)	4,024,435
Total comprehensive income and expense for the year	–	–	–	–	–	175,538	–	–	–	–	4,025,665	4,201,203	(1,596)	4,199,607
Dividend declared	–	–	–	–	–	–	–	–	–	–	(1,314,285)	(1,314,285)	–	(1,314,285)
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	(4,981)	(4,981)	966	(4,015)
Capital reduction of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(20,593)	(20,593)
Transfers	–	–	–	–	–	–	–	–	2,827	–	(2,827)	–	–	–
At 31 December 2016	99,718	746,957	–	1,135	23,391	152,796	–	87,245	357,007	–	12,720,630	14,188,879	25,918	14,214,797
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	–	(183,637)	–	–	–	–	–	(183,637)	205	(183,432)
Fair value changes on available-for-sale investments	–	–	–	–	–	–	436,545	–	–	–	–	436,545	–	436,545
Fair value changes on derivative financial instruments	–	–	–	–	–	–	–	–	–	4,438	–	4,438	–	4,438
Profit for the year	–	–	–	–	–	–	–	–	–	–	5,324,579	5,324,579	598	5,325,177
Total comprehensive income and expense for the year	–	–	–	–	–	(183,637)	436,545	–	–	4,438	5,324,579	5,581,925	803	5,582,728
Dividend declared	–	–	–	–	–	–	–	–	–	–	(1,663,997)	(1,663,997)	–	(1,663,997)
Shares repurchased	–	–	(512,673)	–	–	–	–	–	–	–	–	(512,673)	–	(512,673)
Shares cancelled	(487)	(512,186)	512,673	–	–	–	–	–	–	–	–	–	–	–
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	(43,194)	(43,194)	(26,721)	(69,915)
Transfers	–	–	–	–	–	–	–	–	111,885	–	(111,885)	–	–	–
At 31 December 2017	99,231	234,771	–	1,135	23,391	(30,841)	436,545	87,245	468,892	4,438	16,226,133	17,550,940	–	17,550,940

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

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 RMB'000	2016 RMB'000
Operating activities			
Profit before taxation		**5,996,297**	4,632,990
Adjustments for:			
Interest income		**(44,374)**	(33,986)
Interest expense		**164,711**	66,812
Depreciation of property, plant and equipment		**1,295,177**	952,615
Amortisation of intangible assets		**10,942**	9,512
Release of prepaid lease payments		**8,733**	6,778
Depreciation of investment property		**1,194**	–
(Gain) loss on disposal of property, plant and equipment		**(1,215)**	12,788
Loss on disposal of prepaid lease payments		**–**	2,735
Share of results of associates		**6,616**	8,535
Amortisation of upfront fee for bank loans		**3,587**	1,734
Amortisation of government grants		**(5,643)**	(5,922)
Written off of other borrowing		**(330)**	–
Gain on disposal of a subsidiary	32	**–**	(428)
Loss on disposal of available-for-sale investments		**441**	–
Fair value loss on contingent consideration in respect of acquisition of a subsidiary in previous year		**12,002**	13,485
Net reversal of allowance for bad and doubtful debts		**(3,929)**	(3,067)
Allowance (reversal of allowance) for obsolete inventories		**85,482**	(113,452)
Impairment losses recognised in respect of property, plant and equipment		**47,994**	–
Impairment loss recognised in interest in an associate		**7,530**	–
Operating cash flows before movements in working capital		**7,585,215**	5,551,129
Increase in inventories		**(902,748)**	(762,180)
Increase in trade and other receivables		**(1,491,036)**	(1,736,233)
Decrease (increase) in amount due from related companies		**1,157**	(3,015)
Increase in trade and other payables		**794,331**	2,204,587
(Decrease) increase in amounts due to related companies		**(3,688)**	10,716
Cash generated from operations		**5,983,231**	5,265,004
Taxation paid		**(696,234)**	(453,024)
Net cash from operating activities		**5,286,997**	4,811,980

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 RMB'000	2016 RMB'000
Investing activities			
Withdrawal of pledged bank deposits		**104,877**	120
Interest received		**54,241**	22,049
Proceeds from disposal of an available-for-sale investment		**23,419**	–
Proceeds from disposal of property, plant and equipment		**15,712**	18,658
Government grants received relating to acquisitions of property, plant and equipment		**12,765**	43,790
Proceeds from disposal of prepaid lease land		**–**	580
Acquisition of property, plant and equipment		**(3,900,123)**	(3,007,727)
Deposits paid for acquisition of property, plant and equipment		**(913,987)**	(918,358)
Prepaid rentals on prepaid lease payments		**(212,422)**	(95,347)
Additions to intangible assets		**(90,950)**	(18,153)
Acquisition of a subsidiary	31	**(45,279)**	–
Acquisition of available-for-sale investments		**(34,041)**	(5,736)
Contingent consideration paid in respect of acquisition of a subsidiary		**(17,979)**	(28,898)
Placement of pledged bank deposits		**(4,858)**	(111,168)
Investment in an associate		**–**	(16,823)
Cash outflow from disposal of a subsidiary	32	**–**	(296)
Net cash used in investing activities		**(5,008,625)**	(4,117,309)
Financing activities			
Bank loans raised		**8,214,159**	5,169,575
Repayments of bank loans		**(5,852,006)**	(2,968,647)
Dividend paid		**(1,662,298)**	(1,314,285)
Repurchase of shares	29	**(512,673)**	–
Interest paid		**(164,711)**	(66,812)
Acquisition of additional interests in subsidiaries		**(36,567)**	(23,123)
Net cash (used in) from financing activities		**(14,096)**	796,708
Net increase in cash and cash equivalents		**264,276**	1,491,379
Cash and cash equivalents at 1 January		**3,864,386**	2,223,864
Effect of foreign exchange rate changes		**(94,580)**	149,143
Cash and cash equivalents at 31 December		**4,034,082**	3,864,386
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**4,034,082**	3,864,386

1. GENERAL

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

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 40.

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

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

The Group has applied the following amendments to IFRSs which are effective for the first time in the current year:

Amendments to IAS 7	Disclosure initiative
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to IFRS 12	As part of the annual improvements to IFRSs 2014-2016 cycle

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 41. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 41, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial instruments[1]
IFRS 15	Revenue from contracts with customers and the related amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance contracts[4]
IFRIC 22	Foreign currency transactions and advance consideration[1]
IFRIC 23	Uncertainty over income tax treatments[2]
Amendments to IFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to IFRS 4	Applying IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts"[1]
Amendments to IFRS 9	Prepayment features with negative compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to IAS 19	Plan amendment, curtailment or settlement[2]
Amendments to IAS 28	Long-term interests in associates and joint ventures[2]
Amendments to IAS 28	As part of the annual improvements to IFRSs 2014 – 2016 cycle[1]
Amendments to IAS 40	Transfers of investment property[1]
Amendments to IFRSs	Annual improvements to IFRS Standards 2015 – 2017 cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

IFRS 9 "Financial instruments"

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

Key requirements of IFRS 9 which are relevant to the Group are described below:

- All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other financial assets are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

IFRS 9 "Financial instruments" (continued)

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

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors of the Company anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement

- Listed equity securities other than the investment in AMS AG ("AMS"), classified as available-for-sale investments carried at fair value as disclosed in note 16: these securities will be designated as measured at fair value through other comprehensive income ("FVTOCI") under IFRS 9, however, the fair value gains or losses accumulated in the investment revaluation reserve amounting to RMB29,117,000 as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;

- The Group's investment in AMS also qualifies for designation as measured at FVTOCI under IFRS 9, however, the Group plans not to elect the option of the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of IFRS 9, investment revaluation reserve of RMB407,428,000 related to this investment will be transferred to retained profits at 1 January 2018;

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 16: these securities qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investment revaluation reserve. Upon initial application of IFRS 9, the Directors of the Company are of the opinion there will be insignificant amount of fair value gains or losses to be adjusted to the investment revaluation reserve as at 1 January 2018; and

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

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

IFRS 9 "Financial instruments" (continued)

Impairment

In general, the Directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that are subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the Directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would have no material difference as compared to the accumulated amount recognised under IAS 39.

