瑞聲科技控股有限公司
AAC TECHNOLOGIES HOLDINGS INC.
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2018)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 together with the comparative figures for the corresponding period in 2018.

These consolidated financial statements have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu and the Company's audit and risk committee (the "**Audit and Risk Committee**") and approved by the Board on 25 March 2020.

2019 FINAL RESULTS HIGHLIGHTS:

(RMB Million)	**2019**	2018	*YoY%*	**4Q 2019**	4Q 2018	*YoY%*
Revenue	**17,884**	18,131	*-1.4%*	**5,305**	4,838	*9.6%*
Gross Profit	**5,107**	6,743	*-24.3%*	**1,539**	1,844	*-16.5%*
Gross Profit Margin	***28.6%***	*37.2%*	*-8.6ppt*	***29.0%***	*38.1%*	*-9.1ppt*
Net Profit	**2,222**	3,796	*-41.5%*	**757**	1,044	*-27.5%*
Net Profit Margin	***12.4%***	*20.9%*	*-8.5ppt*	***14.3%***	*21.6%*	*-7.3ppt*
Basic EPS (RMB)	**1.84**	3.11	*-40.8%*	**0.63**	0.86	*-26.7%*
Dividend per share (HK$)	**0.40**	1.43	*-72.0%*	-	-	-
Share Numbers (Weighted average, million)	**1,210**	1,221		**1,209**	1,220	

We are delighted to have achieved a number of milestones in 2019, all of which are significant to the Group's sustainable future growth and the delivery of satisfactory returns to the shareholders. Nevertheless, we should address the occurrence of COVID-19 outbreak, which had quickly spread globally and would continue to cause significant disruptions to global economy and potentially end-user demand for smartphone products.

Global markets have experienced significant turmoil since the outbreak of COVID-19. The widespread restriction of business operations, logistics, social and trading activities is causing economic slowdowns, leading to recession expectations in the first half of 2020, and may extend beyond that. Inevitably, the consumer sentiment and the end-user demand for smartphones in the short-to-medium-term will be adversely impacted. Amid such a challenging economic environment, the Group's priority is to adhere to its financial discipline, maintain a strong balance sheet and cash flow, and further improve the operational efficiencies via rigorous cost control and further automation.

As at time of writing, we expect the revenue, gross profit and net profit of 1Q 2020 to be adversely impacted, due to extended period of work suspension after Chinese New Year, expected pricing pressure, and expected reduction of revenue from dampened consumer sentiment for smartphones.

Notwithstanding the significant disruption likely brought by the COVID-19 outbreak, we believe the development of the smart device industry will continue as it addresses fundamental needs for user experience by delivering relevant applications. Miniaturised technology components are vital parts of these smart device platforms. The Group remains dedicated to the long-term objective of "leading innovation and enhancing user experience", focusing on the development and promotion of various innovative product platforms, on the back of a prudent financial management.

MARKET REVIEW

During the first half of 2019, due to weakened upgrade demand and the lack of major breakthroughs in design specifications of new smartphones, global smartphone shipment has declined compared to a year ago. In the second half of 2019, specs upgrade momentum gradually resumed. Major android phone brands launched various flagship smartphone models with breakthrough designs and 5G functions, which have been well received by end users.

Year-on-year ("YoY") smartphone shipment growth has also recovered well since 3Q 2019. As a result, the Group has seen a general increase of both shipment and ASP in the second half of the year as compared to the first half, and together with stringent cost control measures, there was an improvement in gross margin.

According to International Data Corporation ("IDC") report, overall annual global smartphone shipment in 2019 has decreased 2.3% YoY to 1.37 billion units, although a deceleration from the 4.1% YoY decline recorded in 2018.

With the advent of 5G era, 5G smartphone shipment is expected to achieve a significant growth in the future and provide the Group's revenue growth opportunities, notwithstanding the economic disruption by the COVID-19 outbreak in the short-term. Taking the data from IDC report, global 5G smartphone shipment in 2019 reached 19 million units and accounted for 1.4% of overall smartphone shipment for the year. Global 5G smartphone shipment is expected to grow exponentially to 199 million units and account for 15% of overall smartphone shipment by 2020; and to 400 million units and account for 28% of overall smartphone shipment by 2021. We believe we are well-prepared to take advantage of this growth of our addressable market.

BUSINESS REVIEW

For the year under review, the total revenue of the Group edged down by 1.4% YoY to RMB17.88 billion, of which the total revenue for 4Q 2019 increased 5.8% quarter-on-quarter ("QoQ") or 9.6% YoY to RMB5.30 billion, underscoring the improvement momentum throughout the second half of the year. Despite a challenging operational environment, the overall gross margin for the year under review was 28.6%, (FY 2018: 37.2%), of which the overall gross margin for 4Q 2019 stood at 29.0%, (3Q 2019: 29.6%), as a result of the management team's efforts on optimizing the product mix, maintaining customer penetration and improving operational efficiencies and cost control. The optics business remained in the ramping up phase and has yet to reach the optimal scale, but the Group remains confident of significantly more revenue contributions from Wafer Level Glass ("WLG") projects in 2020.

The Group has dedicated R&D resources to develop a range of 5G solutions, and, is ready to seize the opportunities when more 5G applications are utilized by the customers and end-users. Net profit for the year under review declined 41.5% YoY to RMB2.22 billion, mainly due to reduced gross profit and higher research and development costs. The Group maintains a healthy liquidity position, with cash and bank balances of RMB5.5 billion; and net gearing ratio of 10.5% as at end of 2019.

To our delight, we have seen various important developments in the optics business, especially with the WLG platform, on its technology and preparation for mass production. The progress is on track and the Group remains confident of the shipment by 2020, and more significant revenue contribution by WLG platform thereon.

As part of the Group's strategy to develop the optics business and provide customers with an integrated optics solution with WLG technology, we are in good progress to establish production facilities for manufacturing camera modules, and, targeting shipment by mid-2020.

During the second half of 2019, various flagship smartphone models were launched with edge haptic features, kicking off another round of tactile upgrade in smartphones. At the same time, stepper motors, as a differentiated solution for full screen display, have been gradually adopted by more smartphone and smart home applications. As a leader in electromagnetic technology, the Group has started mass production and shipment of haptic and stepper motors during the period. Revenue contribution from Android customers will increase significantly in 2020.

During the year under review, the Group's capital expenditure ("CAPEX") amounted to RMB3.0 billion, of which, RMB1.1 billion was related to the optics development and another RMB0.6 billion was related to the acoustics segment. The Group owns 4,411 patents as at 31 December 2019, an increase of 31% from 31 December 2018.

In view of the fast-moving situation regarding the impact of COVID-19, the Group is acting quickly on the following four areas: 1) improve manufacturing efficiency: by utilizing big data and automation to improve production capacity with lower costs; 2) strengthen financial control: the projected CAPEX and R&D expenses are under review by the Board, and proactive liquidity management is exercised; 3) improve customer satisfaction and increase market share: through customized solutions catering to client's changing needs; and 4) accelerate technological innovation and monitor new industry opportunities for future growth strategies.

Prudent financial management is essential to the sustainable investment and development of the Group. In November 2019, we have successfully completed the inaugural bond issuance, amounted to USD388 million at 3.00% coupon rate, on the back of a Baa1 credit rating from Moody's. The issue, well received and oversubscribed by bond investors, underscored the proactive approach of the Group to tap into a diversified investor base, providing longer term liquidity at an attractive funding rate for future growth and development. The Group is dedicated to continue with developing and achieving more breakthroughs for the various technology platforms, to provide a strong foundation for sustainable growth.

The Board of Directors proposed not to declare a final dividend for FY 2019 (FY 2018: HK$1.03 per share), in order to maximize the liquidity of the Group, in light of the unprecedented circumstances amidst the COVID-19 outbreak. This, together with the interim dividend paid on 27 September 2019, gives a total of HK$0.40 per share for the year (FY 2018: HK$1.43 per share).

PERFORMANCE OF BUSINESS SEGMENTS

Acoustics

FY 2019 revenue and gross profit margin from the acoustics business amounted to RMB8.17 billion and 31.0% respectively, representing changes of -5.8% YoY and -6.2 percentage points, respectively from a year ago. 4Q 2019 revenue and gross profit margin amounted to RMB2.24 billion and 30.3% respectively.

