



瑞聲科技控股有限公司
AAC TECHNOLOGIES HOLDINGS INC.

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 02018

2016 INTERIM
REPORT



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

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Benjamin Zhengmin Pan
(Chief Executive Officer)

Mr. Mok Joe Kuen Richard

Non-executive Director

Ms. Ingrid Chunyuan Wu

Independent Non-executive Directors

Mr. Koh Boon Hwee (Chairman)

Mr. Poon Chung Yin Joseph

Dato' Tan Bian Ee

Ms. Chang Carmen I-Hua

AUDIT COMMITTEE

Mr. Poon Chung Yin Joseph (Chairman)

Mr. Koh Boon Hwee

Ms. Ingrid Chunyuan Wu

REMUNERATION COMMITTEE

Mr. Koh Boon Hwee (Chairman)

Dato' Tan Bian Ee

Ms. Chang Carmen I-Hua

NOMINATION COMMITTEE

Dato' Tan Bian Ee (Chairman)

Mr. Poon Chung Yin Joseph

Ms. Chang Carmen I-Hua

AUTHORIZED REPRESENTATIVES

Mr. Benjamin Zhengmin Pan

Mr. Mok Joe Kuen Richard

AUDITOR

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

COMPANY SECRETARY

Mr. Lo Tai On

LEGAL ADVISOR FOR LISTING MATTERS

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26th Floor, Jardine House
1 Connaught Place
Central, Hong Kong

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Boundary Hall, Cricket Square
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

STOCK CODE

02018

WEBSITE

www.aactechnologies.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

AAC Technologies finished the first half of the current fiscal year with solid results. And we are glad that AAC Technologies has been selected as a constituent stock in the Hang Seng Index, effective on 5 September 2016, which positions AAC Technologies among the “blue chip” companies and reaffirms market recognition of our significant position in the technology sector listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The following were some of the major financial highlights for the six months ended 30 June 2016:

- Revenue hit a half year record high of RMB5,563.6 million, increased 18% year-on-year;
- Upgraded acoustic solutions drove dynamic components sales growth of 24% year-on-year to contribute 61% of the sales in the first half of 2016;
- Non-acoustic segment delivered 33% of total sales, up 23% year-on-year in the first half of 2016. RF Mechanical continues to gain good customer traction;
- Sales revenue from Chinese customers surged 75% year-on-year, contributing over 45% of total sales. Further diversified portfolio of customers;
- An interim dividend of HK\$0.30 per ordinary share, a 20% growth to the previous year.

MARKET REVIEW

In the first half year of 2016, consumer electronics market continued to evolve in terms of technology upgrades and new end market applications. Smartphone remains the central control for daily life on the back of increased processing power, greater wireless bandwidth and the proliferation of mobile ready media, applications and games. Though growth in global smartphone shipments remained sluggish in the first half of 2016, forecasts from various independent industry research suggest that the market could be set for a rebound in the second half of the year due to multiple new product launches.

As smartphone prices continue to drop and competition escalates at the high-end, handset makers will need to continue to push ‘flagship-type’ devices at competitive prices to encourage upgrading on a more frequent basis. Chinese brands have witnessed success with this strategy by shipping premium styled devices that focus on the features that improve user experience, such as imaging, sound quality, and product design. We continue to see a number of changing dynamics in the smartphone market and many handset makers are readjusting their business strategy and product portfolio to take advantage of these market movements.

As a technology leader in both acoustic and non-acoustic solutions, AAC Technologies is supplying the most advanced technologies to its customers and helping them to generate differentiable features in the increasingly competitive market.

BUSINESS REVIEW

The results in the first half of 2016 reflected the improvement in the dynamic components business since the second quarter of 2015 and continuing contribution from the non-acoustic business. The Company posted a first-half revenue and net profit of RMB5,563.6 million and RMB1,354.8 million, representing a rise of 18% and 9% year-on-year respectively. Gross margin stayed firmly above 40%. Upgraded acoustic solutions drove dynamic components sales growth of 24% year-on-year to contribute 61% of the total sales. Higher market share in dynamic components and RF Mechanical solutions led to a 75% year-on-year increase of revenue from Chinese customers to RMB2,688.6 million, accounting for over 45% of the total sales. RF Mechanical together with haptics solutions, the two distinct contributors in non-acoustic business, grew 23% year-on-year and contributed 33% of the total sales in the first half of the year. The Company continues to invest in R&D for new projects causing operating expenses increased to 14.7%. First-half net profit margin achieved was 24.4%.

The Company reported the highest “Q2” sales and earnings in its history. On a quarter-on-quarter basis, the Company attained a 19% growth in both revenue and net profit, reaching RMB3,018.9 million and RMB736.1 million respectively. These strong results were mainly attributable to the growth of dynamic components and RF Mechanical sales to Chinese customers after the traditionally slow first quarter. Non-acoustic business grew 70% sequentially, contributing 38% of total sales in the second quarter of 2016. The Company sees good opportunity for further customer diversification and will continue to build a strong technology foundation for its non-acoustic segments. Q2 gross margin improved to 41.7% and effective control on operating expenses supported net profit margin improvement to 24.4%.

CHAIRMAN'S STATEMENT

INTERIM DIVIDEND

The Board has declared an interim dividend for the first half of 2016 of HK\$0.30 (30 June 2015: HK\$0.25) per ordinary share, a 20% growth to the previous year. The interim dividend will be paid on or around Tuesday, 27 September 2016 to shareholders of record on Thursday, 15 September 2016.