Hedge accounting

As the new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of IFRS 9. Accordingly, the Directors of the Company anticipate that the application of the new hedging requirements may not have a material impact on the Group's current hedge designation and hedge accounting.

IFRS 15 "Revenue from contracts with customers"

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

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

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

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

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

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

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

IFRS 16 "Leases"

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

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB129,578,000 (2016: RMB159,030,000) as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB11,778,000 and refundable rental deposits received of RMB3,494,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

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

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs).

Business combinations

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGU") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal (or any of the CGU within group of CGUs in which the Group monitors goodwill).

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. For associates using accounting policies that differ from those of the Group for like transactions and events in similar circumstances, appropriate adjustments will be made to conform the associate's accounting policies to those of the Group. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

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

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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

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

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

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

Property, plant and equipment

Property, plant and equipment including buildings and freehold land for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress as described below, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and any accumulated impairment losses, if any.

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

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

Buildings	20
Electronic equipment and furniture	5
Leasehold improvements	5 years or over the term of lease, whichever is shorter
Motor vehicles	5
Plant and machinery	10

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives of 20 years and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposals. Any gain or loss arising on derecognition of the property, which is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss in the period in which the property is derecognised.

Leasehold land and building

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as available-for-sale investments and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets

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

Equity securities held by the Group that are classified as available-for-sale financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

Impairment of financial assets

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

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

For all other financial assets, objective evidence of impairment could include:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets (continued)

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

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

When an available-for-sale equity investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Financial liabilities and equity instruments

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

Financial liabilities at amortised cost

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity 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.

Derivative financial instruments

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

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges. At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the 'other gains or losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition

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

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

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

Intangible assets

Intangible assets acquired separately

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

Internally generated intangible assets – research and development expenditure

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Intangible assets acquired in a business combination

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

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

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

Impairment on tangible and intangible assets (other than goodwill and financial assets)

At the end of the reporting period the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Government grants

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on transactions entered into in order to hedge certain foreign currency risks.

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Leasing

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

The Group as lessee

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

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

Retirement benefit costs

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

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated allowance of inventories

Management reviews the inventories aging listing at the end of each reporting period, and makes allowance for obsolete and/or slow-moving inventory items identified that are no longer suitable for use in operation. Estimation of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. Where the net realisable value is less than the cost, a material impairment may arise. As at 31 December 2017, the carrying amount of inventories (net of allowance) was approximately RMB3,397,629,000 (2016: RMB2,622,931,000).

5. SEGMENT INFORMATION

Operating and reportable segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker of the Group has been identified as the 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 under IFRS 8 are dynamic components (including miniature speaker modules, receivers and speakers), haptics & radio frequency mechanical module ("Haptic and RF/Mechanical"), Micro Electro-Mechanical System ("MEMS") components and other products (including optics, traditional microphones and headsets), which represent the major types of products manufactured and sold by the Group.

5. SEGMENT INFORMATION (CONTINUED)

Information regarding these segments is presented below.

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

	2017 RMB'000	2016 RMB'000
Operating and reportable segments		
Segment revenue from external customers		
Dynamic components	9,579,669	7,955,785
Haptic and RF/Mechanical	10,495,509	6,940,249
MEMS components	847,594	535,356
Other products	195,794	75,438
Revenue	21,118,566	15,506,828
Segment results		
Dynamic components	3,908,051	3,618,815
Haptic and RF/Mechanical	4,578,057	2,786,126
MEMS components	190,244	46,998
Other products	43,575	(9,428)
Total profit for operating and reportable segments	8,719,927	6,442,511
Unallocated amounts:		
Interest income	44,374	33,986
Other income	126,829	115,011
Distribution and selling expenses	(365,195)	(291,150)
Administrative expenses	(609,991)	(472,102)
Research and development costs	(1,663,667)	(1,165,669)
Share of results of associates	(6,616)	(8,535)
Exchange (loss) gain	(29,129)	45,322
Finance costs	(164,711)	(66,812)
Other expenses and losses	(55,524)	–
Gain on disposal of a subsidiary	–	428
Profit before taxation	5,996,297	4,632,990

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

5. SEGMENT INFORMATION (CONTINUED)

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

	2017 RMB'000	2016 RMB'000
Dynamic components	**591,641**	477,348
Haptic and RF/Mechanical	**314,574**	173,193
MEMS components	**33,986**	41,505
Other products	**37,431**	17,886
	977,632	709,932
Other unallocated expenses	**338,414**	258,973
	1,316,046	968,905

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

Approximately 88% of the Group's non-current assets were located in the PRC, the place of domicile of the relevant group entities that hold those assets. There were no non-current assets in foreign countries that exceeds 10% of the Group's total non-current assets.

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

	2017 RMB'000	2016 RMB'000
Greater China* (country of domicile)	**5,735,519**	4,779,986
Other foreign countries:		
Other Asian countries	**1,628,806**	1,053,676
America	**13,748,554**	9,669,114
Europe	**5,687**	4,052
	21,118,566	15,506,828

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

5. SEGMENT INFORMATION (CONTINUED)

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

During the year, the aggregate amount of revenue derived from the Group's top customers which individually has contributed to over 10% of the Group's revenue and included in all of the Group's segments, amounted to RMB11,951,678,000 (2016: RMB7,313,044,000). No disclosure of the total amount of revenue by each customer and number of customers are disclosed, as in the opinion of the Directors of the Company such disclosure is harmful to the Group's business.

6. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank borrowings wholly repayable within five years	**164,711**	66,811
Interest on other borrowing	**–**	1
	164,711	66,812

7. PROFIT BEFORE TAXATION

	2017 RMB'000	2016 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments (note 8)	21,266	18,841
Other staff's retirement benefits scheme contributions	534,825	366,858
Other staff costs	4,514,877	3,543,612
Total staff costs	5,070,968	3,929,311
Less: Staff costs included in research and development costs	(988,138)	(695,342)
	4,082,830	3,233,969
Depreciation of property, plant and equipment	1,295,177	952,615
Less: Depreciation included in research and development costs	(185,108)	(150,796)
	1,110,069	801,819
Allowance for obsolete inventories, included in cost of goods sold (note 21)	85,482	–
Amortisation of intangible assets	10,942	9,512
Auditor's remuneration	2,975	2,907
Cost of inventories recognised as expense	12,313,157	9,177,769
Cost of raw materials included in research and development costs	97,482	78,254
Depreciation of investment property	1,194	–
Impairment loss recognised in respect of interest in an associate, included in other expenses and losses (note 17)	7,530	–
Impairment losses recognised in respect of property, plant and equipment, included in other expenses and losses (note 12)	47,994	–
Loss on disposal of property, plant and equipment	–	12,788
Loss on disposal of prepaid lease payments	–	2,735
Operating lease rentals in respect of		
– building premises	40,690	66,788
– property, plant and equipment	71,617	8,839
Release of prepaid lease payments	8,733	6,778
Government grants included in other income*	(77,595)	(90,640)
Interest income	(44,374)	(33,986)
Rental income	(7,441)	(2,448)
Amortisation of government grants (note 27)	(5,643)	(5,922)
Net reversal of allowance for bad and doubtful debts	(3,929)	(3,067)
Gain on disposal of property, plant and equipment	(1,215)	–
Written off of other borrowing	(330)	–
Reversal of allowance for obsolete inventories, included in cost of goods sold (note 21)	–	(113,452)

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

8. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

The aggregate Directors' and chief executive's remuneration for the year ended 31 December 2017 amounts to RMB21,266,000 (2016: RMB18,841,000), disclosed pursuant to the applicable Listing Rules and CO, are as follows:

For the year ended 31 December 2017:

	Pan Benjamin Zhengmin ("Mr. Pan") RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
Executive Directors			
Fees	–	–	–
Other emoluments:			
Salaries and other benefits	4,595	2,212	6,807
Performance related bonuses	–	11,734	11,734
Retirement benefits scheme contributions	–	16	16
Total Directors' emoluments	4,595	13,962	18,557

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

	Wu Ingrid Chun Yuan ("Ms. Wu") RMB'000	Total RMB'000
Non-executive Director		
Fees	445	445
Other emoluments:		
Salaries and other benefits	–	–
Performance related bonuses	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	445	445

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

	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Dato' Tan Bian Ee RMB'000	Chang I-Hua Carmen RMB'000	Total RMB'000
Independent non-executive Directors					
Fees	933	599	377	355	2,264
Other emoluments:					
Salaries and other benefits	–	–	–	–	–
Performance related bonuses	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–
Total Directors' emoluments	933	599	377	355	2,264

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

8. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

For the year ended 31 December 2016:

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

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

	Ms. Wu RMB'000	Total RMB'000
Non-executive Director		
Fees	446	446
Other emoluments:		
Salaries and other benefits	–	–
Performance related bonuses	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	446	446

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

	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Dato' Tan Bian Ee RMB'000	Chang I-Hua Carmen RMB'000	Total RMB'000
Independent non-executive Directors					
Fees	934	600	378	355	2,267
Other emoluments:					
Salaries and other benefits	–	–	–	–	–
Performance related bonuses	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–
Total Directors' emoluments	934	600	378	355	2,267

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

Note: The performance related bonus for the years ended 31 December 2017 and 31 December 2016 were determined based on the performance of the Group.

8. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

Employees' emoluments

The five highest paid individuals included one (2016: one) Director of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2016: four) highest paid individuals are as follows:

	2017 RMB'000	2016 RMB'000
Employees		
– basic salaries and allowances	7,552	6,922
– bonus	41,752	32,503
– retirement benefits scheme contributions	70	70
	49,374	39,495

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

The emoluments were within the following bands:

	Number of employees	
	2017	2016
HK$8,000,001 to HK$8,500,000	–	1
HK$9,000,001 to HK$9,500,000	–	1
HK$9,500,001 to HK$10,000,000	–	1
HK$11,500,001 to HK$12,000,000	1	–
HK$13,000,001 to HK$13,500,000	1	–
HK$14,000,001 to HK$14,500,000	1	1
HK$17,000,001 to HK$17,500,000	1	–

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

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

9. TAXATION

	2017 RMB'000	2016 RMB'000
The current tax charge (credit) comprises:		
PRC Enterprise Income Tax	**490,160**	535,713
Other jurisdictions	**216,230**	103,110
Hong Kong Profits Tax	**–**	86
Overprovision of taxation in prior years	**(33,348)**	(29,191)
	673,042	609,718
Deferred tax (see note 28)	**(1,922)**	(1,163)
	671,120	608,555

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

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

In addition, certain PRC subsidiaries were officially endorsed as High-New Technology Enterprises ("HNTE") till the dates ranging from 2 November 2018 to 7 December 2020. 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 fulfilment of carrying out qualifying business activities. This incentive program will expire for the subsidiary in 2018, yet the Directors of the Company expect that the program will be extended in the foreseeable future.

Pursuant to the relevant laws and regulation in Vietnam, one of the Group's subsidiaries is entitled to concessionary tax rate which is granted based on the fulfilment of carrying qualifying business activities. This tax holiday for the subsidiary will expire in 2027.

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

9. TAXATION (CONTINUED)

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

	2017 RMB'000	2016 RMB'000
Profit before taxation	**5,996,297**	4,632,990
Tax at the applicable income tax rate*	**1,499,074**	1,158,248
Tax effect of income not taxable for tax purpose	**(27,906)**	(27,576)
Tax effect of expenses not deductible for tax purpose	**125,371**	192,469
Tax effect of tax holiday	**(572,226)**	(446,998)
Tax effect of tax losses not recognised	**47,270**	84,096
Utilisation of tax losses previously not recognised	**(33,660)**	(4,296)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(326,854)**	(307,437)
Overprovision in prior years	**(33,348)**	(29,191)
Others	**(6,601)**	(10,760)
Tax charge for the year	**671,120**	608,555

* The PRC EIT rate of 25% (2016: 25%) is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

10. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Dividends recognised as distribution during the year:		
2016 final dividend of HK$1.17 (2015: HK$0.95) per ordinary share	**1,246,964**	997,093
2017 interim dividend of HK$0.40 (2016: HK$0.30) per ordinary share	**417,033**	317,192
	1,663,997	1,314,285

Subsequent to the end of the reporting period, a final dividend of HK$1.70 (2016: HK$1.17) per share, has been proposed by the Directors of the Company and is subject to approval by the Shareholders in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2017 is based on the profit for the year attributable to owners of the Company of RMB5,324,579,000 (2016: RMB4,025,665,000) and on the weighted average of 1,224,973,000 (2016: 1,228,000,000 shares) number shares in issue during the year.

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

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Electronic equipment and furniture RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2016	15,185	944,234	855,705	555,020	44,244	6,542,273	1,066,033	10,022,694
Currency realignment	99	1,514	2,306	3,533	151	15,483	1,502	24,588
Additions	167	86,105	240,363	135,103	10,250	1,019,833	1,888,767	3,380,588
Disposals	–	(5,689)	(13,702)	(2,092)	(3,914)	(37,550)	(15,050)	(77,997)
Transfers	–	320,061	61,668	91,092	1,963	1,366,376	(1,841,160)	–
At 31 December 2016	15,451	1,346,225	1,146,340	782,656	52,694	8,906,415	1,100,092	13,349,873
Currency realignment	(932)	(2,847)	(2,263)	(4,629)	(188)	(19,923)	(2,403)	(33,185)
Additions	23,618	203,154	306,630	226,577	11,272	1,458,964	2,847,920	5,078,135
Disposals	–	(980)	(26,321)	(16)	(2,557)	(32,911)	(848)	(63,633)
Transfer to investment properties	–	(24,899)	–	–	–	–	–	(24,899)
Acquisition of subsidiaries	–	–	6,059	1,142	91	337,394	5,563	350,249
Transfers	–	501,698	39,871	113,409	2,045	2,012,980	(2,670,003)	–
At 31 December 2017	38,137	2,022,351	1,470,316	1,119,139	63,357	12,662,919	1,280,321	18,656,540
DEPRECIATION AND IMPAIRMENT								
At 1 January 2016	–	165,604	470,153	272,460	22,009	2,012,502	–	2,942,728
Currency realignment	–	188	913	1,760	70	4,136	–	7,067
Provided for the year	–	56,202	127,000	126,184	6,229	637,000	–	952,615
Eliminated on disposal	–	(2,931)	(11,588)	(1,980)	(3,481)	(26,571)	–	(46,551)
Impairment losses recognised in profit or loss	–	32	–	–	–	(32)	–	–
At 31 December 2016	–	219,095	586,478	398,424	24,827	2,627,035	–	3,855,859
Currency realignment	–	(203)	(847)	(2,734)	(54)	(5,344)	–	(9,182)
Provided for the year	–	76,390	164,907	158,570	7,787	887,523	–	1,295,177
Eliminated on disposal	–	(414)	(22,075)	(9)	(2,156)	(24,482)	–	(49,136)
Transfer to investment properties	–	(10,563)	–	–	–	–	–	(10,563)
Impairment losses recognised in profit or loss	–	–	529	–	14	42,803	4,648	47,994
At 31 December 2017	–	284,305	728,992	554,251	30,418	3,527,535	4,648	5,130,149
CARRYING VALUES								
At 31 December 2017	38,137	1,738,046	741,324	564,888	32,939	9,135,384	1,275,673	13,526,391
At 31 December 2016	15,451	1,127,130	559,862	384,232	27,867	6,279,380	1,100,092	9,494,014

During the year, the Group has reviewed the estimated useful life of its certain property, plant and equipment and has fully impaired certain property, plant and equipment with carrying value of RMB47,994,000 (2016: nil) due to termination of production on certain products that were not part of the Group's core business and due to replacement of some other machineries by more advanced models as part of the Group's automation plan.

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

13. GOODWILL

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

	2017 RMB'000	2016 RMB'000
北京東微世紀科技有限公司 (Eastmicro Technology (Beijing) Co., Ltd.)*	1,750	1,750
AAC Technologies Japan R&D Center Co., Ltd.	1,348	1,348
Kaleido Technology APS	8,705	8,705
WiSpry, Inc.	77,414	77,414
	89,217	89,217

* The English translation is for identification purpose only.

