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)

# RESULTS ANNOUNCEMENT
# FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 together with the comparative figures for the corresponding period in 2019.

These consolidated financial statements have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu and the Company's audit and risk committee and approved by the Board on 25 March 2021.

## 2020 FINAL RESULTS HIGHLIGHTS:

| *(RMB Million)* | **2020** | 2019 | *YoY%* | **Q4 2020** | Q4 2019 | *YoY%* |
|---|---|---|---|---|---|---|
| Revenue | **17,140** | 17,884 | *-4.2%* | **4,783** | 5,305 | *-9.8%* |
| Gross Profit | **4,227** | 5,107 | *-17.2%* | **1,342** | 1,539 | *-12.8%* |
| *Gross Profit Margin* | ***24.7%*** | *28.6%* | *-3.9ppt* | ***28.1%*** | *29.0%* | *-0.9ppt* |
| Net Profit* | **1,507** | 2,222 | *-32.2%* | **756** | 757 | *-0.1%* |
| *Net Profit Margin* | ***8.8%*** | *12.4%* | *-3.6ppt* | ***15.8%*** | *14.3%* | *1.5ppt* |
| Basic EPS (RMB) | **1.25** | 1.84 | *-32.1%* | **0.63** | 0.63 | *-0.1%* |
| Share Numbers (Weighted average, million) | **1,209** | 1,210 | | **1,209** | 1,209 | |

* Net profit represents profit attributable to owners of the Company.

2020 was a year with many challenges as well as opportunities. Although we have encountered fast-changing external market conditions, we actively face the challenges and work to improve our core competencies, maintaining the current market shares while capturing opportunities for new business development. The optics business has started to contribute more to top line after years of development. This segment's planned spin-off listing is underway to achieve an independent financing platform. It is expected to set an example for our new business development. Looking forward, we'll continue to look for new opportunities to diversify our business areas, further facilitated by resources from capital markets to enhance the Group's overall value.

AAC Technologies is committed to transcend acoustics field and develop a value creation pathway beyond hardware products, so as to become the world's leading solution provider for diversified user experiences. In order to accomplish this vision, we have been strengthening our research and development ("**R&D**") capability in new products and enhancing customer's satisfaction, to maintain our leadership position in the highly competitive market, stay at the forefront of technology development, as well as lead the industry development and enhancement of end users' experience through innovation and technology. In addition, we will continue to improve our operational management capabilities and manufacturing efficiency so as to provide a solid foundation for high quality product delivery, ensuring our long term goals could be achieved.

With the assistance of a world's top consulting firm, the Company has commenced a transformation covering reorganization of its management and business operation. We'll focus on improving the capabilities of our key talents to support the Company's diversified business development. The Group will adapt to the rapid pace of industry development through efficient and optimized group structure and closed-loop management model, as well as promoting further growth of teams and the overall organisation.

The Group will adhere to the core concept of talent winning, and will continue to put "talent" as our first priority. Whilst attracting external talents, we also support AAC Technologies' employees to pursue their career aspirations, and inspire talents' potential to pursue excellence and innovation. All teams work closely across different business segments to improve productivity per capita and to improve management capabilities and efficiency, contributing to the Group's higher production and value output.

On behalf of the Company's management team, we thank our shareholders for their support. And to our staff we would like to express our gratitude for their service and perseverance during challenging time. In the future, the Group will remain committed to the objective of "leading innovation and enhancing user experience". Meanwhile, we will work diligently with all colleagues, to proactively promote sustainable development of the Group, improve customer satisfaction, enhancing user experience and delivering long-term stable returns to our shareholders.

## MARKET REVIEW

Due to the COVID-19 pandemic, overall global smartphone shipments declined by 5.9% year-on-year ("**YoY**") to 1.29 billion units in 2020, according to International Data Corporation report. The YoY decline was expanded compared to that of 2.3% in 2019, as a result of the pandemic and the shortage of chips and other components, which affected the Group's revenue in 2020.