Our proprietary acoustic platform, namely Super Linear Structure ("SLS") achieved the target 65% penetration rate of the Group's total Android module shipment by the end of 2019, and is expected to further increase to 80% by 2020. The classic version of SLS, with diaphragm attitude of ±0.65mm, has seen a remarkable leap in the acoustic performance as compared to other available products in the market. It has already been launched by various customers' projects and is expected to enter the key flagship models in 2020, with over 20% penetration rate by end of 2020.

The Group will continue to extend the upgrade roadmap of SLS, by launching more versions in the future. The Group expects to start the mass production of ±0.75mm SLS product in 2020, and dual-speakers products will also be applied to the flagship and mid-end projects of customers. Furthermore, the Group is accelerating the market expansion into the arena of automobile, smart speakers, AR, TWS and other wearable devices market.

To our delight, DXOMARK, the leading independent source of quality measurements for smartphone, provided assessment of acoustic performance since October 2019. The top scorer has adopted the classic version of our SLS. This should further motivate the android smartphone brands, especially domestic customers, to further upgrade their acoustics specifications.

Optics

FY 2019 revenue grew significantly 94% YoY to RMB1.07 billion. 4Q 2019 revenue improved significantly by 150% YoY to RMB0.34 billion. During 4Q 2019, ASP and yield have been on the rise, as a result of further enhancement of product mix and improvement of operational efficiencies. The gross margin of the optics business has improved remarkably during 4Q 2019 from the rest of the year.

The Group has been dedicating to R&D and strategic development of optics for a decade, and has identified optics as a future key strategic driver. We have set up R&D and manufacturing bases in 7 countries including Denmark and Japan, and in various cities in China including Changzhou, Nanning, Shenzhen and Chongqing etc. Our proprietary WLG technology platform is getting ready, and the upcoming launch of hybrid lens has greater competitive advantage over conventional plastic lens available in the market, with larger aperture, better heat resistance and less thickness. Amid the general trend of miniaturization and resolution improvement of optical components, the WLG technology platform offers great potential. Currently, WLG products have already completed 48M, 64M, 108M and periscope G+P certification, and is undergoing preparation for mass production, which is scheduled to kick off by 2Q 2020, with a shipment target of 30 million WLG lens for 2020.

For plastic lens: the Group has already started the shipment of 6P lens, and expects to start the shipment of 7P lens by 3Q 2020. The Group will accelerate the R&D on tele, wide angle, small camera, main camera and TOF depth of field etc., in order to achieve 64M, 108M or even higher resolutions. Monthly shipment is expected to exceed 100 million by July 2020.

Meanwhile, we are in progress of developing our camera module production facilities, and target overall mass production by May 2020, with 48M modules to start mass production by 3Q 2020. Camera modules with features like ultra wide angle, macro mode, main camera etc. have already been introduced to customers. We believe the Group can achieve a more vertically integrated capability with fully in-house manufactured components except CMOS, to cover each of the mid-to high-end products, and to further enhance our value proposition in the optics business.

Electromagnetic Drives and Precision Mechanics

FY 2019 revenue and gross margin from the combined segment of electromagnetic drives and precision mechanics business were RMB7.69 billion and 29.6% respectively. 4Q 2019 revenue and gross margin from the combined segment were RMB2.46 billion and 30.0% respectively.

During 4Q 2019, the revenue of the haptics business grew by 15.7% QoQ, driven by increased demand of customers across the board, while the gross margin has shown a modest expansion. The Group expects to penetrate most flagship models of customers by 2020. The Group will step up the promotional effort of the low- and mid-end linear actuators to replace the Z-axis circular actuator in the market and target to achieve a 300% growth in the future, by expanding the applications of our electromagnetic drive technology to automobile, games controller, PC etc. Working closely with leading content and application providers, the Group continues to innovate to provide a broad range of product matrix tailoring to a variety of application scenarios ranging from low- to mid- and high-ends, and to fortify its technological moat. Collaborating with major game developers, the Group continues to develop solutions to enhance the gaming experience in different scenarios and to gain foothold in the ecosystem. We are focusing on developing holistic haptic path solutions running on Android and introducing them to different OEMs. Meanwhile, we have been developing additional new applications such as virtual edge buttons for smartphones to provide immersive user experience.

The stepper motor module business has also seen an ongoing momentum of shipment volume growth during 4Q 2019. The Group has further minimized the size and weight of the stepper motor via technological upgrade, and has developed a new feature of simultaneous popping-up, rotating and scanning of the stepper-motor. We will leverage on our technological leadership in electromagnetic drive as well as our extensive product portfolio to rapidly capture new market shares in speakers, TV and smart watches etc.

Thanks to the high precision manufacturing capabilities, and on the back of the Group's proactive expansion of market share in 3Q 2019, the more complex designs in 4Q 2019 have translated into higher ASP and gross margin during the quarter. We are positive on the prospects of precision mechanics in FY 2020, fueled by higher demand in the forthcoming 5G era. Going forward, the Group will further enrich the product mix, with more product categories such as hinges, Zirconium based liquid metal, LCP transmission modules etc., and will also accelerate the development of TWS earphones and miniaturized battery.

MEMS

FY 2019 revenue and gross margin of MEMS business grew by 14.0% YoY and 0.9 percentage points to RMB0.93 billion and 27.5%, respectively. During 4Q 2019, the momentum of margin expansion continued, driven by increased adoption of in-house MEMS designs and manufacturing of digital ASIC chips.

The Group continues to promote proprietary MEMS microphones with optimized structural designs and reliability, satisfying various specification requirements of customers through proprietary and differentiated designs. In the high-end MEMs microphone with Signal to noise ratio ("SNR") of 70dB and above, the Group became the first domestic player to break the technological barrier dominated by overseas players, achieving various breakthroughs in terms of smaller size, better diaphragm vibration and efficient power consumption. In future, the Group has plans to expand the scope of applications of high-end MEMS microphones with SNR of 69-70dB and above to smartphones and smart watch devices (with the exception of TWS headphones), in order to enhance the end-user experience. It will also increase the value-add proposition by microphones by applying bone conduction technology and integrating pressure sensor into one device. The Group will explore more sales and distribution channels, including distributorship and agency model, to further expand into global market. We target to double production capacity YoY in FY 2020, and achieve the production capacity of 3 billion units per annum over the next 5 years.

SUSTAINABILITY

The Group is always dedicated to an expanded scope of sustainability related areas of development:

- In the seventh Sustainability Report to be published in May 2020, our disclosure on climate impact would also be aligned with the Taskforce on Climate-related Financial Disclosure recommendations, to improve transparency on how we identify risks associated with climatic changes;
- We have also set the targets of GHG emissions, energy consumption and waste in our major factory facilities in Changzhou and Shenzhen;
- Our scope of work and disclosure on social areas will also be expanded as detailed in the Sustainability Report; and
- The Group has established a Sustainability Working Group, to enhance the involvement from the Board of Directors on a regular basis.

Furthermore, the Group regards its staff safety as top priority, consistent with the firm belief that talents and technologies form the cornerstones of the Group's sustainable development. Soon after COVID-19 outbreak, a special task-force team, under the leadership of CEO and other senior management, was formed to lead the design of policies and procedures for hygiene and work resumption arrangement at each office, R&D center and production facility across the world. Its implementation abides by the most stringent standards in accordance to the relevant government regulations and guidelines. The relentless efforts, collectively contributed by our staff at all levels, have resulted in satisfactory progress of work resumption since mid-Feb 2020. Simultaneously, since COVID-19 outbreak, the Group management maintains regular communications with other stakeholders including customers, suppliers and other parties in the smartphone supply chain.

APPRECIATION

Our Board chairman, Mr. Koh Boon Hwee ("Mr. Koh") has decided not to seek re-election at the forthcoming annual general meeting ("AGM"), after serving the Company for 15 years. The Board of Directors would like to express sincere gratitude to Mr. Koh, for his extensive global business experience and professional leadership that has brought AAC Technologies from a Shenzhen-based acoustic manufacturing company 15 years ago, to a leader in miniature technologies with global footprints. Mr. Koh's leadership in the Company for the last 15 years has also been an invaluable contribution to a solid foundation for the Company's sustainable growth in the future.

Along with Mr. Koh, Mr. Poon Chung Yin Joseph ("Mr. Poon"), one of our independent non-executive Directors, chairman of the Audit and Risk Committee in the period from 2009 to 2018 and present chairman of the Remuneration Committee, has also decided not to seek re-election at the forthcoming AGM. Mr. Poon has served the Company for close to 11 years and his many contributions, including enhancement of the corporate governance of the Company, are instrumental to the Company's solid foundation.