The recoverable amount of the CGU is determined on the basis of value in use calculation. The recoverable amount is based on certain key assumptions. These calculations use cash flow projections based on latest financial budgets approved by management covering a five-year period, using an applicable pre-tax discount rate of 8.8% (2016: 5.9%). The cash flows beyond the five-year period are extrapolated using a steady 1% growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not result in significant impairment loss.

14. PREPAID LEASE PAYMENTS

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

15. INVESTMENT PROPERTIES

	RMB'000
CARRYING VALUES	
Transfer from property, plant and equipment	14,336
Transfer from prepaid lease payments	2,907
Depreciation during the year	(1,194)
At 31 December 2017	16,049

Note: During the year ended 31 December 2017, the Group changed the use of certain of its property, plant and equipment and prepaid lease payments and had leased them out to an independent third party for rental income.

16. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Unlisted shares, at cost (Note a)	**27,243**	385,676
Listed shares, at fair value (Note b)	**724,680**	–
	751,923	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 of the Company are of the opinion that the fair values cannot be measured reliably.

(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. 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 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 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 of the Company 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 31 December 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 RMB665,084,000. 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.

Also included in the Group's investment in listed shares is an investment in a company listed in Japan, made by the Group in the current year for a consideration of RMB30,479,000. As at 31 December 2017, the fair value of this investment, determined by reference to the quoted market bid prices available, amounted to approximately RMB59,596,000.

17. INTERESTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Cost of investments in associates, unlisted	**29,118**	29,118
Impairment loss recognised in respect of interest in an associate	**(7,530)**	–
Share of post-acquisition loss and other comprehensive expense	**(21,588)**	(14,972)
	–	14,146

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

Name of associate	Place of incorporation	Percentage of equity interest 2017 %	Percentage of equity interest 2016 %	Principal activity
Vesper Technologies Inc.	United States of America	**16.1**	16.1	Research and development of MEMS products
Five Dimension Co., Ltd.	Japan	**39.1**	39.1	Design, research and development of LENS products

As at 24 July 2017, Five Dimension Co., Ltd. has filed a petition for bankruptcy due to loss. Therefore, an impairment loss of RMB7,530,000 is recognised in the current year.

There were no material interests in associates in aggregate or individually as at 31 December 2017 and 31 December 2016 and therefore the financial information of these associates is not disclosed.

18. INTANGIBLE ASSETS

	Patents RMB'000	Development expenditure RMB'000	Total RMB'000
COST			
At 1 January 2016	193,511	110,936	304,447
Currency realignment	979	3,762	4,741
Addition	–	18,153	18,153
Written off	(15,319)	–	(15,319)
At 31 December 2016	179,171	132,851	312,022
Currency realignment	(2,279)	3,191	912
Addition	73,833	23,859	97,692
At 31 December 2017	250,725	159,901	410,626
AMORTISATION AND IMPAIRMENT			
At 1 January 2016	107,551	40,875	148,426
Currency realignment	979	1,165	2,144
Provided for the year	6,454	3,058	9,512
Written off	(15,319)	–	(15,319)
At 31 December 2016	99,665	45,098	144,763
Currency realignment	(11)	(907)	(918)
Provided for the year	6,792	4,150	10,942
At 31 December 2017	106,446	48,341	154,787
CARRYING VALUE			
At 31 December 2017	144,279	111,560	255,839
At 31 December 2016	79,506	87,753	167,259

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

19. LOAN RECEIVABLE

In prior year, the balance represents a loan receivable from a non-controlling shareholder of a subsidiary bearing interest rate at Singapore Interbank Offered Rate plus 1.0% per annum and had no fixed repayment terms. During the year, the Group acquired the remaining interests in a subsidiary held by the non-controlling shareholder (see note 40 (c)), the balance is therefore reclassified as a loan receivable from a third party. There has been no repayment and the repayment terms remains unchanged during the year.

The Directors of the Company are of the opinion that the amount is not expected to be received within one year from the end of the reporting period. As a result, the loan receivable is classified as non-current assets in both years.

	2017 RMB'000	2016 RMB'000
Loan receivable from a non-controlling shareholder of a subsidiary	–	19,994
Loan receivable from a third party	19,132	–
	19,132	19,994

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 RMB'000	2016 RMB'000
Derivatives financial assets – under hedge accounting		
Interest rate swap contracts	4,438	–

The Group entered into the interest rate swap contracts with a commercial bank to minimise its exposure to cash flow changes of its floating-rate United States dollars bank loans by swapping floating interest rates to fixed interest rates. The terms of these contracts were negotiated to match with those of the hedged bank loans with the same notional amounts to principal amounts of bank loans, currency and interest rate index. The Directors of the Company consider that the interest rate swap contracts are highly effective hedging instruments and have designated them as cash flow hedging instruments for hedge accounting purpose.

The hedges were highly effective in hedging cash flow exposure to interest rate movements. Net adjustments on cash flow hedges of gain of RMB4,438,000 for the year ended 31 December 2017 (2016: nil) have been recognised in other comprehensive income and accumulated in equity. The Directors of the Company expected the accumulated sum is to be released to profit or loss at various dates in the coming maturity periods after the reporting period.

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Included in borrowings as disclosed in note 26 were bank loans of RMB653,420,000 (2016: nil) which were under cash flow hedges and the major terms of the interest rate swap contracts under cash flow hedges at the end of the reporting period are as follows:

Notional amount	Maturity	Swaps
US$100,000,000	7 September 2022	From LIBOR* to fixed 1.9%

* LIBOR represents London Interbank Offered Rate.

The above derivatives are measured at fair value. The classification of the measurement of the above derivatives at 31 December 2017 is Level 2 under the fair value hierarchy (see note 36 for details).

21. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**695,043**	650,409
Work in progress	**338,856**	272,875
Finished goods	**2,363,730**	1,699,647
	3,397,629	2,622,931

The Group has written off provision for obsolete inventories of RMB13,627,000 in the current year (2016: RMB898,000).

During the year, allowance for obsolete inventories of approximately RMB85,482,000 (2016: reversal of allowance for obsolete inventories RMB113,452,000) has been recognised and included in cost of sales in the current year. Reversal of allowance for inventories were made in the prior year, as there was a significant increase in the net realisable value of certain inventories due to subsequent sales.

22. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**5,696,394**	4,463,826
Bank acceptance and commercial bills	**15,539**	55,583
	5,711,933	4,519,409
Advance payment to suppliers	**45,096**	–
Prepayments	**287,411**	217,772
Value-added tax recoverable	**761,907**	460,025
Other receivables	**216,660**	295,836
Loan receivables and interest*	**131,953**	662,725
	7,154,960	6,155,767

* Loans of RMB129,157,000 (2016: RMB631,200,000) made to certain suppliers of the Group are secured, and carry interest rates ranging from 4% to 5% (2016: 4% to 5%) per annum. The amounts are repayable in 1 year.

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

	2017 RMB'000	2016 RMB'000
Age		
0 – 90 days	**5,300,321**	4,096,594
91 – 180 days	**320,466**	363,261
Over 180 days	**91,146**	59,554
	5,711,933	4,519,409

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

22. TRADE AND OTHER RECEIVABLES (CONTINUED)

	2017 RMB'000	2016 RMB'000
Age		
Overdue 0 – 90 days	**333,986**	368,397
Overdue 91 – 180 days	**87,706**	95,704
Overdue over 180 days	**3,405**	2,271
	425,097	466,372

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB425,097,000 (2016: RMB466,372,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on historical experience the Group considers the amounts which are past due and which impairment loss has not been provided for to be of good credit quality and they are expected to be recoverable. The Group does not hold any collateral over these balances.