SUSTAINABILITY

We promote a management culture of continuous learning, improvement, and innovation. In the first half of 2016, we successfully obtained 152 additional patents, of which 85 are for the non-acoustic segments, bringing our intellectual property portfolio to a total of 1,864 patents. We filed another 338 patents applications, which bring us to a total of 676 patents pending.

While we endeavor to be the leader in the technology segments we operate, we are mindful of our obligations to people, society and the community we serve. In May 2016, the Company published its third annual Sustainability Report that highlighted our corporate social responsibilities initiatives in the year 2015. AAC Technologies has been included again as one of the 30 members of the Hang Seng Corporate Sustainability Index this year. We are pleased that our continuous efforts in promoting sustainability and upholding high standards in environmental, social and corporate governance aspects are recognized by our stakeholders.

PROSPECT

The Company started 2016 with a solid base of revenue growth even under challenging economic and business climate. As we enter the second half of the year, our order book is solid and the pipeline of new RF Mechanical business remains strong. We expect to grow further in the coming quarters as the Company is in a leading position to capitalise on the mobile devices market's accelerating demand for audio performance upgrades and increasing adoption of integrated RF Mechanical solutions. As we strive to gain higher market share in the non-acoustic business and maintain our pioneer position in the acoustics market, we will continue to bolster our R&D and develop our technology platforms for miniaturized solutions in order to deliver innovative and diversified solutions for different customer requirements.

In addition, the arrival of the Internet of Things, Virtual Reality and Augmented Reality have also opened up new opportunities for us. These devices are designed to surround the smartphone with innovative interesting applications to facilitate interactions with the world at large. The wave of innovation in both the smartphone itself and all the surrounding devices will continue to improve and create new user experiences. The opportunity to provide hardware solutions to enable these innovations is compelling. As the devices get thinner and lighter, performance, product design and mechanical integration become essential considerations. AAC Technologies offers our clients a unique perspective on how to innovate and differentiate their products. We are preparing ourselves to mine these opportunities, and at the same time, we will review such technical challenges to evaluate how our core competencies deliver sustainable growth.

We continue to invest for the long term to achieve our goals of building a sustainable enterprise and helping our customers grow their business at a time when they are requiring and demanding more to help them stay competitive. We believe that by focusing on product expertise, applying innovation to design and development and continuing to build our multi-platforms business model, we will be the company best positioned to help our customers succeed at a time when the global consumer electronics industry is searching for fresh impetus for growth.

Koh Boon Hwee
Chairman
26 August 2016

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY OVERVIEW

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

AAC Technologies, one of Forbes Global 2000 companies, is a constituent stock of the Hang Seng Corporate Sustainability Index, Hang Seng Mainland 100 Index, Hang Seng Composite LargeCap Index, Hang Seng Composite Industry Index (Information Technology), Hang Seng IT Hardware Index, MSCI China Index and FTSE Hong Kong Index. AAC Technologies is to be included as a constituent stock of the Hang Seng Index effective on 5 September 2016.

PERFORMANCE OF BUSINESS SEGMENTS

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

For the six months ended 30 June 2016, the Group's total revenue reached RMB5,563.6 million, representing a year-on-year increase of 18%. Dynamic components remained the largest earnings contributor, delivering 61% of total sales, while the combined sales of Haptics and RF Mechanical business contributed 33% of total sales. AAC Technologies continues to build a diversified product portfolio to drive revenue growth with a more balanced customer portfolio.

Dynamic Components

Dynamic components are components that actively produce sound, including speaker boxes, speakers and receivers. In the first half of 2016, revenue of the dynamic components segment was RMB3,403.5 million, representing 61% of the total revenue of the Company, and a year-on-year increase of 24%. Overall gross margin was 43%.

All three major product lines among dynamic components achieved yearly revenue growth: speaker boxes grew 29%, speakers up 11% and receivers increased 24% compared to the first six months of 2015. The increasing adoption of speaker boxes by Chinese customers mainly contributed to the growth of speaker boxes sales. Further miniaturized and upgraded solutions of speakers and receivers resulted in higher volume growth and stimulated growth of both product lines.

Haptics and RF Mechanical

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

During the six months under review, combined sales of Haptics and RF Mechanical jumped 23% to RMB1,822.7 million from the same period of last year and contributed 33% of the total revenue of the Company. RF Mechanical was the growth driver. Gross margin of this combined segment amid volume changes and pending specification upgrade created new product mix, was maintained at 42.9%. Once again, the Company has successfully demonstrated both design and production capabilities on delivering more sophisticated integrated solutions.

MANAGEMENT DISCUSSION AND ANALYSIS

With more product launches by Chinese customers in the first half of 2016, RF Mechanical business delivered strong yearly growth through market expansion and share gain especially for RF metallic structure solutions. The Company has enjoyed a unique position because of its knowhow in integrating the capabilities of acoustic, mechanical, antenna design and production plus RF MEMS tuner. With cross platform technologies, the Company could provide unique integrated solutions that could fit in different form factor design and changes in material used.

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

MEMS Components: MEMS Microphones

In the first half of 2016, this segment declined 29% year-on-year to RMB298.1 million due to mixed customers' penetration results, accounting for 5% of total sales. Gross margin achieved was 14.4%.