Meanwhile, 5G continues its strong growth trend globally. With higher penetration rate of 5G smartphones, smartphone shipment is expected to grow steadily. The popularity of innovative applications in the advent of 5G era will lead to new upgrade trends in hardware. Leveraging on the leading position in miniaturized technology and precision manufacturing, the Group will optimize its product portfolio to further enhance production efficiency and maximize returns for our shareholders.

## BUSINESS REVIEW

For the year under review, the Group’s total revenue decreased by 4.2% YoY to RMB17.14 billion. Gross profit margin was 24.7%. Net profit for the year amounted to RMB1.51 billion, decreased by 32.2% YoY, mainly due to the impact on the supply chain resulting from the pandemic in the first half of the year. Total revenue for the fourth quarter of 2020 ("**Q4 2020**") dropped by 9.8% YoY to RMB4.78 billion. Contributed by improvement in operation efficiency and cost control, as well as ongoing optimization of the product portfolio, the gross profit margin for the quarter improved by 4.5 percentage points ("**ppts**") as compared with the third quarter of 2020 ("**Q3 2020**") to 28.1%. Net profit for Q4 2020 was RMB756 million, increased by 75.7% as compared with Q3 2020, indicating a good recovery momentum.

Prudent financial management is essential to the sustainable development of the Group. As at the end of 2020, the Group had cash and bank balances of RMB7.54 billion and maintained a healthy net gearing ratio of 2.2%. The Group’s capital expenditure was RMB5.09 billion.

The Board proposed to declare a final dividend of HK$0.20 per share for 2020 (no final dividend was paid due to the COVID-19 pandemic at the end of 2019). Together with an interim dividend already paid on 25 September 2020, total dividend for 2020 amounted to HK$0.30 per share (2019: HK$0.40 per share), with a dividend payout ratio of 20%.

During the year under review, satisfactory progress has been made across the Group's main business segments. With respect to the optics segment, plastic lens products have continued to capture market share, and high-end projects have achieved good progress. As a result, gross profit margin has been continuing its sequential uptrend. The Wafer-level Glass ("**WLG**") 1 Glass 5 Plastic hybrid lens projects have commenced mass production and shipment in the first quarter of 2021, and higher-end products projects are under close collaboration with customers. With respect to the acoustics segment, it was underpinned by enhanced management efficiency, the gross profit margin of Android acoustic products has improved significantly. The launch of the standardized small cavity speaker module in 2021 has helped to optimize the cost structure and thereby further enhanced the profitability of the acoustics business. With respect to electromagnetic drives, the Group's x-axis haptic motors have been successfully launched in the Android market, covering high-tier Android flagship models. Looking forward to 2021, the Group plans to continuously and actively penetrate the mid- and low-tier Android models market, with its products and shipment volume expected to continue their healthy growth trend. With respect to the MEMS segment, the shipment volume of MEMS microphones had a significant YoY growth in 2020. Its MEMS products currently cover full range of mid- and high-tier products. The Group aims to continuously penetrate into the respective markets and gain market share via distribution channels in 2021.

The Group's optics business has completed two rounds of strategic investment exercises in 2020. The Group received approval from The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on 11 February 2021 that the Company may proceed with the proposed spin-off by way of separate listing of the optics business on a stock exchange in the People's Republic of China ("**PRC**") under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**"). According to the public notice made by the Jiangsu Province Regulatory Bureau of the Chinese Securities Regulatory Commission on 26 February 2021 at its official website, the application for pre-listing tutoring process in connection with the proposed spin-off and separate listing of the optics business was acknowledged receipt on 1 February 2021. Going forward, the optics business is expected to capitalize on the resource advantages of its strategic investors as well as capital market forces to boost its development and strategy. It will actively motivate its senior management and core members while attracting high-caliber talents, with the aim of continuous upgrading of the optics industry. It is also expected to accelerate the marketization of optics business segment and gradually establish independent capital market platform to push for a sustainable growth while further improving the Group's overall value.