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

	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	**12,925**	15,322
Currency realignment	**(458)**	670
Allowance for bad and doubtful debts	**1,335**	2,908
Reversal of allowance for bad and doubtful debts	**(5,264)**	(5,975)
Balance at end of the year	**8,538**	12,925

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

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

	2017 RMB'000	2016 RMB'000
US$	**156,555**	155,556
Euro	**388**	619
HK$	**–**	8

23. AMOUNTS DUE FROM (TO) RELATED COMPANIES

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

Name of related company	Balance at 31.12.2017 RMB'000	Balance at 1.1.2017 RMB'000	Maximum amount outstanding during the year RMB'000
常州遠宇精密模具製造有限公司 (Changzhou Yuanyu Precise Model Manufacturing Co., Ltd.)*	34	523	523
深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd.)*	1,681	1,683	1,683
常州中科來方能源發展有限公司 (Changzhou Zhongke Laifang Power Development Co., Ltd.)*	53	726	726
成都中科來方能源科技有限公司 (Chengdu Zhongke Laifang Power Science & Technology Co., Ltd.)*	8	1	8
	1,776	2,933	

* The English translation is for identification purpose only.

The above amounts were all trade in nature, unsecured, interest-free and repayable on demand.

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

24. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

Deposit amounting to RMB9,028,000 (2016: RMB111,108,000) has been pledged to secure credit facilities granted to certain subsidiaries which is expected to be repaid within one year.

The bank balances carry variable interest rates ranging from 0.00% to 1.40% (2016: 0.00% to 0.30%) and fixed interest rates ranging from 1.10% to 1.76% (2016: 0.01% to 1.43%). The pledged bank deposits carry variable interest rates of 0.30% to 1.75% (2016: 0.30%).

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

	Pledged bank deposits		Bank balances and cash	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
US$	–	58,965	1,336,726	759,279
HK$	–	–	205,946	12,585
Japanese Yen	–	922	34,904	22,653
Euro	–	–	14,206	6,698
Other currencies	–	–	18,626	18,094

25. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	3,157,419	2,599,146
Notes payables – guaranteed	1,241,003	1,352,316
	4,398,422	3,951,462
Payroll and welfare payables	730,817	640,708
Payables for acquisition of property, plant and equipment	571,391	311,737
Other payables and accruals	661,436	428,571
Contingent consideration payable	7,112	13,430
	6,369,178	5,345,908

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

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

	2017 RMB'000	2016 RMB'000
Age		
0 – 90 days	3,878,630	3,459,399
91 – 180 days	497,328	491,681
Over 180 days	22,464	382
	4,398,422	3,951,462

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

	2017 RMB'000	2016 RMB'000
US$	983,549	1,292,010
Japanese Yen	53,908	28,693
Euro	1,444	1,189

26. BANK LOANS

	2017 RMB'000	2016 RMB'000
Bank loans are repayable as follows:		
Within one year	**4,349,365**	3,303,293
After one year but within two years	**–**	689,139
After two years but within five years	**1,940,549**	99,996
	6,289,914	4,092,428
Less: Amount due within one year included in current liabilities	**4,349,365**	3,303,293
Amount due after one year	**1,940,549**	789,135

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

	2017 RMB'000	2016 RMB'000
US$	**1,165,052**	554,962
HK$	**–**	295,348
Euro	**–**	37,265
RMB	**–**	254,390

The variable rate bank loans carry interest rate ranging from 1.63% to 2.76% per annum (as at 31 December 2016: carry interest rate ranging from 0.55% to 4.05% per annum). The fixed rate bank loans carry interest rate ranging from 2.60% to 4.35% per annum. The Company issued guarantees to the banks to secure these borrowings.

27. GOVERNMENT GRANTS

During the year, the Group received government grants of RMB12,765,000 (2016: RMB43,790,000) in aggregate from various PRC government authorities as an incentive for constructing electronic plants and acquiring machineries. The amount received is to be amortised and released to profit or loss over the useful lives of the relevant assets.

During the year, RMB5,643,000 (2016: RMB5,922,000) of the grants have been released to profit or loss.

28. DEFERRED TAX LIABILITIES

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

	Intangible assets RMB'000	PRC withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1 January 2016	25,459	23,522	48,981
Credited to profit or loss	(1,163)	–	(1,163)
At 31 December 2016	24,296	23,522	47,818
Credited to profit or loss	(1,922)	–	(1,922)
Currency realignment	56	–	56
At 31 December 2017	22,430	23,522	45,952

At 31 December 2017, the Group has unrecognised deferred tax liability in relation to PRC withholding tax on undistributed earnings in certain of its PRC subsidiaries, as it is the intention of the Directors of the Company to retain the earnings within these subsidiaries.

At the end of the reporting period, certain subsidiaries of the Group has unused tax losses of RMB795,464,000 (2016: RMB741,024,000) available for offset against future profits. These losses may be carried forward for five years from the year when the losses are incurred. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

29. SHARE CAPITAL

	Number of shares	Amount US$'000
Shares of US$0.01 each		
Authorised:		
Ordinary shares at 1 January 2016, 31 December 2016 and 31 December 2017	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1 January 2016 and 31 December 2016	1,228,000,000	12,280
Shares repurchased and cancelled	(6,000,000)	(60)
Ordinary shares at 31 December 2017	1,222,000,000	12,220

	RMB'000
At 1 January 2016 and 31 December 2016	99,718
Shares repurchased and cancelled	(487)
At 31 December 2017	99,231

During the current year, the Company repurchased and cancelled a total of 6,000,000 issued ordinary shares of the Company in the market for a consideration of HK$592,929,000 (equivalent to approximately RMB512,673,000).

30. SHARE AWARD SCHEME

On 23 March 2016, the Company 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 declare 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 will be charged to profit or loss over the relevant vesting periods with a corresponding increase in equity.

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

31. ACQUISITION OF A SUBSIDIARY

Acquisition of 連泰精密科技江蘇有限公司 ("Liantai")

On 31 October 2017, the Group acquired the entire registered capital of Liantai for a consideration of RMB50,554,000.

Assets acquired and liabilities recognised on 31 October 2017 are as follows:

	31.10.2017 RMB'000
Plant and equipment	350,249
Inventories	130
Other receivables	33,901
Amounts due from the shareholder of Liantai	81,858
Trade receivables due from the Group	17,845
Bank balances	5,275
Trade and other payables	(5,272)
Loans and interest due to the Group	(433,432)
Net assets acquired	50,554
Net cash outflow on acquisition:	
Consideration paid	(50,554)
Cash and cash equivalents acquired	5,275
	(45,279)

32. DISPOSAL OF A SUBSIDIARY

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

Analysis of assets and liabilities disposed of:

	30.09.2016 RMB'000
Bank balances and cash	296
Trade and other receivables	42
Trade and other payables	(766)
	(428)
Net liabilities disposed and gain on disposal	428
Cash outflow arising on disposal, representing:	
Bank balances and cash disposed of	(296)

33. OPERATING LEASE COMMITMENTS

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

	Building premises	
	2017 RMB'000	2016 RMB'000
Within one year	67,482	67,845
In the second to fifth year inclusive	62,096	91,185
	129,578	159,030

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

34. CAPITAL COMMITMENTS

	2017 RMB'000	2016 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– acquisition of property, plant and equipment	627,334	439,694
– acquisition of a subsidiary	164,131	–

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Available-for-sale investments	751,923	385,676
Derivative financial instruments	4,438	–
Loans and receivables (including cash and cash equivalents)	10,124,564	9,936,416
Financial liabilities		
Amortised cost	12,572,295	9,376,760

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies

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

Market risk

Currency risk – spot rates

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

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

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

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

	Assets		Liabilities	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
US$	**10,660,118**	8,048,030	**8,519,179**	6,548,481
Japanese Yen	**387,249**	605,594	**452,270**	558,060
Euro	**17,047**	80,652	**2,555**	58,434
HK$	**597,689**	436,192	**2,085**	296,706

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk – spot rates (continued)

Sensitivity analysis

The Group is mainly exposed to fluctuations in exchange rates of RMB against the US$, the Japanese Yen, Euro and HK$. The following details the Group's sensitivity to a 5% increase in RMB against the relevant foreign currencies which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2016: 5%) change in foreign currency rates. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A negative number (in bracket) below indicates a decrease in profit for the year where the RMB strengthen 5% against the relevant currency and vice versa. For a 5% (2016: 5%) weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	Impact	
	2017 RMB'000	2016 RMB'000
(Decrease)/increase in profit for the year		
US$	(80,285)	(56,233)
Japanese Yen	2,438	(1,783)
Euro	(543)	(833)
HK$	(22,335)	(5,231)

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

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits and fixed-rate bank loans (see note 26 for details of these borrowings). However, since the bank deposits and the majority of the fixed-rate bank loans will mature within one year, the management considers the risk is insignificant to the Group.