Other Products

Optics sales contribution together with some non-core components such as traditional microphones and headsets are included under this category. The total amounted to RMB39.3 million, or 1% of total sales during the period under review.

FINANCIAL REVIEW

Summary of First Half Results

During the first half year of 2016, the Group delivered robust operating performance with the organic growth on both acoustic and non-acoustic business segments. Our financial position remained solid and the Company continues to maintain a strong and steady cash inflow from operating activities. The Group has recorded a net operating cash inflow of RMB1,767.7 million. Total revenue of the Group rose to RMB5,563.6 million for the six months ended 30 June 2016, up RMB856.8 million or 18.2% compared to the same period of 2015. Our overall gross profit reached RMB2,289.2 million, representing an increase of RMB335.9 million or 17.2% compared to the corresponding period of 2015. Gross profit margin of the Group decreased slightly by 0.4 percentage point to 41.1%. Profit attributable to owners of the Company grew by 8.8% from RMB1,245.6 million in the first half of 2015 to RMB1,354.8 million for the same period this year. Basic earnings per share therefore increased 8.8% from RMB1.01 for the first half year of 2015 to RMB1.10 for the same period of 2016, consistent with the growth in profit attributable to owners of the Company.

As for tax, the Group's major operating subsidiaries fall under different tax regimes in Hong Kong, the PRC, Singapore and Vietnam where different laws and regulations, and specific concessionary incentives apply for some specific locations. During the first six months of 2016, the Group's tax expenses have not been impacted by any major changes in these taxation laws and regulations.

Liquidity and Financial Resources

Our Group continued to maintain a healthy liquidity position and continued to maintain a steady cash inflow from operating activities. Free cash flow from operation to sales in first half of 2016 stood at 35.4%, slightly dropped from 35.5% for 2015.

Cash and Cash Equivalents

As at 30 June 2016, the unencumbered cash and cash equivalents of the Group amounted to RMB1,329.9 million (31 December 2015: RMB2,223.9 million), of which 50.3% (31 December 2015: 45.9%) was denominated in RMB, 40.6% (31 December 2015: 44.9%) was denominated in US dollar, 4.0% (31 December 2015: 2.4%) was denominated in Japanese Yen, 2.7% (31 December 2015: 4.4%) was denominated in Hong Kong dollar, 0.8% (31 December 2015: 0.9%) was denominated in Euros and 1.6% (31 December 2015: 1.5%) was denominated in other currencies.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange

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

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

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

Trade Receivables and Trade Payables

As at 30 June 2016, the turnover days of trade receivables rose by 8 days to 115 days as compared to year-end of 2015. Aging of trade receivables (net of allowance for doubtful debts) based on invoice dates between 0-90 days, 91-180 days and over 180 days were RMB3,179.9 million (31 December 2015: RMB3,188.4 million), RMB387.1 million (31 December 2015: RMB311.6 million) and RMB34.8 million (31 December 2015: RMB33.1 million) respectively. We have received total subsequent settlement amounting to RMB681.4 million up till 31 July 2016, representing 18.9% 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 19 days to 121 days as compared to year-end of 2015. Aging of trade payables based on invoice dates between 0-90 days, 91-180 days and over 180 days were RMB2,035.2 million (31 December 2015: RMB1,728.2 million), RMB339.3 million (31 December 2015: RMB308.5 million) and RMB0.03 million (31 December 2015: RMB0.8 million) respectively. The Group will continue to improve on the management of its trade receivables and trade payables in order to better utilize the available financial resources.

Gearing Ratio and Indebtedness

As at 30 June 2016, the Group's gearing ratio was 13.1% (31 December 2015: 11.0%), which is calculated by dividing total loans and borrowings by total assets.

The short-term bank loans and long-term bank loans of the Group as at 30 June 2016 amounted to RMB1,662.7 million (31 December 2015: RMB1,158.9 million) and RMB657.5 million (31 December 2015: RMB648.7 million) respectively.

Charges on Group Assets

Apart from bank deposits amounting to RMB5.7 million that were pledged to banks in order to support new subsidiary start-up operations as at 30 June 2016 (31 December 2015: RMB0.1 million), no other Group assets were charged to any financial institutions.

Management believes that the Group's current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current operational requirements and capital expenditure of the Group.

Capital Expenditure

The Group continues to invest in capital expenditure during the period to capture new market opportunities and support its long-term business strategies. For the six months ended 30 June 2016, capital expenditure incurred by the Group amounted to RMB2,140.0 million (six months ended 30 June 2015: RMB1,055.3 million), mainly for the acquisition of property, plant and equipment for capacity expansion in both acoustic and non-acoustic business segments. The Group will invest a higher proportion of capital expenditure on the non-acoustic business segments to strengthen our technology capabilities in this area. Capital expenditures are generally funded by internal resources.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 30 June 2016, the Group employed 43,442 permanent employees, an increase of 21.7% from 35,687 as at 31 December 2015, brought about by the Company's ongoing business development in the PRC and in other regions in Asia, especially for new projects in all product segments.

Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. Management regularly reviews the Group's remuneration policy and appraises the work performance of its staff. In addition to the basic salaries, allowances, social insurance and mandatory pension fund contribution, employee remuneration also includes bonuses and share award scheme. As required by the relevant regulations in the PRC, the Group participates in the social insurance schemes operated by the relevant local government authorities. The Group also participates in the mandatory pension fund and social insurance schemes for our employees in Hong Kong, Taiwan, Singapore, South Korea, Vietnam, Philippines, USA and various countries in Europe.

