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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the "**Board**") of directors (the "**Director(s)**") of AAC Technologies Holdings Inc. ("**AAC Technologies**" or the "**Company**") is pleased to announce the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017 together with the comparative figures for the corresponding period in 2016.

These consolidated financial statements have been reviewed by the Company's audit and risk committee (the "**Audit and Risk Committee**") and approved by the Board on 27 March 2018.

2017 Final Results Highlights:

(RMB Million)	**2017**	2016	***YoY%***	**4Q 2017**	4Q 2016	***YoY%***
Revenue	**21,119**	15,507	***+36%***	**7,151**	5,737	***+25%***
Gross Profit	**8,720**	6,443	***+35%***	**2,979**	2,394	***+24%***
Gross Profit Margin	***41.3%***	*41.5%*	***-0.2pt***	***41.7%***	*41.7%*	**–**
Net Profit	**5,325**	4,026	***+32%***	**1,832**	1,571	***+17%***
Net Profit Margin	***25.2%***	*26.0%*	***-0.8pt***	***25.6%***	*27.4%*	***-1.8pt***
Share Numbers (Weighted average, million)	**1,225**	1,228		**1,222**	1,228	
Basic EPS (RMB)	**4.35**	3.28	***+33%***	**1.50**	1.28	***+17%***
Dividend (HK$)	**2.10**	1.47	***+43%***	**–**	–	**–**

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**"), successfully 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%): 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 more than 10 million sets at end of 2017, and, already grown to capacity of 20 million sets per month now, will continue to accelerate with further capacity expansion plan;

- 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 parties' software and new applications to extend our presence in the ecosystem;

- RF/Mechanical (10%): as planned, annual capacities of metallic cases/frames and 3D cover glass, respectively, reached 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 pending the arrival of 5G, is investing extensively in research and developing 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, 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 earnings per share 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%.

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 ("**AGM**") 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 (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 wafer level glass lens (WLG). 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.

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 Micro Electro-Mechanical System ("**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 wafer level glass 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 earnings per share 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 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	2016
	RMB'000	*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 capital expenditure programs (CAPEX) 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 system 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 announcement does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

Risks Pertaining to the Smartphones Segment

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

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

The cash 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.

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 announcement are historical in nature and past performance is not a guarantee of future performance. This announcement may contain certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board 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.

FINANCIAL INFORMATION

The financial information relating to the years ended 31 December 2017 and 2016 in this announcement does not constitute the Company's statutory consolidated financial statements for those years, but represents an extract from those consolidated financial statements. The final results of the Group for the year ended 31 December 2017 have been reviewed by the Audit and Risk Committee of the Company.

The Company has delivered the consolidated financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2017 in due course. The Company's auditor has reported on the consolidated financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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	*12*	**(6,616)**	(8,535)
Gain on disposal of a subsidiary		**–**	428
Exchange (loss) gain		**(29,129)**	45,322
Finance costs	*4*	**(164,711)**	(66,812)
Other expenses and losses		**(55,524)**	–
Profit before taxation	*5*	**5,996,297**	4,632,990
Taxation	*6*	**(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	*8*	**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	*9*	**13,526,391**	9,494,014
Goodwill		**89,217**	89,217
Prepaid lease payments		**538,149**	339,583
Deposits made for acquisition of property, plant and equipment		**913,987**	918,358
Investment properties	*10*	**16,049**	–
Available-for-sale investments	*11*	**751,923**	385,676
Interests in associates	*12*	**–**	14,146
Intangible assets		**255,839**	167,259
Loan receivable	*13*	**19,132**	19,994
Derivative financial instruments	*14*	**4,438**	–
		16,115,125	11,428,247
Current assets			
Inventories		**3,397,629**	2,622,931
Trade and other receivables	*15*	**7,154,960**	6,155,767
Amounts due from related companies		**1,776**	2,933
Taxation recoverable		**9,346**	71,832
Pledged bank deposits		**9,028**	111,108
Bank balances and cash		**4,034,082**	3,864,386
		14,606,821	12,828,957
Current liabilities			
Trade and other payables	*16*	**6,369,178**	5,345,908
Amounts due to related companies		**47,017**	50,705
Taxation payable		**331,783**	425,161
Bank loans	*17*	**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
Non-current liabilities			
Bank loans	*17*	**1,940,549**	789,135
Government grants	*18*	**87,162**	80,040
Deferred tax liabilities	*19*	**45,952**	47,818
		2,073,663	916,993
Net assets		**17,550,940**	14,214,797
Capital and reserves			
Share capital	*20*	**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

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 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 annual report. 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 annual report, 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.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) – CONTINUED

IFRS 9 “Financial instruments” – continued

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.