The Group is also exposed to cash flow interest rate risk in relation to bank deposits carried interest at prevailing market deposit rate and floating-rate bank loans (see notes 24 and 26 for details). In order to keep the Group's bank loans at fixed rates, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flows of certain bank loans. The critical terms of these interest rate swaps are the same to those of hedged bank loans. Interest rate swaps are designated as effective hedging instruments and hedge accounting is used (see note 20 for details).

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The Directors of the Company consider the Group's exposure of the short-term bank deposits with original maturity of less than three months and bank balances to interest rate risk is not significant as interest bearing bank balances are within short maturity period and thus it is not included in sensitivity analysis.

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

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

If interest rates had been 50 basis points (2016: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would decrease/increase by RMB6,271,000 (2016: decrease/increase by RMB921,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans and bank deposits.

Other price risk

The Group is exposed to equity price risk on its investments in listed equity securities as included in its available-for-sale investments.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date. For sensitivity analysis purpose, the sensitivity rate of 10% is applied in current year.

If the prices of the respective equity instruments had been 10% higher/lower, the investment revaluation reserve would increase/decrease by RMB72,468,000 (2016: nil) for the Group as a result of the changes in fair value of the available-for-sale investments.

In management's opinion, the above sensitivity analysis is for illustrative purpose only and is unrepresentative of the inherent equity price risk facing by the Group as the year end exposure does not reflect the exposure during the year.

Credit risk

As at 31 December 2017 and 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

35. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk (continued)

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

As at 31 December 2017, the Group has concentration of credit risk on total trade receivables as 78.60% (2016: 80.64%) of the total trade receivables are due from the Group's five largest customers. These five customers are large multi-national corporations and are mobile phone and/or consumer electronic companies. The management considers, based on the strong financial background, good creditability and repayment history of those debtors, there are no significant credit risks.

Liquidity risk

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

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

	Weighted average interest rate	On demand RMB'000	Less than 1 year RMB'000	1 - 2 years RMB'000	2 – 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31 December 2017							
Non-derivative financial liabilities							
Non-interest bearing	–	519,792	5,762,589	–	–	6,282,381	6,282,381
Variable interest rate	2.4%	–	950,937	–	1,468,920	2,419,857	2,232,159
Fixed interest rate	4.0%	–	3,471,619	–	752,798	4,224,417	4,057,755
		519,792	10,185,145	–	2,221,718	12,926,655	12,572,295
At 31 December 2016							
Non-derivative financial liabilities							
Non-interest bearing	–	492,064	4,792,268	–	–	5,284,332	5,284,332
Variable interest rate	2.9%	–	3,365,465	716,963	110,075	4,192,503	4,092,428
		492,064	8,157,733	716,963	110,075	9,476,835	9,376,760

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

36. 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 the 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 are 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)
	2017 RMB'000	2016 RMB'000		
Interest rate swap contracts	Assets (under hedge accounting) 4,438	Nil	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at an applicable discount rate taking into account the credit risk of the counter-parties and of the Group as appropriate.
Available-for-sale investments – Listed shares	724,680	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 consolidated financial statements approximate their fair values.

37. CAPITAL RISK MANAGEMENT

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

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

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

38. RETIREMENT BENEFITS SCHEME

The Group mainly participates in the mandatory pension fund and social insurance schemes for its employees in the PRC, Vietnam and Hong Kong.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

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

39. RELATED PARTY TRANSACTIONS

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

Relationship of related parties	Nature of transactions	2017 RMB'000 (Note 2)	2016 RMB'000
Companies controlled by close family members of the substantial Shareholders of the Company (Note 1)	Purchase of raw materials	**140,144**	119,312
	Property rentals paid	**24,860**	19,917
	Property rentals received	**1,562**	1,508
	Sales of raw materials	**4,544**	3,730
	Acquisition of additional interests in a subsidiary (Note 3)	**28,000**	–
Close family members of the substantial Shareholders of the Company (Note 1)	Property rentals paid	**–**	2,345
		US$'000	**US$'000**
Companies controlled by close family members of the substantial Shareholders of the Company (Note 1)	Property rentals paid	**225**	–

Notes:

(1) The substantial Shareholders have shareholdings which give them significant influence over the Company. They are also Directors of the Company.

(2) Amounts in 2017 include applicable value-added tax.

(3) During the year ended 31 December 2017, the Group acquired additional interests in a subsidiary for a consideration of RMB28,000,000 paid to related parties, details are set out in note 40 (c).

Emoluments paid to the key management personnel of the Company which represents the executive Directors of the Company and the five highest paid individuals, are set out in note 8.

Balances with related parties are disclosed in note 23.

40. PRINCIPAL SUBSIDIARIES

(a) General information of subsidiaries

Details of the Company's principal subsidiaries, all of which are wholly-owned subsidiaries of the Group as at 31 December 2017 and 31 December 2016, are as follows:

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
瑞聲聲學科技(常州) 有限公司 AAC Acoustic Technologies (Changzhou) Co., Ltd. (Note a)#	PRC	Registered capital – US$8,000,000	Manufacture and sales of acoustic products, research and development
瑞聲聲學科技有限公司 AAC Acoustic Technologies Limited#	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products, investment
AAC Technologies Pte. Ltd.#	Singapore	Shares – SGD500,000	Sale of products, research and development
瑞聲聲學科技(深圳) 有限公司 AAC Acoustic Technologies (Shenzhen) Co., Ltd. (Note b)#	PRC	Registered capital – US$100,000,000	Manufacture and sales of acoustic products, research and development
瑞聲科技(沭陽) 有限公司 AAC Technologies (Shuyang) Co., Ltd. (Note c)#	PRC	Registered capital – US$9,000,000	Manufacture and sales of precision components for acoustic products, research and development
瑞聲光電科技(常州) 有限公司 AAC Microtech (Changzhou) Co., Ltd. (Note d)#	PRC	Registered capital – US$122,800,000 (2016: US$102,800,000)	Manufacture and sales of electronic components, research and development
常州美歐電子有限公司 American Audio Components (Changzhou) Co., Ltd. (Note e)#	PRC	Registered capital – US$23,000,000	Manufacture and sales of precision components and acoustic products, research and development
瑞聲精密製造科技(常州)有限公司 AAC Module Technologies (Changzhou) Co., Ltd. (Note f)#	PRC	Registered capital – US$116,800,000 (2016: US$74,800,000)	Manufacture and sales of tooling and precision components, research and development
常州泰瑞美電鍍科技有限公司 Changzhou Tairuimei Electroplating Technology Co., Ltd. (Note g)#	PRC	Registered capital – RMB69,000,000	Provision of electroplating service

40. PRINCIPAL SUBSIDIARIES (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
香港遠宇電子有限公司 YEC Electronics Limited#	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products
瑞聲精密電子沭陽有限公司 AAC Precision Electronics Shuyang Co., Ltd. (Note h)#	PRC	Registered capital – US$104,980,000	Manufacture and sales of electronics related accessories and components, research and development
瑞聲光電科技(蘇州)有限公司 AAC Optronics Technologies (Suzhou) Co., Ltd. (formerly known as 瑞聲聲學科技(蘇州)有限公司 AAC Acoustic Technologies (Suzhou) Co., Ltd.) (Note i)#	PRC	Registered capital – US$187,000,000 (2016: US$157,000,000)	Manufacture and sales of electronic components, research and development
瑞聲(中國)投資有限公司 AAC (China) Investment Co., Ltd. (Note j)#	PRC	Registered capital – US$400,000,000 (2016: US$300,000,000)	Investment
瑞聲開泰(深圳)科技發展有限公司 AAC Kaitai (Shenzhen) Sci-Tech Development Co., Ltd. (Note k)#	PRC	Registered capital – US$40,000,000	Sales of products
瑞聲光學科技(常州)有限公司 AAC Optics Technologies (Changzhou) Co., Ltd. (Note l)#	PRC	Registered capital – US$120,000,000	Manufacture and sales of electronic components
AAC Technologies Viet Nam Co., Ltd. (Note m)#	Vietnam	Registered capital – US$6,500,000	Manufacture and sales of products
沭陽瑞泰科技有限公司 Shuyang Ruitai Technologies Co., Ltd. (Note n)#	PRC	Registered capital – US$142,000,000 (2016: US$100,000,000)	Manufacture and sales of electronic components
瑞泰(江蘇)投資有限公司 Ruitai (Jiangsu) Investment Co., Ltd. (Note o)#	PRC	Registered capital – US$100,000,000	Investment
AAC Acoustic Technologies Inc.*	British Virgin Islands	Registered capital – US$50,000	Investment

40. PRINCIPAL SUBSIDIARIES (CONTINUED)

(a) General information of subsidiaries (continued)

Notes:

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

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

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

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

There were no material non-controlling interest in aggregate or individually as at 31 December 2017 and 31 December 2016.