SHARE AWARD SCHEME

As announced by the Company on 23 March 2016, the Board resolved to adopt a share award scheme (the "Scheme") in which Employees (other than Excluded Employees) may be selected by the Board to participate. The purpose of the Scheme is to permit the Company to grant Awards to Selected Employees as incentives for their contributions to the Group and to attract suitable personnel for further development of the Group. The maximum number of shares that may be awarded under the Scheme during its term is limited to 1.65% (i.e. 20,262,000 shares) of the issued share capital of the Company from time to time. The maximum number of Awarded Shares that may be granted to any one Selected Employee shall not exceed 0.5% (i.e. 6,140,000 shares) of the issued share capital of the Company from time to time. Pursuant to the Scheme, shares will be subscribed for at a subscription price as determined by the Board, or purchased on the Stock Exchange, by the trustee at the cost of the Company and will be held by the Trustee on trust for Selected Employee(s) under the Scheme before vesting. The Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules, and is a discretionary scheme of the Company.

Since the date of adoption of the Scheme and up to 30 June 2016, no shares had been subscribed or purchased by the Trustee pursuant to the rules and trust deed of the Scheme and no shares had been granted to Selected Employee(s) under the Scheme.

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

KEY RISK FACTORS

Some key risks factors and uncertainties affecting the Group are outlined below. The list is non-exhaustive and there may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may be immaterial now but could become material in the future. Besides, this results announcement does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

Risks Pertaining to the Smartphones Segment

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

MANAGEMENT DISCUSSION AND ANALYSIS

Reliance on a small number of key customers

The Group's five largest customers, which accounted for 59.4% of the Group's total revenue, are all related to the dynamic consumer mobile devices industry, characterized by cycles of convergence and emergence of new brands. The Group has strong established relationships with these major customers; four of them have been our customers for over 3 years and the remaining one, an emerging smartphone brand who has already been our customer for more than 1 year.

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

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

Operational Risks

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

PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



TO THE BOARD OF DIRECTORS OF AAC TECHNOLOGIES HOLDINGS INC.

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of AAC Technologies Holdings Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 11 to 25, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The Directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

26 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	NOTES	1.1.2016 to 30.6.2016 (Unaudited) RMB'000	1.1.2015 to 30.6.2015 (Unaudited) RMB'000
Revenue	3	5,563,560	4,706,784
Cost of goods sold		(3,274,319)	(2,753,461)
Gross profit		2,289,241	1,953,323
Other income		48,880	51,940
Distribution and selling expenses		(116,755)	(101,184)
Administrative expenses		(208,089)	(179,419)
Research and development costs		(490,504)	(374,214)
Share of results of associates		(3,277)	(1,838)
Exchange gain		14,762	26,387
Gain on disposal of a subsidiary	17	–	4,411
Finance costs		(19,988)	(8,199)
Profit before taxation	4	1,514,270	1,371,207
Taxation	5	(159,712)	(127,850)
Profit for the period		1,354,558	1,243,357
Other comprehensive income (expense): <i>Item that may be subsequently reclassified to profit or loss:</i> Exchange differences arising from translation		41,138	(13,204)
Total comprehensive income for the period		1,395,696	1,230,153
Profit (loss) for the period attributable to:			
Owners of the Company		1,354,779	1,245,605
Non-controlling interests		(221)	(2,248)
		1,354,558	1,243,357
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		1,396,264	1,232,703
Non-controlling interests		(568)	(2,550)
		1,395,696	1,230,153
Earnings per share – Basic	7	RMB110.32 cents	RMB101.43 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTES	30.6.2016 (Unaudited) RMB'000	31.12.2015 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	8	8,548,078	7,079,966
Goodwill		89,217	89,217
Prepaid lease payments		273,340	253,367
Deposits for acquisition of property, plant and equipment		469,825	256,661
Available-for-sale investments	9	379,940	379,940
Interests in associates		12,468	5,858
Intangible assets		163,006	156,021
Loan receivable from a non-controlling shareholder of a subsidiary		18,959	18,417
		9,954,833	8,239,447
Current assets			
Inventories		1,697,625	1,718,158
Trade and other receivables	10	4,742,967	4,195,568
Amounts due from related companies		4,716	20,511
Taxation recoverable		37,004	22,593
Pledged bank deposits		5,742	60
Bank balances and cash		1,329,885	2,223,864
		7,817,939	8,180,754
Current liabilities			
Trade and other payables	11	3,367,129	2,919,037
Amounts due to related companies		45,894	39,999
Taxation payable		213,859	208,025
Short-term bank loans	12	1,662,748	1,158,880
Other short-term borrowings		329	324
		5,289,959	4,326,265
Net current assets		2,527,980	3,854,489
Total assets less current liabilities		12,482,813	12,093,936
Non-current liabilities			
Long-term bank loans	12	657,513	648,700
Government grants		45,240	42,172
Deferred tax liabilities		48,808	48,981
		751,561	739,853
Net assets		11,731,252	11,354,083
Capital and reserves			
Share capital	13	99,718	99,718
Reserves		11,605,554	11,207,224
Equity attributable to owners of the Company		11,705,272	11,306,942
Non-controlling interests		25,980	47,141
Total equity		11,731,252	11,354,083