## BUSINESS SEGMENTS

**Optics Business**

In Q4 2020, the optics business expanded its market share, and its revenue surged by 57.3% YoY to RMB536 million. As the segment's capacity utilization rate and yield have continued to improve, its gross profit margin increased notably to 21.4%, and gross profit margin of plastic lens business reached 28.0%. In 2020, optics revenue was RMB1.63 billion, with a growth of 52.7% compared to that of previous year.

In Q4 2020, the market share of the Group's plastic lens business expanded steadily with monthly product output reaching 70 to 80 million units. The Group will keep optimizing product structure of the plastic lens business in 2021. The proportion of 6P or above high-end plastic lens is expected to increase continuously, and samples of 7P plastic lens is expected to be sent to customers during the first half of 2021, helping to raise the average selling price ("**ASP**") and enhancing competitiveness of the lens business. With regard to the targeted customer portfolio, the Group has achieved a breakthrough in the high-end Android smartphone models business and has entered the selection stage of various flagship smartphones. The Group has smoothly expanded its overseas Android customer base, facilitating the high-end transformation of the plastic lens business. The Group's production yield and management efficiency have continued to improve and the gross profit margin of the plastic lens business has reached 28.0% in Q4 2020. The Group will continue to optimize its costs, and its gross profit margin is expected to improve in 2021.

The WLG hybrid lens business has also been progressing smoothly. The shipment of the first project in 2021 was completed in the first quarter. To complement the upgrade of optic products with greater aperture, the light intake and image resolutions performance of the 1Glass 6 Plastics hybrid lens designed by the Group have been improved 15% and 5% respectively, and their overall thickness has been reduced for 5% to 10% compared with plastic lenses of the same specifications. Regarding production technology, the Group's mold pressing production capacity and efficiency will be improved significantly following the completion of its Chongqing plant in 2020 and the commencement of mass production at its Czech plant in the middle of 2021. This is expected to not only enhance the shipment efficiency of WLG hybrid lens projects, but also reduce costs through optimization of costs. In addition, the Group is actively promoting projects of hybrid lens with two or more pieces of WLG lenses, aiming to further improve light intake and providing strong support for high-end transformation of optic lens.

As a business strategy for the Group, the camera module business is considered to be valuable for promoting the optics business and providing a holistic optical solution to customers. Mass production and shipments were on track in Q4 2020. Going forward, the camera module business is expected to enable the Group to further strengthen its capability for vertical integration and enhance the value-added services of the optics business. Meanwhile, the Group is collaborating with other module business partners to better understand customers' requirements in terms of optics upgrade and to jointly improve performance of products as well as mass production capabilities in order to provide a better consumer experience.

**Acoustics Business**

In Q4 2020, the revenue of the acoustics business was RMB2.07 billion, representing a YoY decline of 7.6%. Gross profit margin increased by 1.6 ppts YoY and 5.2 ppts as compared with Q3 2020, respectively, to 31.9%. In 2020, the revenue from the acoustics business was RMB7.56 billion with gross profit margin at 27.9%, representing a decrease of 3.1 ppts YoY.

In Q4 2020, the market share of acoustic products remained stable. Due to the decline in global shipments of Android smartphones affected by the shortage of chips, the Group's Android acoustic product shipment volumes reported a YoY decline and its acoustics revenue was affected. However, owing to the Group's efforts in implementing management operational reforms and effective cost control measures, the overall gross profit margin of the acoustics segment improved to 31.9%. The Group is planning to launch standardized small cavity speaker modules in 2021. Contributed by the Group's established R&D capabilities in acoustic structures, materials, algorithms and precision manufacturing, the product size can be reduced by 20% to 30% in order to meet the demand for lighter and thinner smartphones while maintaining high sound quality. This is expected to further raise technological barrier of the industry. The proportion of small speaker modules is expected to increase to 30% of the Group's Android acoustic shipments by the end of 2021. In addition to the increase in shipment volumes, standardized products are expected to effectively reduce the number of product models and improve the capacity utilization rate. As a result, it is expected to lower the cost arising from the modification of production lines with the adoption of platform-based and automation methods. This is expected to achieve cost structure optimization and improve profitability of the acoustics business.