The Board has proposed Mr. Zhang Hongjiang ("Mr. Zhang") to act as the Chairman of the Company, upon Mr. Koh's retirement. Mr. Zhang has been appointed as an independent non-executive Director to the Board of the Company since 1 January 2019. His full biography has already been described in the 2018 Annual Report. The Group looks forward to his leadership and contributions.

Finally, the Board would like to take this opportunity to thank our employees for their hard work and contributions during the year, especially in the recent period since the COVID-19 outbreak. Their determination and diligence demonstrated in bringing the Group's business back on track in the shortest period of time is very much appreciated, reiterating that our employees are our solid foundation for sustainable development and growth.

FINANCIAL REVIEW

Revenue

2019 Group revenue declined YoY by 1%, to RMB17.9 billion. Owing to factors discussed above, revenue from the Acoustics and Electromagnetic Drives & Precision Mechanics decreased by RMB507 million and RMB379 million respectively, whilst Optics revenue saw an encouraging increase of RMB519 million, compared with 2018.

Gross Profit and Gross Profit Margin

2019 gross profit was RMB5.1 billion, representing a decrease by 24%, from the gross profit of RMB6.7 billion in 2018. The drop in gross profit was primarily due to the reduction in revenue and gross profit margin. Gross profit margin decreased to 28.6% in 2019 as compared with 37.2% in 2018. Although the overall yield and efficiency were improved, the gross profit margin was decreased owing to ASP pressures on legacy products and unfavorable product mix due to slow-down in innovation and specs upgrade.

Administrative Expenses

Administrative expenses in 2019 were RMB643 million, 1% lower, compared with RMB650 million in 2018.

Distribution and Selling Expenses

Distribution and selling expenses of RMB275 million in 2019, along with the decline in revenue, dropped by 13%, compared with RMB317 million in 2018. Amongst the drop, there was a corresponding decline in human resource payroll expenses.

Research and Development Expenses

Research and development ("R&D") expenses in 2019 were RMB1,717 million, 14% higher than RMB1,512 million in 2018. The increase was primarily attributable to the higher R&D related to optics business, in line with the Group's plan for a significant growth in production and shipments in the next 12 months and optics as a key growth driver in the future.

Finance Costs

Finance costs in 2019 amounted to RMB248 million, representing an increase of 14% compared with RMB218 million in 2018. Such increase in finance costs was due to the rise of market interest rates in 2019 and higher borrowing interest rate impact in our strategy to have long-term bank loans in our loan portfolio for better liability and risk management. The percentage of long-term bank loans as at 31 December 2019 is 67% of total bank loans (31 December 2018: 41%).

Taxation

Taxation expenses of the Group were calculated based on the assessable profits of the subsidiaries at the rates prevailing in the relevant jurisdictions. Taxation expenses in 2019 amounted to RMB330 million, representing a decrease of 35.8% from RMB514 million in 2018. While the effective tax rate have slightly increased compared with that of 2018, the increase was mainly due to expiration of tax concessions of some of our overseas subsidiaries.

Net Profit and Net Profit Margin

Reported net profit for 2019 was RMB2.2 billion, a decline by 41.5% compared with RMB3.8 billion in 2018. The decline was due to decline of revenue and gross profit margin, together with higher research and development costs incurred during the year contributed to the adverse 8.5 percentage points decrease in net profit margin to 12.4%.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has always emphasized financial discipline and continues to maintain a strong liquidity position. The Company issued US$388,000,000 notes ("Notes"), to be matured in 2024 to third party professional investors, and, the Notes (stock code: 40075) bear interest at the rate of 3.00% per annum, payable semi-annually in arrears on 27 May and 27 November in each year. Cash flows from (used in) our operating, investing and financing activities, are as below:

	For the year ended 31 December	
	2019	2018
	RMB million	*RMB million*
Net cash from operating activities	**3,843.5**	6,789.3
Net cash (used in) investing activities	**(3,394.6)**	(3,599.1)
Net cash from (used in) financing activities	**255.0**	(3,246.8)

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipts from the Group's sales. Cash outflows were related to raw materials purchases, payroll, distribution and selling expenses, expenses incurred in R&D, administrative items and taxation charges. Net cash generated from operating activities was RMB3,843.5 million for 2019 (2018: RMB6,789.3 million).

i. ***Trade Receivables and Payables***

As at 31 December 2019, turnover days of trade receivables decreased by 12 days to 79 days as compared to 31 December 2018. Trade receivables increased by RMB976.3 million to RMB4.3 billion. Aging of trade receivables (net of allowance for doubtful debts) based on invoice dates between 0–90 days, 91–180 days and over 180 days were RMB4,204.5 million (31 December 2018: RMB3,269.3 million), RMB140.4 million (31 December 2018: RMB94.9 million) and RMB0.4 million (31 December 2018: RMB4.8 million) respectively. The Company has received subsequent settlement totaling RMB2,991.1 million up to 29 February 2020, representing 68.8% of the total amount outstanding, net of allowances, as at the end of the reporting period.

The Group's trade payables turnover days decreased by 19 days to 103 days as compared to 31 December 2018. Aging of trade payables based on invoice dates between 0–90 days, 91–180 days and over 180 days were RMB3,346.9 million (31 December 2018: RMB2,593.2 million), RMB599.6 million (31 December 2018: RMB618.1 million) and RMB14.4 million (31 December 2018: RMB8.0 million) respectively.

ii. ***Inventory Turnover***

As at 31 December 2019, the inventories have increased by RMB344.6 million compared to 31 December 2018. The inventory turnover days decreased to 100 days as at 31 December 2019 from 108 days for 31 December 2018.

Investing Activities

Net cash invested in 2019 and 2018, amounted to RMB3,394.6 million and RMB3,599.1 million, respectively. CAPEX will include acquisition of land use rights, additional production plant and property, and, latest automation machinery and equipment for modifications and upgrades as well as capacity expansion. For 2019 and 2018, total CAPEX incurred were RMB3,032.9 million and RMB3,903.3 million respectively. Investing activities are focused on sustained CAPEX programs in building technology platform per the Group's business progress 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 from financing activities of approximately RMB255.0 million for 2019, and net cash used in 2018 was RMB3,246.8 million. Major inflow was due to the issuance of unsecured Notes amounted to RMB2,706.2 million (2018: nil), and outflows were dividend paid to Shareholders of RMB1,530.9 million (2018: RMB2,181.6 million). For 2019, the Group recorded net outflow from bank borrowings, new bank borrowings raised of RMB3,234.4 million (2018: RMB5,071.9 million) and repayment of bank loans of RMB3,497.6 million (2018: RMB5,627.1 million).

Cash and Cash Equivalents

As at 31 December 2019, the unencumbered cash and cash equivalents of the Group amounted to RMB4,814.4 million (31 December 2018: RMB4,058.9 million), of which 76.7% (31 December 2018: 61.9%) was denominated in US dollar, 18.4% (31 December 2018: 30.8%) in RMB, 2.0% (31 December 2018: 4.4%) in Hong Kong dollar, 1.2% (31 December 2018: 0.5%) in Euros, 0.4% (31 December 2018: 1.2%) in Japanese Yen, 0.3% (31 December 2018: 0.3%) in Vietnamese Dong, 0.3% (31 December 2018: 0.0%) in Indian Rupee, 0.2% (31 December 2018: 0.4%) in Singapore dollar, and 0.5% (31 December 2018: 0.5%) in other currencies.

Gearing Ratio and Indebtedness

As at 31 December 2019, the Group's gearing ratio, defined as total loans and unsecured Notes divided by total assets, was 24.6% (31 December 2018: 19.8%). Netting off cash and cash equivalents, net gearing ratio was 10.5% (31 December 2018: 6.2%).

As at 31 December 2019, the unsecured Notes of the Group was RMB2,685.5 million (31 December 2018: nil), the short-term bank loans and long-term bank loans of the Group amounted to RMB1,876.1 million (31 December 2018: RMB3,492.5 million) and RMB3,849.6 million (31 December 2018: RMB2,427.9 million) respectively.

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 CAPEX of the Group.

Charges on Group Assets

Apart from bank deposits amounting to RMB11.1 million that were pledged to banks mainly in relation to construction work as at 31 December 2019 (31 December 2018: RMB2.1 million), no other Group assets were charged to any financial institutions.

OFF-BALANCE SHEET TRANSACTIONS

As at 31 December 2019, the Group had not entered into any material off-balance sheet transactions.