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company										
	Share capital	Share premium	Special reserve	Capital reserve	Translation reserve	Non-distributable reserve	PRC statutory reserves	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015 (audited)	99,718	746,957	1,135	23,391	(103,048)	87,245	347,260	7,935,437	9,138,095	53,548	9,191,643
Exchange differences arising from translation	-	-	-	-	(12,902)	-	-	-	(12,902)	(302)	(13,204)
Profit for the period	-	-	-	-	-	-	-	1,245,605	1,245,605	(2,248)	1,243,357
Total comprehensive (expense) income for the period	-	-	-	-	(12,902)	-	-	1,245,605	1,232,703	(2,550)	1,230,153
Dividends paid (note 6)	-	-	-	-	-	-	-	(687,565)	(687,565)	-	(687,565)
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	(20,365)	(20,365)	(8,352)	(28,717)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(1,127)	(1,127)
Contributions from non-controlling interests	-	-	-	-	-	-	-	348	348	43	391
At 30 June 2015 (unaudited)	99,718	746,957	1,135	23,391	(115,950)	87,245	347,260	8,473,460	9,663,216	41,562	9,704,778
At 1 January 2016 (audited)	99,718	746,957	1,135	23,391	(22,742)	87,245	354,180	10,017,058	11,306,942	47,141	11,354,083
Exchange differences arising from translation	-	-	-	-	41,485	-	-	-	41,485	(347)	41,138
Profit for the period	-	-	-	-	-	-	-	1,354,779	1,354,779	(221)	1,354,558
Total comprehensive income (expense) for the period	-	-	-	-	41,485	-	-	1,354,779	1,396,264	(568)	1,395,696
Dividends paid (note 6)	-	-	-	-	-	-	-	(997,093)	(997,093)	-	(997,093)
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	(841)	(841)	-	(841)
Capital reduction of a subsidiary (note 19)	-	-	-	-	-	-	-	-	-	(20,593)	(20,593)
Transfer to reserve	-	-	-	-	-	-	1,733	(1,733)	-	-	-
At 30 June 2016 (unaudited)	99,718	746,957	1,135	23,391	18,743	87,245	355,913	10,372,170	11,705,272	25,980	11,731,252

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	NOTES	1.1.2016 to 30.6.2016 (Unaudited) RMB'000	1.1.2015 to 30.6.2015 (Unaudited) RMB'000
Net cash from operating activities		1,767,733	1,745,942
Net cash used in investing activities			
Purchase of property, plant and equipment		(1,646,697)	(652,515)
Deposits paid for acquisition of property, plant and equipment		(469,825)	(402,807)
Prepaid rentals on land use rights		(23,439)	(40)
Contingent consideration paid in respect of acquisition of a subsidiary in the prior year	16	(14,920)	–
Acquisition of a subsidiary	16	–	(69,655)
Acquisition of an associate		(9,887)	–
Additions to intangible assets		(8,617)	(5,874)
Placement of pledged bank deposits		(5,742)	(30)
Deposits paid for additional interests in a subsidiary		–	(2,670)
Proceeds from disposal of property, plant and equipment		18,201	11,285
Interest received		13,925	7,662
Withdrawal of pledged bank deposits		60	3,990
Deregistration of an associate		–	4,850
Proceeds from disposal of a subsidiary	17	–	2,457
Other investing cash flows		5,580	8,235
		(2,141,361)	(1,095,112)
Net cash used in financing activities			
Bank loans raised		886,600	2,335,345
Dividends paid		(997,093)	(687,565)
Repayment of bank loans		(399,120)	(2,314,185)
Interest paid		(19,988)	(8,199)
Acquisition of additional interest in a subsidiary		(841)	(28,717)
Contributions from non-controlling interests		–	391
		(530,442)	(702,930)
Net decrease in cash and cash equivalents		(904,070)	(52,100)
Cash and cash equivalents at 1 January		2,223,864	1,602,687
Effect of foreign exchange rate changes		10,091	(1,772)
Cash and cash equivalents at 30 June, represented by bank balances and cash		1,329,885	1,548,815

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as describe below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, certain new or revised International Financial Reporting Standards ("IFRSs") that are mandatorily effective for the current interim period.

The application of the new or revised IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

3. SEGMENT INFORMATION (CONTINUED)

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

	1.1.2016 to 30.6.2016 RMB'000 (Unaudited)	1.1.2015 to 30.6.2015 RMB'000 (Unaudited)
Operating and reportable segments		
Segment revenue		
Dynamic components	3,403,505	2,737,967
Haptics & RF Mechanical	1,822,692	1,480,689
MEMS components	298,091	419,459
Other products	39,272	68,669
	<hr/>	<hr/>
Revenue	5,563,560	4,706,784
	<hr/>	<hr/>
Segment results		
Dynamic components	1,463,894	1,095,005
Haptics & RF Mechanical	781,745	769,913
MEMS components	42,844	84,065
Other products	758	4,340
	<hr/>	<hr/>
Total profit for operating and reportable segments		
– gross profit	2,289,241	1,953,323
Unallocated amounts:		
Interest income	13,925	7,662
Other income	34,955	44,278
Distribution and selling expenses	(116,755)	(101,184)
Administrative expenses	(208,089)	(179,419)
Research and development costs	(490,504)	(374,214)
Share of results of associates	(3,277)	(1,838)
Exchange gain	14,762	26,387
Gain on disposal of a subsidiary	–	4,411
Finance costs	(19,988)	(8,199)
	<hr/>	<hr/>
Profit before taxation	1,514,270	1,371,207
	<hr/>	<hr/>