In addition, the more compact design of small cavity speaker modules is expected to accelerate the market trend of 5G smartphones equipped with stereo sound and multi-track solutions. These solutions are expected to increase the number of acoustic modules in one smartphone, and hence increase the value of acoustics products per phone. Currently, stereo sound becomes a standard feature of flagship smartphones, and this feature is expected to be extended to mid-to-low end smartphone models by 2022. The multi-track function is also expected to be adopted by foldable smartphones and high-end tablets so as to offer excellent base sound and an immersive user experience. Moreover, the Group is expected to capitalize on its acoustic platforms to integrate R&D capabilities such as in algorithms to customize higher-end acoustics speaker modules and provide a premium acoustic experience to consumers.

**Electromagnetic Drives and Precision Mechanics Business**

In Q4 2020, the combined revenue derived from the sale of electromagnetic drives and precision mechanics segments steadily rebounded by 26.5% from Q3 2020 to RMB1.92 billion. Gross profit margin rebounded by 7.7 ppts as compared with Q3 2020 to 27.7%. During the year under review, the Group has successfully promoted its x-axis haptic motors to Android flagship models. Shipment volumes from the precision mechanics segment also recovered in Q4 2020. By flexibly allocating production capacity and increasing the production utilization rate, the gross profit margin of the precision mechanics segment showed an obvious recovery on a quarterly basis. In 2020, the combined revenue of the segments fell by 11.0% to RMB6.85 billion compared to the same period last year, while the combined gross profit margin decreased by 5.9 ppts YoY to 23.8%.

**Electromagnetic Drives**

This segment remained stable in Q4 2020. Total shipment volumes of x-axis haptics increased steadily YoY. Benefiting from the Group's patents in electromagnetic drives and competitive capabilities in automatic manufacturing, this segment's gross profit margin remained at a healthy level. In 2020, 20 million haptics for Android models were shipped. The Group has successfully promoted its x-axis haptics to Android market, which is now covering all Android high-end flagship models. For 2021, the Group plans to further penetrate its products into low- to mid-tier Android models, hence the shipment volume is expected to maintain a fast growth.

Over the years, consumers' recognition on the Group's x-axis haptics has been increasing. Haptics with agile screen tactile feedback offer a better user experience, thus making it more entertaining and fun to use smartphones. It has become a major selling point of high-end smartphones in recent years. The Group's x-axis haptics have merits such as low noise, fast start up and shut down, as well as agile feedback, thus delivering rich human-computer interactive experiences to consumers. During the year under review, the Group's x-axis haptics successfully penetrated into all Android high-tier flagship models and began to enter mid-tier models as well. Currently, the Group is in a close collaboration with smartphone manufacturers and game developers to promote the products, in order to enrich the tactile experience from the perspective of consumers thereby increasing their recognition for the products.

In 2021, the Group will launch different haptic solutions. It also plans to offer full electromagnetic drive solution of "algorithm + hardware" to customers, in order to strengthen customer loyalty to our brand and expand our market reach.

**Precision Mechanics**

In Q4 2020, the Group's precision mechanics segment showed a strong recovery as its major customers experienced a recovery in shipment volume as well as greater production efficiency was achieved resulting from optimization of the organizational structure. The shipment volumes and revenue from metal casings improved against previous quarter. Benefiting from the flexible adjustment of production capacity and effective cost control, the production utilization rate of this segment has increased, resulting in notable improvement in gross profit margin as compared with Q3 2020. With advanced production capabilities in precision mechanics, the Group's metal casing segment has gained leading market shares in Android flagship models and high-end smartphones. In response to an uncertain external environment, the Group is proactively expanding into different product markets. At the moment, the Group has successfully entered notebook and tablet metal mechanics markets, which is expected to result in higher production utilization and better adjustment of business risk. In addition, the Group has developed various wireless charging technologies, which are expected to generate revenue in the future.