KEY RISK FACTORS

The Group believes that the effective risk management and internal control systems are critical for the management of the strategic, market, operational, financial and compliance risks. The risk management framework is reported to the Audit and Risk Committee and the Board of Directors on a regular basis. The Group's risk management has been proven effective during the year under review, when the operational environment had been volatile. The risk and control measures are constantly reviewed and upgraded in order to proactively manage any emerging risks.

The key risk 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 of supply chain and production disruption due to unforeseeable events

Towards the end of 2019, the coronavirus was discovered in China. The virus, named as COVID-19, has been subsequently reported in the rest of the world. The risk of a prolonged duration of COVID-19 outbreak might lead to significant disruption of production and shipment in the smartphone supply chain, including that of the Group. In the unlikely event that infection of COVID-19 by a large number of the Group's employees the productivity of the Group's operations might be adversely impacted, including the possibility of closure of some premises of the Group. The above may adversely affect the Group's operating results.

The Group has experience in risk management related to the epidemic outbreak, the last seen in the period of 2002 to 2003 with the SARS outbreak. The Group responded on a timely basis to the outbreak of COVID-19. Directed by the top management, the Group dedicated significant resources on ensuring a safe and hygienic working environment for the resumption of work. The Group closed most of the offices and production plants in China for a certain period in February 2020, in strict accordance with the regulations and guidance by the local authorities and the government. Upon implementation of the appropriate precautionary measures, most offices and production plants have gradually re-opened in February 2020. The Group did not see any significant adverse impact on the supply of raw materials and machinery since COVID-19 outbreak. The key risk pertains to a continuous normal operation resumption and is under close scrutiny by senior management.

Risks Pertaining to the Smartphones Segment

A substantial part of the Group's revenue is derived from the smartphone segment of the consumer electronics market. The overall global market for smartphones had contracted in 2018 and 2019, although the contraction magnitude was narrowed since the second half of 2019. However, unforeseeable global events such as a prolonged COVID-19 outbreak might also delay the new product launches by the smartphone companies and hence, dampen the consumption sentiment. A continual contraction in the global smartphone market might adversely affect the Group's operating results and financial condition.

To tackle this, the Group is relentlessly enriching its products and technologies platforms, to widen their potential applications and to diversify the sources of revenue and profit to reduce its dependency on any single segment. Our substantial on-going investments in R&D, leading to an expanded collection of 4,411 patents in total across various technology platforms, should also help to protect our business against competition within the smartphone market segment.

Reliance on a Number of Key Customers

The Group's five largest customers, which accounted for 79.7% of the Group's total revenue, are all related to the dynamic consumer electronics industry, characterized by innovation-driven and user experience-oriented business growth. 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.

By end of 2019, the Group has re-structured the key business units, with higher orientation of key customer accounts, on top of the divisions by the key technology platforms. The Group believes that the re-structuring should enable provision of more vertical integrated solutions to the key customers and lead to higher differentiation of the Group's solutions from the competitors.

The Group is also utilizing "big data" system in our operations, which will help to set up a solid base for continual improvement in product reliability and to meet the customer needs in more effective and efficient ways.

Furthermore, the Group has also implemented standardized procedures for handling all forms of customer information to ensure it is not improperly or inadvertently disclosed to third parties. The Group has strong established relationships with these major customers; all of them have been our customers for over 8 years. The credit terms granted to them are in the range of 60- to 90-day periods and are generally in line with those granted to other customers.

Operational and Obsolescence Risks

The Group's operation is subject to a number of risk factors specific to designing and delivering 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 might have various levels of negative impact on the results of operations. Additionally, production, data security and quality issues might happen despite internal systems and policies set up for their prevention, which might lead to financial loss, litigation, or damage in reputation.

We believe that the Group has a seasoned process in ensuring that we meet design specifications and quality requirements, and there are many overlapping core design and production competencies that the Group possesses. This will put the Group in a strong competitive position in terms of design capacity and manufacturability, time-to-market delivery and continuous enhancement of user experience. Also, the Company continuously treats information security as a priority strategic topic and has implemented a comprehensive range of measures to safeguard its data assets from breaches, leaks and hacks. In addition, the Group constantly reviews competition and market trends. The Group is committed to strive for innovation and maintain a competitive position with a wide lead in knowledge. The Group has reinvested significant resources on research and development to build broad sustainable technology roadmaps and intellectual property portfolios

The Group 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 Group will continue to improve internal process capability, including evaluation of "big data" system in our operation, and set up a solid base for continual improvement in product reliability.

Liquidity and Interest Rate Risks

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

The Group is exposed to interest rate risks on its bank loans for working capital and CAPEX that are associated with the expansion of the Group. Upward fluctuations in interest rates may increase the costs of both existing and new loans. During the year ended 31 December 2019, there was heightened expectation of USD interest rate hikes, although the situation quickly turn around in early 2020 when the global economy showed signs of downside risks upon COVID-19 outbreak, and various major central banks around the world cut interest rate on "Super Tuesday" in early March 2020.

During the year under review, the Group's effective interest rate on fixed rate bank loans was higher in the range of 2.90% to 4.75% per annum, while the effective interest on variable-rate bank loans was from 1.89% to 4.03% per annum. To certain extents, the Groups USD deposits served as a natural hedge to the risk of interest rate volatilities. In November 2019, the Group has completed the issuance of five-year USD bond, amounted to USD388 million, to further enhance asset-liability management catering for fund stability as well as interest rate risk.

The Group's financial assets include bank balances and cash, pledged bank deposits, trade and other receivables, amounts due from related companies, derivative financial instruments, financial assets at fair value through profit or loss and equity instruments at fair value through other comprehensive income, which represent the Group's maximum exposure to credit risk in relation to financial assets. The credit risk on liquidity is limited because the counterparties are established banks with good credit-ratings.

Foreign Exchange Risks

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

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

Risks pertaining to trade dispute between China and the US

The trade dispute between China and the US, involving potential addition of tariffs and other trade barriers across a range of exported goods from each other, started in 2018 and persisted throughout 2019; while a Phase One trade deal had been signed between China and the US on 15 January 2020, effective from 14 February 2020.

The Group is not aware of any of its key raw materials and products being included in the latest targeted lists. The Group's products are also not directly exported to the US. So far, the Group's business operations have not experienced any significant impact from the trade disputes. The Group will continue to monitor any new developments as well as assessing any adverse and material business implications which might arise.

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 QoQ and YoY 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 2019 and 2018 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 2019 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 2018 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 2019 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 2019 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 2019