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

Segment profit represents the profit earned by each segment without allocation of finance costs, interest income, administrative expenses, research and development costs, distribution and selling expenses, other income, share of results of associates, exchange gain and gain on disposal of a subsidiary.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

4. PROFIT BEFORE TAXATION

	1.1.2016 to 30.6.2016 RMB'000 (Unaudited)	1.1.2015 to 30.6.2015 RMB'000 (Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of intangible assets	4,740	6,626
Reversal for obsolete inventories, included in cost of goods sold	(54,311)	(670)
Written off of stock provision	(898)	–
Depreciation	426,206	322,686
Gain on disposal of property, plant and equipment, net	(738)	(2,477)
	4,740	6,626

5. TAXATION

	1.1.2016 to 30.6.2016 RMB'000 (Unaudited)	1.1.2015 to 30.6.2015 RMB'000 (Unaudited)
The charge comprises:		
PRC Enterprise Income Tax	146,116	91,748
Overseas taxation	13,782	36,913
	159,898	128,661
Deferred tax	(186)	(811)
	159,712	127,850

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements for the six months period ended 30 June 2016 and 30 June 2015 as the Group has no assessable profits under Hong Kong Profits Tax for both periods.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

5. TAXATION (CONTINUED)

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

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

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

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

6. DIVIDENDS

During the current interim period, a final dividend of HK\$0.95 per share in respect of the year ended 31 December 2015 (six months ended 30 June 2015: final dividend of HK\$0.71 per share in respect of the year ended 31 December 2014) was paid to shareholders of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK\$1,166,600,000 (equivalent to approximately RMB997,093,000) (six months ended 30 June 2015: HK\$871,880,000 (equivalent to approximately RMB687,565,000)).

Subsequent to the end of the interim period, the Directors have determined that an interim dividend of HK\$0.30 per share (2015 interim dividend: HK\$0.25 per share) will be paid to the shareholders of the Company.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2016 is based on the profit for the period attributable to owners of the Company of RMB1,354,779,000 (six months ended 30 June 2015: RMB1,245,605,000) and on the 1,228,000,000 (six months ended 30 June 2015: 1,228,000,000) number of shares in issue during the period.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB1,903,358,000 (six months ended 30 June 2015: RMB1,138,036,000). Part of the consideration of RMB256,661,000 (six months ended 30 June 2015: RMB485,521,000) was paid up in advance in 2015.

Also, during the period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB17,463,000 (six months ended 30 June 2015: RMB8,808,000) for proceeds of RMB18,201,000 (six months ended 30 June 2015: RMB11,285,000) and resulting in a gain on disposal of RMB738,000 (six months ended 30 June 2015: gain on disposal of RMB2,477,000).

9. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Unlisted shares, at cost (note)	<u>379,940</u>	<u>379,940</u>

Note:

The investments are measured at cost less impairment as the range of reasonable fair value estimates is so significant that the Directors are of the opinion that the fair value cannot be measured reliably.

10. TRADE AND OTHER RECEIVABLES

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 days to 120 days of issuance. The Group may accept bank acceptance bills with maturities ranging from 30 days to 180 days at the end of the credit terms in lieu of cash payment. As at 30 June 2016, included in trade and other receivables, the Group has bank acceptance and commercial bills amounting to RMB33,327,000 (31 December 2015: RMB62,304,000). The following is an aged analysis of trade and bills receivables, presented based on the invoice date which approximates the revenue recognition dates. The analysis below is net of allowance for doubtful debts.

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Age		
0 – 90 days	3,179,923	3,188,404
91 – 180 days	387,067	311,573
Over 180 days	34,834	33,129
	<u>3,601,824</u>	<u>3,533,106</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables, presented based on the invoice date:

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Age		
0 – 90 days	2,035,228	1,728,178
91 – 180 days	339,258	308,547
Over 180 days	25	814
	2,374,511	2,037,539

12. BANK LOANS

Bank loans carry interest ranging from 0.50% to 4.15% per annum (31 December 2015: carry interest ranging from 0.59% to 4.15% per annum). The Company has issued guarantees to respective banks to secure the borrowings.

13. SHARE CAPITAL

	Number of shares	Amount US\$'000
Shares of US\$0.01 each		
Authorised:		
Ordinary shares at 1 January 2015, 1 January 2016 and 30 June 2016	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1 January 2015, 1 January 2016 and 30 June 2016	1,228,000,000	12,280
		RMB'000
Presented in the condensed consolidated statement of financial position As at 1 January 2015, 1 January 2016 and at 30 June 2016		99,718

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

14. SHARE AWARD SCHEME

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

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

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

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

15. CAPITAL COMMITMENTS

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	236,405	300,251

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

16. ACQUISITION OF A SUBSIDIARY

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

Consideration transferred as at date of acquisition

	WiSpry RMB'000
Cash	73,364
Contingent consideration	29,444
	<hr/>
Total	102,808

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

Acquisition-related costs amounting to approximately RMB2,690,000 have been excluded from the cost of acquisition and have been recognised directly as an expense during the six months ended 30 June 2015 and included in the administrative expenses line item in the condensed consolidated statement of profit or loss and other comprehensive income.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

16. ACQUISITION OF A SUBSIDIARY (CONTINUED)

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

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

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

	1.1.2015 to 30.6.2015 RMB'000
Net cash outflow on acquisition:	
Consideration paid	(73,364)
Cash and cash equivalents acquired	3,709
	<hr/>
	(69,655)

During the period, the Group made further payments of RMB14,920,000 to the vendor in respect of the contingent consideration for the acquisition of WiSpry.