**MEMS Business**

The Q4 2020 revenue of MEMS segment remained stable with a slight decrease of 1.1% to RMB257 million. The gross profit margin decreased by 11.5 ppts to 17.8% YoY. In 2020, its revenue increased by 16.6% YoY to RMB1.08 billion, which was mainly attributable to a change in product structure among its major customers. Its gross profit margin also dropped by 10.0 ppts from the previous year to 17.5%.

The number of MEMS microphones installed per smartphone increased along with the improvement in speech interaction technology in recent years. The increasing popularity of wearables in the non-smartphone sectors and smart home appliances has also facilitated rapid market growth, and such increasing trend is expected to continue. To meet rising market demand, the Group expanded the production capacity for MEMS microphones during the year under review. Consequently, shipment volumes of these products have increased notably compared to last year. The Group has also successfully entered the Internet of Things ("**IoT**") product segments via deployment of a distribution model including automotive markets. Our MEMS microphones have already supplied to top-tier car manufacturers. The Group will continue to extend its products into true wireless stereo ("**TWS**") earphones, smart speakers and tablets and will continue to facilitate greater market penetration. Currently, the Group's MEMS microphones have covered a full range of products from low-tier and mid-tier to high-tier segments. Going forward, this segment is expected to steadily expand production capacity based on market demand, so as to contribute more revenue to the Group.

## FINANCIAL REVIEW

### Revenue

2020 Group revenue declined YoY by 4.2%, to RMB17.1 billion. Owing to factors discussed under the section headed "Business Review" above, revenue from the electromagnetic drives and precision mechanics and acoustics decreased by RMB847 million and RMB607 million respectively, whilst optics revenue increased by RMB564 million, compared with 2019.

### Gross Profit and Gross Profit Margin

2020 gross profit was RMB4.2 billion, representing a decrease by 17.2%, from the gross profit of RMB5.1 billion in 2019. The drop in gross profit was primarily due to the reduction in revenue and gross profit margin. Gross profit margin decreased to 24.7% in 2020 as compared with 28.6% in 2019. 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 2020 were RMB672 million, 4.5% higher, compared with RMB643 million in 2019.

### Distribution and Selling Expenses

Distribution and selling expenses of RMB285 million in 2020, slightly increased by 3.7%, compared with RMB275 million in 2019.

### Research and Development Expenses

Research and Development expenses in 2020 were RMB1,920 million, 11.8% higher than RMB1,717 million in 2019. 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 2020 amounted to RMB353 million, representing an increase of 42.0% compared with RMB248 million in 2019. Such increase in finance costs was mainly due to the additional interest on unsecured notes accompany with the issuance of unsecured notes US$388 million in November 2019 at annual interest rate 3%.

### 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 2020 amounted to RMB147 million, representing a decreased of 55.6% from RMB330 million in 2019. While the effective tax rate has decreased 4.0 ppts compared with that of 2019, the decrease was due to: i) deferred tax assets RMB95 million recognized during the year; and ii) the different taxation status of our Chinese operating subsidiaries, which was temporary in nature.

### Net Profit and Net Profit Margin

Reported net profit for 2020 was RMB1.51 billion, a decline by 32.2% compared with RMB2.22 billion in 2019. The decline was due to decline of gross profit margin, together with higher R&D costs incurred during the period contributed to the adverse 3.6 ppts decrease in net profit margin to 8.8%.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group has always emphasized financial discipline and continues to maintain a strong liquidity position. Cash flows from (used in) our operating, investing and financing activities, are as below:

| | **For the year ended 31 December** | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB million*** | *RMB million* |
| Net cash from operating activities | **3,592.6** | 3,843.5 |
| Net cash (used in) investing activities | **(3,262.1)** | (3,394.6) |
| Net cash from financing activities | **2,582.2** | 255.0 |

### 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 RMB3,592.6 million for 2020 (2019: RMB3,843.5 million).

### *i. Trade Receivables and Payables*

As at 31 December 2020, turnover days of trade receivables increased by 5 days to 84 days as compared to 31 December 2019. Trade receivables decreased by RMB826 million to RMB3.5 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 RMB3,200.9 million (31 December 2019: RMB4,204.5 million), RMB318.7 million (31 December 2019: RMB140.4 million) and RMB0 million (31 December 2019: RMB0.4 million) respectively. The Company has received subsequent settlement totaling RMB2,028.4 million up to 28 February 2021, representing 57.6% of the total amount outstanding, net of allowances, as at the end of the reporting period.