	NOTES	**2019** *RMB'000*	2018 *RMB'000*
Revenue	*3*	**17,883,757**	18,131,153
Cost of goods sold		**(12,776,765)**	(11,388,078)
Gross profit		**5,106,992**	6,743,075
Other income, gains and losses		**246,991**	236,556
Gain on final settlement of earn-out consideration	*12*	**-**	147,830
Fair value gain (loss) on financial assets at fair value through profit or loss	*12*	**19,234**	(118,881)
Distribution and selling expenses		**(275,329)**	(316,521)
Administrative expenses		**(642,803)**	(649,856)
Research and development costs		**(1,717,251)**	(1,512,160)
Exchange gain (loss)		**62,798**	(1,853)
Finance costs	*4*	**(248,210)**	(217,888)
Profit before taxation	*5*	**2,552,422**	4,310,302
Taxation	*6*	**(330,048)**	(514,417)
Profit for the year		**2,222,374**	3,795,885
Other comprehensive income (expense):			
Item that will not be subsequently reclassified to profit or loss:			
Fair value changes on equity instruments at fair value through other comprehensive income		**76,479**	(10,479)
Items that may be subsequently reclassified to profit or loss:			
Fair value changes on derivative financial instruments		**(24,631)**	4,449
(Gain) loss reclassified to profit or loss on hedged items		**(1,001)**	1,268
Exchange differences arising on translation of foreign operations		**(47,742)**	49,796
Total comprehensive income for the year		**2,225,479**	3,840,919
Profit (loss) for the year attributable to:			
Owners of the Company		**2,222,375**	3,795,885
Non-controlling interests		**(1)**	-
		2,222,374	3,795,885
Total comprehensive income (expense) attributable to:			
Owners of the Company		**2,225,480**	3,840,919
Non-controlling interests		**(1)**	-
		2,225,479	3,840,919
Earnings per share - Basic	*8*	**RMB1.84**	RMB3.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	NOTES	**2019** **_RMB'000_**	2018 *RMB'000*
Non-current assets			
Property, plant and equipment	*9*	**16,910,713**	15,440,039
Right-of-use assets	*10*	**1,071,912**	-
Goodwill		**164,350**	164,350
Prepaid lease payments		**-**	622,362
Deposits made for acquisition of property, plant and equipment		**454,527**	1,085,904
Investment properties	*11*	**13,660**	14,854
Equity instruments at fair value through other comprehensive income	*12*	**350,740**	178,684
Intangible assets		**433,884**	366,607
Derivative financial instruments	*13*	**-**	11,153
		19,399,786	17,883,953
Current assets			
Inventories		**3,664,056**	3,319,480
Trade and other receivables	*14*	**5,576,036**	4,474,213
Financial assets at fair value through profit or loss	*12*	**-**	22,426
Amounts due from related companies		**3,622**	4,991
Taxation recoverable		**40,718**	35,509
Pledged bank deposits		**11,100**	2,100
Bank and other balances and cash		**5,511,974**	4,126,494
		14,807,506	11,985,213
Current liabilities			
Trade and other payables	*15*	**5,474,116**	4,548,240
Contract liabilities	*15*	**10,271**	8,673
Lease liabilities	*16*	**96,742**	-
Amounts due to related companies		**75,354**	62,468
Taxation payable		**178,169**	204,880
Bank loans	*17*	**1,876,094**	3,492,507
		7,710,746	8,316,768
Net current assets		**7,096,760**	3,668,445
Total assets less current liabilities		**26,496,546**	21,552,398
Non-current liabilities			
Bank loans	*17*	**3,849,605**	2,427,854
Unsecured notes	*18*	**2,685,475**	-
Government grants	*19*	**208,938**	117,779
Lease liabilities	*16*	**310,332**	-
Deferred tax liabilities	*20*	**65,392**	71,669
Derivative financial instruments	*13*	**15,812**	998
		7,135,554	2,618,300
Net assets		**19,360,992**	18,934,098
Capital and reserves			
Share capital	*21*	**98,135**	98,906
Reserves		**19,253,058**	18,835,192
Equity attributable to owners of the Company		**19,351,193**	18,934,098
Non-controlling interests		**9,799**	-
Total equity		**19,360,992**	18,934,098

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 Company acts as an investment holding company.

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 AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied the following new and amendments to IFRSs for the first time in the current year:

IFRS 16	Leases
IFRIC - Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015 - 2017 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.

2.1 IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations. The Group applied IFRS 16 in accordance with the transition provisions of IFRS 16.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC - Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

2.1 IFRS 16 Leases - continued

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition.

Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties and land leases in the Mainland China was determined on a portfolio basis; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease terms for the Group's leases with extension and termination options.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

2.1 IFRS 16 Leases - continued

As a lessee - continued

On transition, the Group has made the following adjustments upon application of IFRS 16:

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.07%.

	At 1 January 2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	95,080
Less: Recognition exemption - short-term lease and low value assets leases	(17,215)
	77,865
Lease liabilities discounted at relevant incremental borrowing rates relating to operating leases recognised upon application of IFRS 16 as at 1 January 2019	75,291
Analysed as	
Current	50,593
Non-current	24,698
	75,291

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

2.1 IFRS 16 Leases - continued

As a lessee - continued

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		75,291
Reclassified from prepaid lease payments	*(a)*	622,362
Adjustments on rental deposits at 1 January 2019	*(b)*	430
		698,083
By class:		
Land		622,362
Buildings		75,721
		698,083

(a) Upfront payments for leasehold land in People's Republic of China ("PRC") were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the prepaid lease payments amounting to RMB622,362,000 were reclassified to right-of-use assets.

(b) Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied under other receivables. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB430,000, RMB440,000 and RMB10,000 were adjusted to right-of-use assets, refundable rental deposits paid and retained profits respectively.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

2.1 IFRS 16 Leases - continued

As a lessee - continued

The following table summarises the impact of transition to IFRS 16 on retained profits at 1 January 2019.

	Impact of adopting IFRS 16 at 1 January 2019
	RMB'000
Retained profits	
Adjustments on rental deposit paid and impact at 1 January 2019	(10)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under IFRS 16 at 1 January 2019
	RMB'000	*RMB'000*	*RMB'000*
Non-current Assets			
Prepaid lease payments	622,362	(622,362)	-
Right-of-use assets	-	698,083	698,083
Current Assets			
Trade and other receivables	4,474,213	(440)	4,473,773
Current Liabilities			
Lease liabilities	-	50,593	50,593
Non-current liabilities			
Lease liabilities	-	24,698	24,698
Capital and Reserves			
Reserves	18,835,192	(10)	18,835,182

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

New and amendments to 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 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[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 1	Classification of Liabilities as Current or Non-Current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

[1] Effective for annual periods beginning on or after 1 January 2021
[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
[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 2020
[5] Effective for annual periods beginning on or after 1 January 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Except as described above, the management anticipates that the application of new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. REVENUE AND 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 acoustic modules (formerly known as miniature speaker modules), acoustic unit (formerly known as receivers and speakers)), electromagnetic drives and precision mechanics, MEMS components and other products (including optics, traditional microphones and headsets), which represent the major types of products manufactured and sold by the Group. Revenues from these products is recognised at the point in time when controls of the products has transferred.

No operating segments have been aggregated in arriving at the reportable segments of the Group.

All sales contracts are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Information regarding these segments is presented below.

3. REVENUE AND SEGMENT INFORMATION - continued

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

	2019	2018
	RMB'000	*RMB'000*
Operating and reportable segments		
Segment revenue - recognised at a point in time		
Dynamic components	**8,167,276**	8,674,642
Electromagnetic drives and precision mechanics	**7,694,198**	8,073,135
MEMS components	**928,524**	814,438
Other products	**1,093,759**	568,938
Revenue	**17,883,757**	18,131,153
Segment results		
Dynamic components	**2,535,568**	3,228,246
Electromagnetic drives and precision mechanics	**2,280,264**	3,275,363
MEMS components	**255,682**	216,869
Other products	**35,478**	22,597
Total profit for operating and reportable segments	**5,106,992**	6,743,075
Unallocated amounts:		
Interest income	**50,273**	36,840
Other income, gains and losses	**196,718**	199,716
Gain on final settlement of earn-out consideration	**-**	147,830
Fair value gain (loss) on financial assets at fair value through profit or loss	**19,234**	(118,881)
Distribution and selling expenses	**(275,329)**	(316,521)
Administrative expenses	**(642,803)**	(649,856)
Research and development costs	**(1,717,251)**	(1,512,160)
Exchange gain (loss)	**62,798**	(1,853)
Finance costs	**(248,210)**	(217,888)
Profit before taxation	**2,552,422**	4,310,302

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 the CEO for review.

3. REVENUE AND SEGMENT INFORMATION - continued

Depreciation, amortisation and release of prepaid lease payments (before application of IFRS 16) included in measure of segment results are as follows:

	2019	2018
	RMB'000	*RMB'000*
Dynamic components	**896,662**	753,916
Electromagnetic drives and precision mechanics	**552,284**	424,133
MEMS components	**34,700**	33,251
Other products	**226,325**	125,699
	1,709,971	1,336,999
Unallocated portion	**466,335**	426,628
	2,176,306	1,763,627

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, gains and losses, gain on final settlement of earn-out consideration, fair value gain (loss) on financial assets at fair value through profit or loss and exchange gain (loss). This is the measure reported to the CEO for the purpose of resource allocation and performance assessment.

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

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

	2019	2018
	RMB'000	*RMB'000*
Greater China* (country of domicile)	**8,093,447**	5,739,629
Other foreign countries:		
Other Asian countries	**1,485,943**	1,783,418
America	**8,281,791**	10,600,797
Europe	**22,576**	7,309
	17,883,757	18,131,153

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

3. REVENUE AND SEGMENT INFORMATION - continued

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

During the year, the aggregate amount of revenue derived from the Group's top customers which individually has contributed to over 10% of the Group's revenue and included in all of the Group's segments, amounted to RMB9,922,899,000 (2018: RMB10,778,892,000). The total amount of revenue by each customer and number of customers are not disclosed, as in the opinion of the management such disclosure is harmful to the Group's business.

4. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest on bank borrowings	**228,822**	217,888
Interest on unsecured notes	**7,051**	-
Interest on lease liabilities	**12,337**	-
	248,210	217,888

5. PROFIT BEFORE TAXATION

	2019	2018
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	**16,185**	16,485
Other staff's retirement benefits scheme contributions	**421,275**	483,266
Other staff costs	**4,187,564**	3,922,881
Total staff costs	**4,625,024**	4,422,632
Less: Staff costs included in research and development costs	**(873,928)**	(906,782)
	3,751,096	3,515,850
Depreciation of property, plant and equipment	**2,018,539**	1,713,557
Less: Depreciation included in research and development costs	**(282,279)**	(237,065)
	1,736,260	1,476,492
Allowance for obsolete inventories, included in cost of goods sold	**41,527**	60,566
Amortisation of intangible assets	**43,838**	36,236
Amortisation of upfront fee for bank loans	**6,492**	6,306
Auditor's remuneration	**3,319**	3,148
Cost of inventories recognised as expense	**12,735,238**	11,327,512
Cost of raw materials included in research and development costs	**250,248**	46,047
Depreciation of right-of-use assets	**112,735**	-
Depreciation of investment property	**1,194**	1,195
Written off of a loan receivable	**-**	12,931
Impairment losses recognised in respect of goodwill	**-**	3,098
Impairment losses recognised in respect of property, plant and equipment, included in other income, gains and losses (note 9)	**35,096**	9
Loss on disposal of property, plant and equipment	**2,149**	773
(Gain) loss on disposal of prepaid lease payments	**(65)**	5,530
(Reversal of) allowance for impairment loss on trade receivables	**(110)**	16,785
Short-term and low value asset leases expense	**24,818**	N/A
Operating lease rentals in respect of		
- building premises	**N/A**	52,312
- machineries	**N/A**	10,698
- others	**N/A**	2,810
Release of prepaid lease payments	**N/A**	12,639
Government grants*	**(163,843)**	(135,266)
Interest income	**(50,273)**	(36,840)
Rental income	**(13,714)**	(13,443)

* Included in the amount is RMB51,019,000 (2018: RMB15,627,000) representing amortisation of government grants. The remaining 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

	2019	2018
	RMB'000	*RMB'000*
The current tax charge (credit) comprises:		
PRC Enterprise Income Tax	**226,057**	393,111
Other jurisdictions	**109,893**	133,208
Hong Kong Profits Tax	**2,931**	383
PRC withholding tax	**6,376**	-
Overprovision of taxation in prior years	**(8,831)**	(9,527)
	336,426	517,175
Deferred tax (see note 20)	**(6,378)**	(2,758)
	330,048	514,417

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 Ministry of Finance and the State Taxation Administration of the PRC, Cai Shui 2008 No. 1, the accumulated undistributed profits earned by foreign invested enterprise prior to 1 January 2008 can be exempted from EIT when they are distributed to foreign investor after 2008. 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 Implementation Regulation. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to the Taxes on Income, 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 and New Technology Enterprises ("HNTE") till the dates ranging from 31 October 2020 to 22 November 2022. Pursuant to the EIT Law, those PRC subsidiaries endorsed 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 program which is granted based on the fulfilment of carrying out qualifying business activities. This incentive program expired in 2018. Agreement for its extension on similar terms for another 10-year period after expiry has been signed, and is effective from 1 January 2019.

6. TAXATION - continued

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 Vietnamese subsidiary will expire in 2027.

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:

	2019	2018
	RMB'000	*RMB'000*
Profit before taxation	**2,552,422**	4,310,302
Tax at the applicable income tax rate*	**638,106**	1,077,575
Tax effect of income not taxable for tax purpose	**(50,959)**	(39,438)
Tax effect of expenses not deductible for tax purpose	**31,694**	53,940
Tax effect of tax holiday and concession	**(208,517)**	(451,865)
Tax effect of tax losses not recognised	**106,377**	92,394
Utilisation of tax losses previously not recognised	**(9,757)**	(10,998)
Effect of super deduction for research and development cost	**(49,967)**	**-**
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(122,990)**	(194,643)
Overprovision in prior years	**(8,831)**	(9,527)
PRC withholding tax	**6,376**	-
Others	**(1,484)**	(3,021)
Tax charge for the year	**330,048**	514,417

* The PRC EIT rate of 25% (2018: 25%) is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

7. DIVIDENDS

	2019 *RMB'000*	2018 *RMB'000*
Dividends recognised as distribution during the year:		
2018 final dividend of HK$1.03 (2017: HK$1.70) per ordinary share	**1,094,264**	1,751,456
2019 interim dividend of HK$0.40 (2018: HK$0.40) per ordinary share	**436,655**	428,445
	1,530,919	2,179,901

Subsequent to the end of the reporting period, in line with the prudent financial management of the Group, the Directors decided not to declare a final dividend for the year ended 31 December 2019.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2019 is based on the profit for the year attributable to owners of the Company of RMB2,222,375,000 (2018: RMB3,795,885,000) and on the weighted average of 1,210,173,000 (2018: 1,221,392,000 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. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of RMB3,552,877,000 (2018: RMB3,625,076,000). Part of the consideration of RMB1,085,904,000 (2018: RMB913,987,000) 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 RMB32,910,000 (2018: RMB14,138,000) for proceeds of RMB30,761,000 (2018: RMB13,365,000) and resulting in a loss on disposal of RMB2,149,000 (2018: loss on disposal of RMB773,000).

During the year, the Group has reviewed the estimated useful life of its property, plant and equipment and has fully impaired certain property, plant and equipment with carrying value of RMB35,096,000 (2018: RMB131,000) 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. Reversal of impairment loss of RMB122,000 was made in the prior year (2019: nil), as certain property, plant and equipment which was fully impaired in previous years was put into use.

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

10. RIGHT-OF-USE ASSETS

	Leasehold land *RMB'000*	Buildings *RMB'000*	Machineries *RMB'000*	Total *RMB'000*
As at 1 January 2019				
Carrying amount	622,362	75,721	-	698,083
As at 31 December 2019				
Carrying amount	628,384	354,422	89,106	1,071,912
For the year ended 31 December 2019				
Depreciation for the year	14,531	96,288	1,916	112,735
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16				23,370
Expense relating to leases of low-value assets, excluding short-term leases of low value assets				1,448
Total cash outflow for leases				165,997
Additions to right-of-use assets				482,451

The Group leases various buildings, machinery and leasehold land for its operations. Lease contracts are entered into for fixed term of 1 year to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for certain building premises and other property, plant and equipment.

11. INVESTMENT PROPERTIES

	RMB'000
CARRYING VALUES	
At 1 January 2018	16,049
Depreciation during the year	(1,195)
At 31 December 2018	14,854
Depreciation during the year	(1,194)
At 31 December 2019	13,660

12. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Equity instruments at FVTOCI

	2019	2018
	RMB'000	*RMB'000*
Unlisted shares	**281,181**	141,255
Listed shares	**69,559**	37,429
	350,740	178,684

These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

Unlisted shares

During the current year, the Group acquired certain equity interests in a company engaged in producing high technology products, at a consideration of RMB92,696,000.

In prior year, the Group invested in an investment vehicle holding equity interests in a company engaged in producing semiconductor components in integrated circuits and development of intellectual properties, for a consideration of RMB100,000,000. As at 31 December 2019, the fair value of the investment determined by market approach was RMB120,983,000.

Listed shares

The amount represents the Group's investment in a company listed in Japan. As at 31 December 2019, the fair value of the investment determined by reference to the quoted market bid prices available was RMB69,559,000.

12. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - continued

(ii) Financial assets at FVTPL

	2019	2018
	RMB'000	*RMB'000*
Listed shares - AMS	**-**	22,426

The amount represents the Group's investment in AMS AG ("AMS"). AMS is a Swiss listed company incorporated in Austria and is engaged in the manufacturing of sensor and analogy solutions.

During the current year, all AMS shares were disposed in the market for an aggregate proceed of RMB41,804,000 (2018: RMB737,374,000). A gain on changes in fair value on the AMS shares of RMB19,234,000 (2018: fair value loss of RMB118,881,000) has been recognised in the profit or loss.

13. DERIVATIVE FINANCIAL INSTRUMENTS

	2019	2018
	RMB'000	*RMB'000*
Derivatives financial assets - under hedge accounting		
Interest rate swap contracts	**-**	11,153
Derivatives financial liabilities - under hedge accounting		
Interest rate swap contracts	**15,812**	998

The Group entered into the interest rate swap contracts with commercial banks 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 management considers 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 loss of RMB25,632,000 for the year ended 31 December 2019 (2018: gain of RMB5,717,000) have been recognised in OCI and accumulated in equity. The management expected the accumulated sum is to be released to profit or loss at various dates in the coming maturity periods after the reporting period.

13. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Included in borrowings as disclosed in note 17 were bank loans of RMB1,395,242,000 (2018: RMB1,372,639,000) which were under cash flow hedges and the major terms of the interest rate swap contracts under cash flow hedges at the end of the reporting period are as follows:

Notional amount	Maturity	Swaps
US$100,000,000	7 September 2022	From LIBOR* to fixed 1.9%
US$100,000,000	7 September 2022	From LIBOR* to fixed 2.52%

* 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 2019 is Level 2 under the fair value hierarchy (details set out in note 23).

14. TRADE AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**4,177,967**	3,172,752
Bank acceptance and commercial bills	**167,339**	196,261
	4,345,306	3,369,013
Prepayments	**314,203**	307,409
Value-added tax recoverable	**768,098**	520,685
Other receivables	**127,029**	246,325
Loan receivables and interest*	**21,400**	30,781
	5,576,036	4,474,213

* Loans of RMB20,500,000 (2018: RMB30,000,000) made to certain suppliers of the Group are secured, and carry interest rates at 4.35% (2018: 4.35%) per annum. The amounts are repayable in 1 year.

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

	2019	2018
	RMB'000	*RMB'000*
Age		
0 - 90 days	**4,204,458**	3,269,316
91 - 180 days	**140,388**	94,939
Over 180 days	**460**	4,758
	4,345,306	3,369,013

14. 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.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB70,656,000 (2018: RMB60,999,000) which are past due as at the reporting date. Included in the past due balances, RMB460,000 (2018: RMB1,359,000) has been past due 90 days or more and is not considered as in default based on good repayment records for those customers and continuous business with the Group.

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:

	2019	2018
	RMB'000	*RMB'000*
US$	**77,704**	134,522
Euro	**243**	211

15. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

<u>Trade and other payables</u>

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**2,838,031**	2,057,992
Notes payables - guaranteed	**1,122,915**	1,161,347
	3,960,946	3,219,339
Payroll and welfare payables	**547,060**	546,905
Payables for acquisition of property, plant and equipment	**450,655**	341,675
Other payables and accruals	**515,455**	440,321
	5,474,116	4,548,240

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

15. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES - continued

Trade and other payables - continued

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

	2019	2018
	RMB'000	*RMB'000*
Age		
0 - 90 days	**3,346,891**	2,593,244
91 - 180 days	**599,632**	618,059
Over 180 days	**14,423**	8,036
	3,960,946	3,219,339

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:

	2019	2018
	RMB'000	*RMB'000*
US$	**548,346**	652,488
Japanese Yen	**25,144**	19,803
Euro	**7,038**	3,553

Contract liabilities

	2019	2018
	RMB'000	*RMB'000*
Contract liabilities on sales of miniaturised components	**10,271**	8,673

Included in the contract liabilities at 31 December 2018, a balance of RMB2,055,000 was recognised as revenue in the current year.

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit. For a small number of the Group's customers, the Group receives a deposit ranging from 30% to 100% on acceptance of manufacturing orders.

16. LEASE LIABILITIES

	31.12.2019
	RMB'000
Lease liabilities payable:	
Within one year	**96,742**
Within a period of more than one year but not more than two years	**90,260**
Within a period of more than two years but not more than five years	**119,180**
Within a period of more than five years	**100,892**
	407,074
Less: Amount due for settlement with 12 months shown under current liabilities	**96,742**
Amount due for settlement after 12 months shown under non-current liabilities	**310,332**

The lease agreements did not contain any contingent rent for leasee.

No extension options are included in all lease agreements entered by the Group. The incremental borrowing rates applied is 4.46%. These lease liabilities were measured at the present value of the lease payments that are not yet paid.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	EUR	SGD	JPY
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2019	**52,217**	**5,563**	**14**

17. BANK LOANS

	2019	2018
	RMB'000	*RMB'000*
Bank loans	**5,725,699**	5,920,361
Less: Amount due within one year included in current liabilities	**1,876,094**	3,492,507
Amount due after one year	**3,849,605**	2,427,854
Bank loans are repayable as follows:		
Within one year	**1,876,094**	3,492,507
After one year but within two years	**2,296,001**	626,660
After two years but within five years	**1,253,604**	1,801,194
After five years	**300,000**	-
	5,725,699	5,920,361

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

	2019	2018
	RMB'000	*RMB'000*
US$	**683,188**	737,977
HK$	**241,851**	236,636
RMB	-	199,994

The Group's variable loans carry interest at London Interbank Offered Rate ("LIBOR") plus a certain basis point adjustment.

The variable rate bank loans carry interest rate ranging from 3.61% to 4.21% per annum (31 December 2018: 3.19% to 3.74% per annum). The fixed rate bank loans carry interest rate ranging from 3.20% to 4.90% per annum (31 December 2018: 2.90% to 4.75% per annum). The Company issued guarantees to respective banks to secure these borrowings.

18. UNSECURED NOTES

The amount represents US$388,000,000 unsecured notes at a fixed coupon rate of 3.0% per annum, payable semi-annually in arrears. The unsecured notes are listed on the Stock Exchange. The effective interest rate of the unsecured notes is 3.15% per annum. The principal amount of the unsecured notes will mature in November 2024.

19. GOVERNMENT GRANTS

During the year, the Group received government grants of RMB142,178,000 (2018: RMB46,244,000) in aggregate from various PRC government authorities as an incentive for leasing factories, constructing electronic plants and acquiring machineries. The amount received is to be amortised and released to profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs.

During the year, RMB51,019,000 (2018: RMB15,627,000) of the grants have been released to profit or loss.

20. DEFERRED TAX LIABILITIES

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

	Intangible assets *RMB'000*	PRC withholding tax on undistributed earnings *RMB'000*	Total *RMB'000*
At 1 January 2018	22,430	23,522	45,952
Acquisition of a business	28,450	-	28,450
Credited to profit or loss	(2,758)	-	(2,758)
Currency realignment	25	-	25
At 31 December 2018	48,147	23,522	71,669
Credited to profit or loss	(3,533)	(2,845)	(6,378)
Currency realignment	101	-	101
At 31 December 2019	44,715	20,677	65,392

At 31 December 2019, 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 management to retain the earnings within these subsidiaries.

At the end of the reporting period, certain subsidiaries of the Group has unused tax losses of RMB1,507,528,000 (2018: RMB1,121,048,000) available for offset against future profits. These losses may be carried forward for five years to year 2024 (2018: year 2023) 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.

21. SHARE CAPITAL

	Number of shares	Amount *US$'000*
Shares of US$0.01 each		
Authorised:		
Ordinary shares at 1 January 2018, 31 December 2018 and 31 December 2019	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1 January 2018	1,222,000,000	12,220
Shares repurchased and cancelled	(4,000,000)	(40)
Ordinary shares at 31 December 2018	1,218,000,000	12,180
Shares repurchased and cancelled	(9,500,000)	(95)
Ordinary shares at 31 December 2019	1,208,500,000	12,085

	RMB'000
At 1 January 2018	99,231
Shares repurchased and cancelled	(325)
At 31 December 2018	98,906
Shares repurchased and cancelled	(771)
At 31 December 2019	98,135

During the year, the Company repurchased a total of 7,500,000 issued ordinary shares of the Company in the market for a consideration of HK$319,854,000 (equivalent to approximately RMB277,456,000). 9,500,000 ordinary shares were cancelled during the year ended 31 December 2019, including 2,000,000 ordinary shares which were repurchased in the previous years.

22. OPERATING LEASE COMMITMENTS

The Group as a lessee

The Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 *RMB'000*
Within one year	65,422
In the second to fifth year inclusive	29,658
	95,080

22. OPERATING LEASE COMMITMENTS - continued

The Group as a lessee - continued

Operating lease payments represent rental payable by the Group for certain building premises, machineries, etc. Leases are negotiated and rentals are fixed for a lease term of 1 to 5 years.

The Group as a lessor

The property held for rental purposes have committed lessees for the next 4 years.

Minimum lease payments receivable on leases are as follows:

	2019
	RMB'000
Within one year	**14,358**
In the second year	**15,220**
In the third year	**15,220**
In the fourth year	**8,067**
	52,865

The Group had contracted with lessee for the following future minimum lease payments:

	2018
	RMB'000
Within one year	14,358
In the second to fifth year inclusive	52,865
	67,223

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

<u>Fair value of the Group's financial instruments that are measured at fair value on a recurring basis</u>

Some of the Group's financial instruments 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 instruments 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).