- 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:

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

IFRS 9 "Financial instruments" – continued

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 11: these securities qualified for designation as measured at fair value through other comprehensive income ("**FVTOCI**") under IFRS 9, however, the fair value gains or losses accumulated in the investments 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, investments 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 11: 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 investments 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.

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.

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

IFRS 9 "Financial instruments" – continued

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 annual report. 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.

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

IFRS 16 "Leases" – continued

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. 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.

3. 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	2016
	RMB'000	*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

3. SEGMENT INFORMATION – CONTINUED

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 review.

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

	2017	2016
	RMB'000	*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

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.

3. SEGMENT INFORMATION – CONTINUED

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.

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.

4. 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

5. PROFIT BEFORE TAXATION

	2017	2016
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	**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	**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 12)	**7,530**	–
Impairment losses recognised in respect of property, plant and equipment, included in other expenses and losses (note 9)	**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 18)	**(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 (note 9)	**(1,215)**	–
Written off of other borrowing	**(330)**	–
Reversal of allowance for obsolete inventories, included in cost of goods sold	**–**	(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.

6. 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 19)	**(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.

6. TAXATION – CONTINUED

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

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

	2017	2016
	RMB'000	*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.

7. DIVIDENDS

	2017	2016
	RMB'000	*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.

8. 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.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of RMB5,078,135,000 (2016: RMB3,380,588,000). Part of the consideration of RMB918,358,000 (2016: RMB256,661,000) was paid up in advance in prior year.

Also, during the year, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB14,497,000 (2016: RMB31,446,000) for proceeds of RMB15,712,000 (2016: RMB18,658,000) and resulting in a gain on disposal of RMB1,215,000 (2016: loss on disposal of RMB12,788,000).

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.

10. 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.

11. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	RMB'000	*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.

12. INTERESTS IN ASSOCIATES

	2017	2016
	RMB'000	*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**		**Principal activity**
		2017	2016	
		%	%	
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.

13. 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, 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.

13. LOAN RECEIVABLE – CONTINUED

	2017	2016
	RMB'000	*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

14. DERIVATIVE FINANCIAL INSTRUMENTS

	2017	2016
	RMB'000	*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.

Included in borrowings as disclosed in note 17 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**
USD100,000,000	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 22 for details).

15. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*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% per annum (2016: 4% to 5%). 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	2016
	RMB'000	*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

15. TRADE AND OTHER RECEIVABLES – CONTINUED

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:

	2017	2016
	RMB'000	*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	2016
	RMB'000	*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.

15. TRADE AND OTHER RECEIVABLES – CONTINUED

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	2016
	RMB'000	*RMB'000*
US$	**156,555**	155,556
Euro	**388**	619
Hong Kong dollar ("**HK$**")	**–**	8

16. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*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	2016
	RMB'000	*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

16. TRADE AND OTHER PAYABLES – CONTINUED

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

17. BANK LOANS

	2017	2016
	RMB'000	*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	2016
	RMB'000	*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.

18. 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.

19. DEFERRED TAX LIABILITIES

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

	Intangible assets *RMB'000*	PRC withholding tax on undistributed earnings *RMB'000*	Total *RMB'000*
At 1 January 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.

20. 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).

21. 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)

22. 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	2016		
	RMB'000	*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.

CORPORATE GOVERNANCE

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 controls system.

Based on regular reviews of the Company's actual performance against the Corporate Governance Code, the Board is satisfied that throughout the financial year ended 31 December 2017, the Company complied with all the code provisions. Furthermore, the Company strives 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.

In addition, the Board in 2017 conducted an evaluation of its performance, reviewed the Company's policies and practices with regard to Segregation of Duties between Chairman & CEO, Board Diversity, Environmental, Social and Governance ("**ESG**") responsibilities, Shareholders' Communication, Whistleblowing, Corporate Disclosure, Terms of Reference for the Board & Directors' Duties, Audit and Risk Committee, Nomination Committee and Remuneration Committee and published its fourth annual Sustainability Report for the year ended 31 December 2016 in May 2017. We believe that the Sustainability Report, together with the Corporate Governance Report, will help to better explain our ESG strategies, policies and practices.