The Group's trade payables turnover days increased by 5 days to 108 days as compared to 31 December 2019. Aging of trade payables based on invoice dates between 0–90 days, 91–180 days and over 180 days were RMB2,917.5 million (31 December 2019: RMB3,346.9 million), RMB747.5 million (31 December 2019: RMB599.6 million) and RMB20.1 million (31 December 2019: RMB14.4 million) respectively.

### *ii. Inventory Turnover*

As at 31 December 2020, the inventories have increased by RMB331 million compared to 31 December 2019. The inventory turnover days increased to 108 days for the year ended 31 December 2020 from 100 days for the year ended 31 December 2019.

## Investing Activities

Net cash used in investing activities in 2020 and 2019, amounted to RMB3,262.1 million and RMB3,394.6 million, respectively. It mainly represents the cash used in capital expenditures ("**CAPEX**") of RMB4,734.8 million (2019: RMB2,832.9 million) offsetting by the cash inflow arising from the government grant of RMB604.3 million (2019: RMB142.2 million) and the withdrawal of time deposits of RMB697.6 million (2019: RMB67.5 million), as well as the proceeds from disposal of property, plant and equipment of RMB144.9 million (2019: RMB30.8 million).

CAPEX included 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 2020 and 2019, total CAPEX incurred were RMB5,088.0 million and RMB3,032.9 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 inflow from financing activities of approximately RMB2,582.2 million for 2020. This was mainly contributed by the capital injections of RMB2,808.0 million from the strategic investors of the optics project as well as the net effect of the additional bank borrowings of RMB2,460.2 million and the bank loans repayment of RMB2,103.7 million.

### Cash and Cash Equivalents

As at 31 December 2020, the unencumbered cash and cash equivalents of the Group amounted to RMB7,540.3 million (31 December 2019: RMB4,814.4 million), of which 51.2% (31 December 2019: 18.4%) in RMB, 42.4% (31 December 2019: 76.7%) was denominated in US dollar, 3.0% (31 December 2019: 1.2%) in Euros, 1.2% (31 December 2019: 0.4%) in Japanese Yen, 1.1% (31 December 2019: 2.0%) in Hong Kong dollar, 0.6% (31 December 2019: 0.3%) in Vietnamese Dong, 0.2% (31 December 2019: 0.2%) in Singapore dollar, and 0.3% (31 December 2019: 0.8%) in other currencies.

### Gearing Ratio and Indebtedness

As at 31 December 2020, the Group's gearing ratio, defined as total loans and unsecured notes divided by total assets, was 21.6% (31 December 2019: 24.6%). Netting off cash and cash equivalents, net gearing ratio was 2.2% (31 December 2019: 10.5%).

As at 31 December 2020, the unsecured notes of the Group was RMB2,511.7 million (31 December 2019: RMB2,685.5 million), the short-term bank loans and long-term bank loans of the Group amounted to RMB3,348.5 million (31 December 2019: RMB1,876.1 million) and RMB2,543.0 million (31 December 2019: RMB3,849.6 million) respectively.

### Charges on Group Assets

Apart from bank deposits amounting to RMB92.0 million that were pledged to banks mainly in relation to materials purchase and construction work as at 31 December 2020 (31 December 2019: RMB11.1 million), no other Group assets were charged to any financial institutions.

## OFF-BALANCE SHEET TRANSACTIONS

As at 31 December 2020, the Group had not entered into any material off-balance sheet transactions.