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

Fair value of the Group's financial instruments that are measured at fair value on a recurring basis - continued

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input (s)	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
	2019	2018				
	RMB'000	*RMB'000*				
Interest rate swap contracts	**- Assets (under hedge accounting)**	11,153 Assets (under hedge accounting)	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.	N/A	N/A
Equity instruments at FVTOCI - Listed shares	**69,559**	37,429	Level 1	Quoted bid prices in an active market.	N/A	N/A
Financial assets at FVTPL - Listed shares	-	22,426	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity instruments at FVTOCI - Unquoted equity investments	**6,920**	12,409	Level 3	Income approach. The discounted cash flow method was used to capture future economic benefits to be derived from the ownership of these investments.	Discount rate, taking into account of weighted average cost of capital determined using a Capital Asset Pricing Model.	The higher the discount rate, the lower the fair value, and vice versa.
					Forecasted future cash flows.	The higher the forecast cash flow, the higher the fair value, and vice versa.
Equity instruments at FVTOCI - Unquoted equity investments	**92,696**	-	N/A (Note)			
Equity instruments at FVTOCI - Unquoted equity investments	**181,565**	128,846	Level 3	Market approach. The market approach was used to determine the valuation using trailing-twelve-month ("TTM") Price-to-Sales ("P/S") multiples of selected comparable listed companies in a similar business and similar business model and adjusted for the lack of marketability.	The lack of marketability discount.	The higher the lack of marketability discount, the lower the fair value.
					TTM P/S multiples of selected comparable companies.	The higher the TTM P/S multiples, the higher the fair value.

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

Fair value of the Group's financial instruments that are measured at fair value on a recurring basis - continued

Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input (s)	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
	2019	2018				
	RMB'000	*RMB'000*				
Interest rate swap contracts	**15,812 Liabilities (under hedge accounting)**	998 Liabilities (under hedge accounting)	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.	N/A	N/A

Note: The investment was made near the end of reporting period, the management is of the opinion that the fair value of the investment as at 31 December 2019 approximately to the acquisition cost.

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

Reconciliation of level 3 fair value measurements

	Equity instruments at FVTOCI
	RMB'000
At 1 January 2018	27,243
Purchase made	100,000
Fair value changes on equity instruments at FVTOCI	12,152
Currency realignment	1,860
At 31 December 2018	141,255
Purchase made	92,696
Fair value changes on equity instruments at FVTOCI	46,607
Currency realignment	623
At 31 December 2019	281,181

24. EVENTS AFTER REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus ('COVID-19') in PRC and the subsequent quarantine measures and travel restrictions imposed in early 2020 by the PRC government had impacted on the full resumption of China's operations of the Group at that initial phase. The Group had since, for all its operating locations, implemented hygiene and work resumption policies and procedures in accordance to the government regulations and guidelines. As of to date, the Group has already resumed a normal operation according to the production plan.

As at time of writing, global markets have continued experiencing significant turmoils. Global restrictions of business operations, logistics, social and trading activities are causing economic slowdowns in the first half of 2020, and may extend beyond that. This period of recession of weak consumer sentiment and dampened smartphones demand will adversely impact short to medium-term financial performance of the Group.

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 2019, 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 2019 conducted an evaluation of its performance, reviewed the Company's policies and practices with regard to Segregation of Duties between Chairman & CEO, Nomination, Board Diversity, 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 sixth annual Sustainability Report for the year ended 31 December 2018 in April 2019. 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 strategic, market, financial, operational and compliance risks. The framework enables us to adopt a proactive and structured approach to identifying and managing risks across the organization with on-going monitoring and review. Our Board, acting through the Audit and Risk Committee in the first instance, is responsible for overseeing and evaluating management in the design, implementation and maintaining a sound and effective risk management and internal control systems 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 2019. 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 2019. 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 2019.

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 2019 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 audit, 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 the internal audit plans, the effectiveness of the independent professional firm's internal control assessment and its co-sourcing arrangement with the internal audit 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 2019, and was satisfied that they were adequate and effective for the 2019 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. We believe that the engagement of an independent professional firm, since 2018, has brought additional expertise in the risk assessment process. The various projects co-sourced with the external professional firm to assist internal audit for reviewing and evaluating internal controls in several key management processes have completed and the refinement recommendations are constructive. The Company will be considering the extension of the co-sourcing arrangement.

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 14 April 2020:

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

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

Sustainable development is one of the core values of the Group. The CEO and the Board oversee execution of the Group's sustainability strategy as part of the oversight of business strategy and risk management. The Group's ESG management approach is coordinated by a suite of leaders across the Group with deep expertise in related subjects: strategic development, environmental management, health and safety, green products, quality assurance, human resources, investor relations and corporate social responsibility.

Subsequent to the financial year end, the Group has strengthened the governance structure further by establishing a Sustainability Working Group ("SWG") with clear roles and responsibilities defined. Reporting to the board directly, the SWG is responsible for identifying key improvement areas for ESG and advising the Board on the effective management of the Group's sustainability risks. The terms of reference of the SWG is to be established, laying out its purpose, membership and responsibilities, joining the forces of relevant departments in managing sustainability topics.

In our full seventh sustainability report, issued separately, we provide a clear articulation of the progress along our sustainability journey.

For ongoing improvement in transparency and data integrity, in this reporting period, we have expanded the reporting boundary to include when the new production facility is up and running, optimised the sustainability data collection management system and widened the scope of third-party verification.

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. 19,940,250 shares as at 25 March 2020 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. 6,042,500 shares as at 25 March 2020 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 2019, 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 annual general meeting (the "AGM") on 24 May 2019, 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").

During the year ended 31 December 2019, the Company had repurchased, under the Repurchase Mandate, a total of 7,500,000 shares, representing approximately 0.62% of the issued 1,218,000,000 shares as at 31 December 2018. The aggregate consideration of HK$319.9 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)*
January 2019	3,500,000	46.90	40.20	152,154
May 2019	4,000,000	42.50	41.75	167,700

Note*:*

(1) Including brokerage, transaction levy, stamp duty and transaction cost of HK$743,000.

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 2019.

HUMAN RESOURCES

As at 31 December 2019, the Group employed 39,385 permanent employees, 9% increase from 35,995 employees as at 31 December 2018, mainly due to the expanded production in Nanning and Vietnam. Although there was an increment in employee size, the actual output and productivity per employee had further improved due to the Group's past and continuous effort on implementation of automation.

Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. Management from time to time 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 its employees in Hong Kong, Taiwan, Singapore, South Korea, Japan, India, Vietnam, the United Kingdom, the Philippines, the US, Denmark, Finland and the Czech Republic.

The Company is committed to invest in talents to develop innovative products for next generation designs. The Company has already established and continues to expand its various R&D centers in Asia, Europe and North America, including a long-established collaboration with universities, and others, on many different projects. The R&D center in Hong Kong Science Park is in operation.

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 for Securities Transactions by Directors of Listed Issuers ("Model Code") as mentioned in Appendix 10 to the Listing Rules.

On specific enquiries made, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding the Directors' securities transactions during the year ended 31 December 2019.

CLOSURES OF REGISTER OF MEMBERS

For attending and voting at the annual general meeting

The registers of members of the Company will be closed from 12 May 2020 to 15 May 2020, 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 11 May 2020.

DESPATCH OF ANNUAL REPORT

The Company's annual report containing the Directors' report and consolidated financial statements for the year ended 31 December 2019 will be published on the Company's website at www.aactechnologies.com and the website of the Stock Exchange on or around Tuesday, 14 April 2020.

The annual report and the notice of AGM will be dispatched to Shareholders on or around Tuesday, 14 April 2020. 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, 25 March 2020

瑞聲科技控股有限公司
AAC TECHNOLOGIES HOLDINGS INC.
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2018)

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

Executive Directors:	Mr. Pan Benjamin Zhengmin Mr. Mok Joe Kuen Richard
Independent Non-executive Directors:	Mr. Koh Boon Hwee Mr. Au Siu Cheung Albert Mr. Zhang Hongjiang Mr. Poon Chung Yin Joseph Mr. Kwok Lam Kwong Larry Mr. Peng Zhiyuan
Non-executive Director:	Ms. Wu Ingrid Chun Yuan