Impact of acquisition on the results of the Group

During the period, WiSpry contributed a revenue of RMB26,028,000 and a loss of RMB252,000 (since the acquisition and up to 30 June 2015: no revenue and a loss of RMB7,380,000) to the Group. Had WiSpry been consolidated from 1 January 2015, the impact of the Group's revenue and the profit attributable to the equity holders of the Company for the both periods would have been insignificant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. DISPOSAL OF A SUBSIDIARY

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

Analysis of assets and liabilities disposed of:

	RMB'000
Plant and equipment	2,040
Bank balances and cash	893
Trade and other receivables	349
Inventories	381
Trade and other payables	(247)
	<u>3,416</u>
Gain on disposal of a subsidiary:	
Consideration	6,700
Non-controlling interests (33% of the subsidiary)	1,127
Net assets disposed of	<u>(3,416)</u>
Gain on disposal	<u>4,411</u>
Cash inflow arising on disposal:	
Cash consideration received (note)	3,350
Less: Bank balances and cash disposed of	<u>(893)</u>
	<u>2,457</u>

Note: The remaining cash consideration of RMB3,350,000 was settled subsequent to 30 June 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

18. RELATED PARTY TRANSACTIONS

Apart from the balances disclosed elsewhere in this report, during the period the Group had the following significant transactions with related parties:

Relationship of related parties	Nature of transactions	1.1.2016 to 30.6.2016 RMB'000 (Unaudited)	1.1.2015 to 30.6.2015 RMB'000 (Unaudited)
Companies controlled by close family members of the substantial shareholders of the Company (note)	Purchase of raw materials	51,197	56,814
	Property rentals paid	11,215	11,862
	Property rentals received	777	–
	Sales of raw materials	1,006	372
	Subsidiary disposed	–	6,200
Close family members of the substantial shareholders of the Company (note)	Property rentals paid	1,929	1,899

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

During the period, the emoluments paid to the key management personnel of the Company, who represent the Directors of the Company, was RMB11,099,000 (six months ended 30 June 2015: RMB7,840,000).

19. MAJOR NON-CASH TRANSACTION

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

OTHER INFORMATION

CORPORATE GOVERNANCE

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

Our Board is at the centre of our corporate governance structure regularly reviewing, refining and overseeing enforcement of the Company's corporate governance principles and practices. A more comprehensive corporate governance overview covering the following key components of the Company's governance framework is available on the Company's website www.aactechnologies.com:

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

For the six months ended 30 June 2016, the Company met the Code Provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules ("CG Code"). The Company has a culture of adopting governance best practices even though they were not required by the prevailing regulations where the Board deemed adoption would enhance the Company's governance standards. Some examples of this are quarterly financial results reporting and whistle-blowing policy.

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms not less exacting than the required standards set out in the Model Code.

On specific enquiries made, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding the Directors' securities transactions during the six months ended 30 June 2016.

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

Change in Directors' information since the date of the 2015 annual report of the Company, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

Mr. Koh Boon Hwee was appointed as member (investment board) of GIC Private Limited, Singapore on 15 January 2016.

Save as disclosed above, the Directors are not aware of any other change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2015 annual report of the Company.

OTHER INFORMATION

BOARD COMMITTEES

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

Audit Committee

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

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

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

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

The Audit Committee and the auditor of the Company, Deloitte Touche Tohmatsu, have reviewed and discussed with the management the Company's unaudited condensed consolidated financial statements for the six months ended 30 June 2016. The Audit Committee and the Board have also reviewed this interim report.

Nomination Committee

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

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

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

During the six months ended 30 June 2016, there was no change in the directorship of the Company and the composition of the Board.

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Board Diversity Policy

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

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

Notes:

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

Remuneration Committee

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

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

OTHER INFORMATION

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

As at 30 June 2016, the beneficial interests of the Directors and chief executive in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions) which they are taken or deemed to have taken under such provisions of the SFO and pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules, were as follows:

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

Name of Directors	Capacity	Number of ordinary shares					Total number of shares	Percentage of the Company's issued share capital as at 30 June 2016
		Personal interests	Joint interests	Corporate interests	Spouse interests	Other interests		
Mr. Benjamin Zhengmin Pan ("Mr. Pan") ⁽¹⁾	Beneficial owner/interest of child under 18 and spouse/interest of controlled corporation	69,512,565	-	51,439,440	262,820,525	111,545,122	495,317,652	40.34%
Ms. Ingrid Chunyuan Wu ("Ms. Wu") ⁽²⁾	Beneficial owner/interest of child under 18 and spouse/interest of controlled corporation	127,991,931	-	134,828,594	120,952,005	111,545,122	495,317,652	40.34%
Mr. Koh Boon Hwee	Beneficial owner	795,562	-	-	-	-	795,562	0.06%
Mr. Mok Joe Kuen Richard	Beneficial owner	100,000	-	-	-	-	100,000	0.01%

Notes:

- (1) Mr. Pan beneficially owns 69,512,565 shares. In addition, Mr. Pan is also deemed or taken to be interested in the following shares for the purpose of the SFO:
- (i) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company wholly-owned by Mr. Pan;
 - (ii) 262,820,525 shares representing the aggregate of (a) 134,828,594 shares which are beneficially owned by Sapphire Hill Holdings Limited, a company wholly-owned by Ms. Wu; and (b) 127,991,931 shares which are beneficially owned by Ms. Wu and as Ms. Wu is his spouse, he is deemed to be interested in such 262,820,525 shares; and
 - (iii) 111,545,122 shares representing the aggregate of (a) 106,806,278 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10 May 2005; and (b) 4,738,844 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendents, as beneficiaries of the Pan 2005 Exempt Trust dated 10 May 2005. Two children of Mr. Pan and Ms. Wu are over the age of 18. Two children have no discretion over distributions or investments in their trusts until distribution is made to them.

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- (2) Ms. Wu beneficially owns 127,991,931 shares. Ms. Wu is also deemed or taken to be interested in the following shares for the purposes of the SFO:
- (i) 134,828,594 shares which are beneficially owned by Sapphire Hill Holdings Limited, a company wholly-owned by Ms. Wu;
 - (ii) 120,952,005 shares representing the aggregate of (a) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company wholly-owned by Mr. Pan; and (b) 69,512,565 shares which are beneficially owned by Mr. Pan and as Mr. Pan is her spouse, she is deemed to be interested in such 120,952,005 shares; and
 - (iii) 111,545,122 shares representing the aggregate of (a) 106,806,278 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendants, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10 May 2005; and (b) 4,738,844 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendants, as beneficiaries of the Pan 2005 Exempt Trust dated 10 May 2005. Two children of Mr. Pan and Ms. Wu are over the age of 18. Two children have no discretion over distributions or investments in their trusts until distribution is made to them.

Other than as disclosed above, as at 30 June 2016, none of the Directors, chief executive nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, the register of interests and short positions kept by the Company under Section 336 of the SFO, other than the Directors and chief executive as disclosed in the section "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" above, showed that the following corporations or persons held interests or short position(s) in the Company's shares:

Name of shareholders	Capacity	Number of shares	Derivative interest	Percentage of the Company's issued share capital as at 30 June 2016
JPMorgan Chase & Co. ⁽¹⁾	Beneficial owner/Investment Manager/	184,154,275(L)	3,319,330(L)	14.99%
	Trustee/Custodian corporation/	1,799,000(S)	77,500(S)	0.14%
	Approved lending agent	27,655,781(P)	–	2.25%
The Capital Group Companies, Inc. ⁽²⁾	Interest of controlled corporation	134,234,170(L)	–	10.93%

L – Long position

S – Short position

P – Lending pool

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Notes:

- (1) JPMorgan Chase & Co., through its various 100% controlled corporations ("JPMorgan Group"), is interested in (i) an aggregate of 184,154,275 shares and listed derivative interests of 856,830 shares and unlisted derivative interests of 2,462,500 shares with physically settled in long position; and (ii) an aggregate of 1,799,000 shares and unlisted derivative interests of 77,500 shares with physically settled in short position. Among them, 111,555,982 shares held by JPMorgan Group as a trustee, including 111,545,122 shares held by J.P. Morgan Trust Company of Delaware which were represented the same batch of other interests of Mr. Pan and Ms. Wu as disclosed in the section of "Directors' and Chief Executive's Interest in Shares and Underlying Shares and Debentures" above.

In addition to the above, JPMorgan Chase & Co. is also interested in 27,655,781 shares in lending pool as described in the SFO. The term "lending pool" is defined as (i) shares that the approved lending agent holds as agent for a third party which he is authorised to lend and other shares that can be lent according to the requirements of the Securities Borrowing and Lending Rules; and (ii) shares that have been lent by the approved lending agent and only if the right of the approved lending agent to require the return of the shares has not yet been extinguished.

- (2) 134,234,170 shares in long position comprise of 133,204,670 shares held by Capital Research and Management Company and 1,029,500 shares held by Capital International, Inc.. By virtue of Capital Group International, Inc.'s 100% interest in Capital International, Inc., Capital Research and Management Company's 100% interest in Capital Group International, Inc., each of Capital Group International, Inc. and Capital Research and Management Company is deemed to be interested in 1,029,500 shares held by Capital International, Inc.. And by virtue of The Capital Group Companies, Inc.'s 100% interest in Capital Research and Management Company, The Capital Group Companies, Inc. is deemed to be interested in 134,234,170 shares held directly and indirectly by Capital Research and Management Company.

Save as the interests and short positions disclosed above, as at 30 June 2016, so far as was known to any Directors of the Company, no other persons had an interest or short position in the shares, equity derivatives, underlying shares or debentures of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or their interests were recorded under Section 336 of the SFO or, who were interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of Company's listed securities.

OTHER INFORMATION

CLOSURE OF REGISTER OF MEMBERS FOR INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.30 (2015: HK\$0.25) per ordinary share for the six months ended 30 June 2016 which will be paid on or around Tuesday, 27 September 2016.

For the purpose of determining shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Monday, 12 September 2016 to Thursday, 15 September 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30pm on Friday, 9 September 2016. Shares of the Company will be traded ex-dividend as from Thursday, 8 September 2016.

On behalf of the Board
AAC Technologies Holdings Inc.
Koh Boon Hwee
Chairman

Hong Kong, 26 August 2016