## KEY RISK FACTORS

The Company has structured risk management and internal control systems for the management of strategic, market, operational, financial and compliance risks. In our pursuit of technology innovation, the Company is committed to building sustainable risk management and operational information systems. We focus on systematic review and upgrade of our risk and control measures in chosen business processes, benchmarking against international best practices. Such systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement or loss. Certain 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 Pertaining to the Smartphones Market

A substantial part of the Group's revenue is derived in the smartphone sector of the consumer electronics market. The overall global market for smartphones contracted in 2020 due to the global pandemic and the ensuing dampened consumer sentiment and weaker demand. Existing global restrictions and uncertain outlook related to business operations, logistics, social and trading activities may extend till year end or even beyond, and may affect our operating results and financial performance. To tackle this, the Company is continuously widening its product and technologies platforms to extend its reach to different end applications, so as to diversify the sources of revenue and profit to reduce its dependency on any single segment.

### Reliance on a Number of Key Customers

The Group's five largest customers, which accounted for 85.5% of the Group's total revenue, are all related to the 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. Nevertheless, the Group has focused on technology innovation to continuously enhance user experience meeting customers' specification upgrade needs. We have 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 7 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 providing new technology solutions. Our business continues to focus on miniature components and develop new products and technologies platforms. In meeting future design specifications and production quality requirements, our successful track record would not guarantee continual success. Changes in technological design and performance specifications or other external factors may have various levels of negative impact on the results of operations. Additionally, production, data security and quality issues may happen despite internal systems and policies set up for their prevention, which may lead to financial loss, litigation, or damage in reputation.

We believe that the Company has a seasoned process in ensuring that we meet design specifications and quality requirements and there are many overlapping core design and production competencies that the Company possesses. This will put the Company 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 Company constantly reviews competition and market trends. The Company is committed to strive for innovation and maintain a competitive position with a wide lead in knowledge. The Company has reinvested significant resources on R&D to build broad sustainable technology roadmaps and intellectual property portfolios.

The Company has put in place a quality management system. All products are subject to thorough and comprehensive testing to meet customers' requirements and international standards. The Company will continue to improve internal process capability, including live surveillance management of production stations and evaluation of "big data" systems 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 and matching the maturity profiles of financial assets and liabilities.

The Group is exposed to interest rate risks on its bank loans for working capital and CAPEX that are associated with the expansion of the Group. The Group focuses on mitigating the liquidity and interest rate risks, with an appropriate mix of RMB/USD/HKD borrowings that are constantly reviewed and adjusted. The Group's USD deposits served as a natural hedge to the risk of interest rate volatilities to some extent. The Group also maintains an appropriate mix of fixed/floating rate debts, an even debt repayment profile and a diversified source of funding, by having secured long-term five-year bank loans and entered into interest rate swap contracts.

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 exposures including transaction and translation exposures, and is exposed to exchange rate risks that could impact financial reporting results. The Group's reporting currency is RMB and our sales to overseas customers are predominantly denominated in USD.

It is the Group's consistent policy to centralize foreign exchange management to monitor total foreign currency exposure, to net off affiliate positions, and, if necessary, to consolidate hedging transactions with banks. 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. Hence, in our operating business model, the Group's revenue is mostly matched to the currencies of the outlay. 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.

**Intensifying Global Trade Frictions**

Prolonged and intensified trade frictions might lead to a slowdown on global consumer electronic market and a decline of the orders by the key customers of the Group, which might have an adverse impact on the Group’s results of operations and financial conditions. Such impact might be exacerbated by the current softness in the smartphone industry including slow spec upgrades by customers. The Group will closely monitor any new developments to assess adverse and material business implications that might arise.

The Group is not aware of any of its key raw materials and products being included in the latest target lists and its products are also not directly exported to the United States. So far, the Group's business operations have not experienced any significant immediate impact arising from the trade frictions.

The Group's dedication to R&D to develop proprietary innovative technologies, and the Group's strategy in integrating R&D all over the world with our diversified manufacturing bases should help to continue to provide the best solutions to customers and mitigate some of the adverse business impact of the trade frictions.

**Risks of Supply Chain and Production Disruption due to Unforeseeable Events**

In 2020, the COVID-19 pandemic broke out globally. The risk of a prolonged duration of the COVID-19 pandemic might lead to significant disruption of production and shipment in the smartphone supply chain, including that of the Group. In the unlikely event that COVID-19 infects a large number of the Group’s employees, the productivity of the Group’s operations might be adversely affected, including the possibility of closing some premises of the Group. The above might adversely affect the Group’s operating results.