(c) Change in ownership interest in subsidiaries

During the year ended 31 December 2017, the Group acquired additional interests in AAC New Power Development (Changzhou) Co., Ltd. at consideration of RMB28,000,000, increasing its equity interests to 100%. An amount of RMB15,817,000 (being the proportionate share of the carrying amount of the net assets) has been transferred from non-controlling interests. The difference of RMB12,183,000 between the decrease in the non-controlling interests and the consideration is debited to retained profits.

In addition to the above, the Group has also acquired additional interests in Mems Technology Pte. Ltd. at consideration of RMB41,915,000, increasing its equity interests from 60% to 100%. The difference of RMB31,011,000 between the decrease in the non-controlling interests and the consideration is debited to retained profits. Partial consideration of RMB8,567,000 is paid during the year. The Directors of the Company expect that remaining consideration of RMB33,348,000 will be paid by March 2019.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank loans RMB'000	Other borrowing RMB'000	Consideration payable in relation to acquisition of additional interests in subsidiaries RMB'000	Dividend payable RMB'000	Total RMB'000
At 1 January 2017	4,092,428	347	–	2	4,092,777
Bank loans raised	8,214,159	–	–	–	8,214,159
Repayment of bank loans	(5,852,006)	–	–	–	(5,852,006)
Foreign exchange translation	(168,254)	(17)	–	–	(168,271)
Amortisation of upfront fee for bank loans	3,587	–	–	–	3,587
Other borrowing waived	–	(330)	–	–	(330)
Acquisition of additional interests in subsidiaries	–	–	69,915	–	69,915
Consideration paid	–	–	(36,567)	–	(36,567)
Dividend declared	–	–	–	1,663,997	1,663,997
Dividend paid	–	–	–	(1,662,298)	(1,662,298)
At 31 December 2017	6,289,914	–	33,348	1,701	6,324,963

Consideration payable in relation to acquisition of additional interests in subsidiaries and dividend payable are included in other payables in note 25.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTE	2017 RMB'000	2016 RMB'000
Non-current assets			
Interests in subsidiaries		**1,171,867**	1,171,867
Current assets			
Other receivables		**2,228**	2,100
Amounts due from subsidiaries (Note)		**959,542**	1,092,009
Bank balances and cash		**180,537**	5,635
		1,142,307	1,099,744
Current liabilities			
Other payables		**2,826**	1,048
Amounts due to subsidiaries (Note)		**–**	895
		2,826	1,943
Net current assets		**1,139,481**	1,097,801
Total assets less current liabilities		**2,311,348**	2,269,668
Capital and reserves			
Share capital	29	**99,231**	99,718
Reserves		**2,212,117**	2,169,950
		2,311,348	2,269,668

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

Movement of reserves

	Share premium RMB'000	Special reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2016	746,957	33,428	1,078,749	1,859,134
Profit and total comprehensive income for the year	–	–	1,625,101	1,625,101
Dividend declared	–	–	(1,314,285)	(1,314,285)
At 31 December 2016	746,957	33,428	1,389,565	2,169,950
Profit and total comprehensive income for the year	–	–	2,218,350	2,218,350
Dividend declared	–	–	(1,663,997)	(1,663,997)
Shares cancelled	(512,186)	–	–	(512,186)
At 31 December 2017	234,771	33,428	1,943,918	2,212,117

5-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
RESULTS					
Revenue	8,095,889	8,879,300	11,738,866	15,506,828	**21,118,566**
Reported profit before taxation	2,834,539	2,580,567	3,435,273	4,632,990	**5,996,297**
Recurring profit before taxation	2,511,519	2,580,567	3,435,273	4,632,990	**5,996,297**
Taxation	(263,081)	(270,166)	(325,079)	(608,555)	**(671,120)**
Reported profit	2,571,458	2,310,401	3,110,194	4,024,435	**5,325,177**
Attributable to:					
Owners of the Company					
– reported	2,577,583	2,317,695	3,106,904	4,025,665	**5,324,579**
– recurring	2,254,563	2,317,695	3,106,904	4,025,665	**5,324,579**
Non-controlling interests	(6,125)	(7,294)	3,290	(1,230)	**598**
	2,571,458	2,310,401	3,110,194	4,024,435	**5,325,177**
Reported Basic EPS	RMB2.10	RMB1.89	RMB2.53	RMB3.28	**RMB4.35**
Adjusted recurring Basic EPS	RMB1.84	RMB1.89	RMB2.53	RMB3.28	**RMB4.35**
Full year dividend	HK$1.08	HK$0.96	HK$1.20	HK$1.47	**HK$2.10**

	As at 31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
ASSETS AND LIABILITIES					
Total assets	10,677,022	13,279,149	16,420,201	24,257,204	**30,721,946**
Total liabilities	(2,745,233)	(4,087,506)	(5,066,118)	(10,042,407)	**(13,171,006)**
Net assets	7,931,789	9,191,643	11,354,083	14,214,797	**17,550,940**
Attributable to owners of the Company	7,876,117	9,138,095	11,306,942	14,188,879	**17,550,940**
Non-controlling interests	55,672	53,548	47,141	25,918	**–**
	7,931,789	9,191,643	11,354,083	14,214,797	**17,550,940**

INVESTORS INFORMATION

STOCK CODE

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

MAJOR MARKET INDICES

Constituent stock of the Hang Seng Index and included in its sub-indices:
- Corporate Sustainability Index and (Mainland and HK) Corporate Sustainability Index
- China (Hong Kong-listed) 25 Index
- Composite LargeCap Index
- Composite Industry Index (Information Technology) and IT Hardware Index
- High Beta Index

MSCI China Index
FTSE Hong Kong Index

MARKET CAPITALIZATION AND SHARE PRICE PERFORMANCE

As at 31 December 2017, the market capitalization of listed shares of the Company was approximately HK$170.3 billion or US$26.8 billion based on the total number of 1,222,000,000 (after the cancellation of repurchased shares) issued shares of the Company and the closing price of HK$139.4 per share.

The daily average number of traded shares was approximately 5.8 million shares over an approximate free float of 726 million shares in 2017. The average closing price was HK$113.68, an increase of 74% when compared with the average of 2016. The highest closing price was HK$179.2 per share on 13 November 2017 and the lowest was HK$70.55 per share on 3 January 2017.

1-year Relative Performance of the Company vs HSI from 1 January to 31 December 2017 is set out below:

Base: 31 December 2016=1.0
Source: Bloomberg

INVESTORS INFORMATION

In accordance with the publicly available information and as far as the Directors are aware, the Company has maintained a public float of more than 25% of the Company's issued shares throughout the financial year ended 31 December 2017 and has continued to maintain the public float as at the date of this annual report.

KEY DATES FOR SHAREHOLDERS IN 2017/2018

12 May 2017	2017 First Quarter Results Announcement
24 May 2017	2017 Annual General Meeting
25 August 2017	2017 Interim Results Announcement
19 September 2017	Record Date for 2017 Interim Dividend
26 September 2017	Payment of 2017 Interim Dividend
10 November 2017	2017 Third Quarter Results Announcement
27 March 2018	2017 Annual Results Announcement
14 May 2018	2018 First Quarter Results Announcement
23-28 May 2018	Book Closure Period for AGM
28 May 2018	2018 Annual General Meeting
11-13 June 2018	Book Closure Period for Final Dividend
13 June 2018	Record Date for 2017 Final Dividend (if any)
27 June 2018	Payment of 2017 Final Dividend (if any)

Any changes to these dates in 2018 will be published on the websites of the Stock Exchange and the Company.