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 enterprise risk management ("**ERM**") framework to effectively identify, assess, mitigate and monitor key business, financial, operational and compliance risks. The framework enables us to adopt a proactive and structured approach to identify and manage 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 system of risk management and internal controls systems on an ongoing basis.

The Audit and Risk Committee reviewed accounting principles, practices and important issues of judgment and estimation adopted by the Group in preparing the financial statements for the year ended 31 December 2017. The Audit and Risk Committee met four times during the year in advance of Board meetings that considered the quarterly, interim and final results and the related announcements. 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. Two physical meetings with the external auditors were held during 2017. Audit and Risk Committee meetings are by design held a few working days ahead of full Board meetings to ensure that Management will have enough time to answer any important queries raised for further discussion and reporting at ensuing Board meetings. Audit and Risk Committee Chairman reports significant issues covered at Audit and Risk Committee meetings to the full Board. Based on the work of the Audit and Risk Committee and further deliberations at Board meetings, the Board acknowledged and discharged their responsibilities for the preparation of the Group's financial statements for the year ended 31 December 2017.

Executive management owns the risk management and internal control processes and practices and has confirmed to the Board that these were operating adequately and effectively throughout the 2017 financial year. The internal audit department carries out independent analyses and appraisals of the adequacy and effectiveness of prescribed risk management and internal controls. The Audit and Risk Committee receives quarterly updates on risk management and internal audit reports from management and Internal Auditor, in addition to monthly management accounts and business updates that are received by all Board members. External audit observations and recommendations have been discussed and followed up. The Audit and Risk Committee oversees three-year cycle internal audit plans and cumulative progress reports on implementation of corrective and preventive measures arising from internal and external audit findings. Through this process, the Board had an ongoing review and assessment of the Company's systems of risk management and internal controls over strategic, market, operational, financial and compliance matters during 2017, and was satisfied that they were adequate and effective for the 2017 financial year.

The Board and Management recognize that ERM will need ongoing refinement and reinforcement in terms of risk-culture, risk appetite and risk management practices before it becomes effectively embedded in business decisions, whether strategic or operational. In 2018, the Company will procure and allocate 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 over key management processes.

A more comprehensive Corporate Governance Report covering the following key components of the Company's governance framework will be incorporated in the annual report for dispatch to Shareholders and will also be made available on the Company's website www.aactechnologies.com around 23 April 2018:

I. Board of Directors and Executive Management
II. Board Committees
III. The 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

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

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 such opportunities.

As mentioned in the Chairman's Statement, the Company has increasingly been embedding sustainability into its operations. Our aim is to add value for the business, as well as bear its fair share of corporate social responsibility to tackle pressing ESG-related 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 aspires to go beyond the disclosure requirements of the ESG Reporting Guide set out in Appendix 27 to the Listing Rules, as we recognise the rising expectations from our stakeholders.

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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company believes that in addition to the sustained increase of earnings per share 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 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 announcement. 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 earnings per share 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 delivery 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.

DIRECTORS' SECURITIES TRANSACTIONS

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 as set out in Appendix 10 of 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.

CLOSURES OF REGISTER OF MEMBERS

i For attending and voting at the annual general meeting

The registers of members of the Company will be closed from 23 May 2018 to 28 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible for attending and voting at the forthcoming annual general meeting, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 21 May 2018.

ii For entitlement of proposed final dividend

The registers of members of the Company will be closed from 11 June 2018 to 13 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 8 June 2018.

DESPATCH OF ANNUAL REPORT

The Company's annual report containing the Directors' report and consolidated financial statements for the year ended 31 December 2017 will be published on the Company's website at www.aactechnologies.com and the website of the Stock Exchange on or around Friday, 20 April 2018.

The annual report and the notice of AGM will be dispatched to Shareholders on or around Monday, 23 April 2018. All of these will be made available on the Company's website.

By order of the Board
AAC Technologies Holdings Inc.
Koh Boon Hwee
Chairman

Hong Kong, 27 March 2018

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)

The Directors of AAC Technologies as at the date of this announcement are:

Independent Non-executive Directors:	Mr. Koh Boon Hwee Mr. Poon Chung Yin Joseph Dato' Tan Bian Ee Ms. Chang Carmen I-Hua Mr. Au Siu Cheung Albert Mr. Kwok Lam Kwong Larry
Non-executive Director:	Ms. Wu Ingrid Chun Yuan
Executive Directors:	Mr. Pan Benjamin Zhengmin Mr. Mok Joe Kuen Richard