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 and on the designated website of Hong Kong Exchange and Clearing Limited at www.hkexnews.hk. The registered Shareholders who registered directly with Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited ("Computershare") will receive the financial reports in printed form. Non-registered Shareholders who are not directly registered with Computershare but through CCASS will receive a letter to choose to receive the financial reports in printed form or by electronic means. Non-registered 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.

Non-registered 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 Computershare at the address stated in "Corporate Information" of this annual report or via e-mail (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.

CONTACT INVESTOR RELATIONS

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Fax: +852 28016446
Email: aac2018@aactechnologies.com

Official IR wechat group:

GLOSSARY

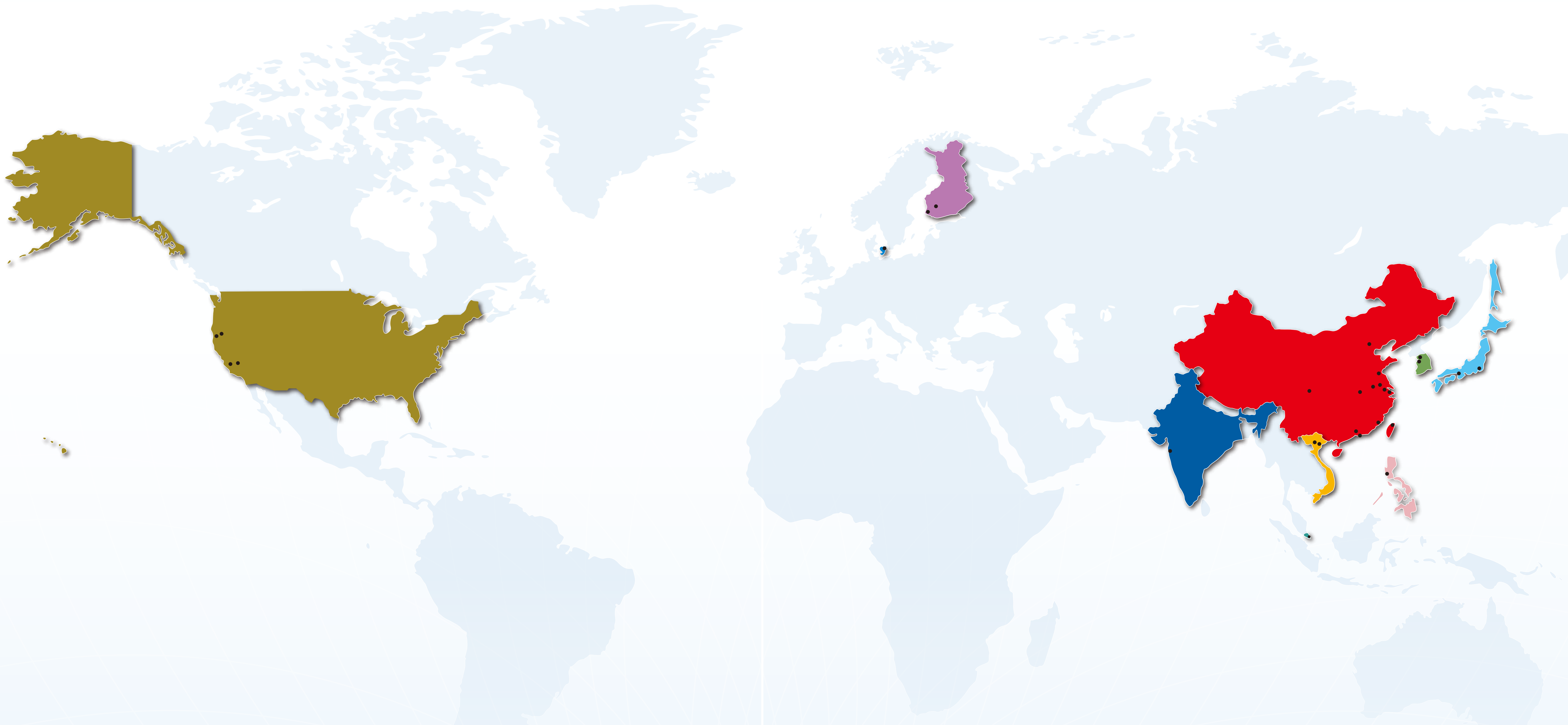
Abbreviations	Meanings
Industry	
AMS	AMS AG, a Swiss listed company incorporated in Austria and is engaged in manufacturing of sensor and analogy solutions
AR	Augmented Reality
CoBit	Control Objectives for Information and related Technology
EICC	Electronic Industry Citizenship Coalition
Haptic and RF/Mechanical	Haptics & radio frequency mechanical module
Heptagon	Heptagon Advanced Micro-Optics Pte. Ltd.
MEMS	Micro Electro-Mechanical System
MIMO	Multi-input Multi-output
RF	Radio Frequency
SLS	Super Linear Structure
VR	Virtual Reality
WLG	Wafer Level Glass
General	
AAC / AAC Technologies / the Company	AAC Technologies Holdings Inc.
AAC U.S.	American Audio Component Inc.
AGM	Annual General Meeting
Articles	The articles of association of the Company
Board	The board of directors of the Company
CAPEX	Capital expenditures
CEO	Chief Executive Officer
CG Code	Corporate Governance Code in Appendix 14 to the Listing Rules
CGU	Cash-generating units
Code Provision(s)	The code provision(s) of the CG Code
Committees	Committees of the Board
Companies Ordinance / CO	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong or Chapter 32 of the Laws of Hong Kong (as the case may be))
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CSC	Critical Security Control
Deloitte	Messrs. Deloitte Touche Tohmatsu
Director(s)	The director(s) of the Company
EGM	Extraordinary General Meeting
EIT Law	The law of PRC on Enterprise Income Tax
EPS	Earnings per share
ERA	Enterprise Risk Assessment
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance

GLOSSARY

Abbreviations	Meanings
FVTOCI	Fair value through other comprehensive income
HK$	Hong Kong dollars, the lawful currency of Hong Kong
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSAs	Hong Kong Standards on Auditing
HNTEs	High-New Technology Enterprises
IFRSs	International Financial Reporting Standards
IPs	Intellectual Properties
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules
OEMs	Original Equipment Manufacturers
Ordinary shares	Ordinary shares in the capital of the Company
PRC	People's Republic of China
Relevant Period	Between 1 January 2017 and 27 March 2018, the date of this annual report
RMB	Renminbi, the lawful currency of PRC
ROE	Return on average equity
SDGs	Sustainable Development Goals
SFO	Securities and Futures Ordinance
Share Award Scheme / Scheme	The Employee's Share Award Scheme adopted by the Board on 23 March 2016
Shareholders	The shareholders of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
the Code	HKICPA's Code of Ethics for Professional Accountants
the Group	AAC Technologies Holdings Inc. and its subsidiaries
Trustee	Bank of Communications Trustee Limited, an independent trustee appointed by the Company for managing the Share Award Scheme
US$	US dollars, the lawful currency of United States

WORLDWIDE LOCATIONS

全球分佈



Irvine 爾灣
San Jose 聖荷西
Walnut 核桃市
Cupertino 庫比蒂諾

Turku 圖爾庫
Tampere 坦佩雷
Copenhagen 哥本哈根
Mumbai 孟買
Vinh Phuc 永福
Bac Ninh 北寧

Beijing 北京
Shanghai 上海
Suzhou 蘇州
Nanjing 南京
Changzhou 常州
Shuyang 沭陽

Wuhan 武漢
Xiamen 廈門
Chengdu 成都
Shenzhen 深圳
Hong Kong 香港
Taipei 台北

Seoul 首爾
Suwon 水原
Tokyo 東京
Osaka 大阪
General Trias, Cavite 卡拉巴松
Singapore 新加坡