The Group has experience in risk management related to the epidemic outbreak, which was last seen in the period of 2002 to 2003 with the SARS outbreak. The Group responded in a timely manner to the outbreak of the COVID-19 pandemic. Under the instruction of the senior 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 compliance with the regulations and guidance of the local authorities and the government. After implementation of appropriate precautionary measures, most offices and production plants had gradually re-opened in February 2020. The Group did not encounter any significant adverse impact on the supply of raw materials and machinery since the COVID-19 outbreak. The key risk is whether continuous and normal production and operation can be maintained. The senior management will keep close monitor on the related risks.

## PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

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

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

## FINANCIAL INFORMATION

The financial information relating to the years ended 31 December 2020 and 2019 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 2020 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 2019 to the Registrar of Companies as required by Section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**") and will deliver the consolidated financial statements for the year ended 31 December 2020 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 2020 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 2020

| | *NOTES* | **2020** | 2019 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Revenue | *3* | **17,140,219** | 17,883,757 |
| Cost of goods sold | | **(12,912,734)** | (12,776,765) |
| Gross profit | | **4,227,485** | 5,106,992 |
| Other income, gains and losses | *5* | **502,277** | 246,991 |
| Fair value gain on financial assets at fair value through profit or loss | *13* | **-** | 19,234 |
| Distribution and selling expenses | | **(285,427)** | (275,329) |
| Administrative expenses | | **(671,861)** | (642,803) |
| Research and development costs | | **(1,920,255)** | (1,717,251) |
| Exchange gain | | **147,938** | 62,798 |
| Finance costs | *4* | **(352,558)** | (248,210) |
| Profit before taxation | *6* | **1,647,599** | 2,552,422 |
| Taxation | *7* | **(146,571)** | (330,048) |
| Profit for the year | | **1,501,028** | 2,222,374 |
| 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 | | **14,178** | 76,479 |
| *Items that may be subsequently reclassified to profit or loss:* | | | |
| Fair value changes on derivative financial instruments | | **(50,138)** | (24,631) |
| Loss (gain) reclassified to profit or loss on hedged items | | **57,081** | (1,001) |
| Exchange differences arising on translation of foreign operations | | **(105,499)** | (47,742) |
| Total comprehensive income for the year | | **1,416,650** | 2,225,479 |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **1,506,707** | 2,222,375 |
| Non-controlling interests | | **(5,679)** | (1) |
| | | **1,501,028** | 2,222,374 |
| Total comprehensive income (expense) attributable to: | | | |
| Owners of the Company | | **1,423,009** | 2,225,480 |
| Non-controlling interests | | **(6,359)** | (1) |
| | | **1,416,650** | 2,225,479 |
| Earnings per share - Basic | *9* | **RMB1.25** | RMB1.84 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

| | *NOTES* | **2020** | 2019 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Non-current assets | | | |
| Property, plant and equipment | *10* | **18,592,060** | 16,910,713 |
| Right-of-use assets | *11* | **1,895,871** | 1,071,912 |
| Goodwill | | **164,350** | 164,350 |
| Deposits made for acquisition of property, plant and equipment | | **576,467** | 454,527 |
| Investment properties | *12* | **12,466** | 13,660 |
| Equity instruments at fair value through other comprehensive income | *13* | **352,006** | 350,740 |
| Intangible assets | | **373,360** | 433,884 |
| Deferred tax assets | *22* | **95,000** | - |
| | | **22,061,580** | 19,399,786 |
| Current assets | | | |
| Inventories | | **3,995,052** | 3,664,056 |
| Trade and other receivables | *15* | **5,176,458** | 5,576,036 |
| Amounts due from related companies | | **5,595** | 3,622 |
| Taxation recoverable | | **40,294** | 40,718 |
| Pledged bank deposits | | **91,999** | 11,100 |
| Bank balances and cash | | **7,540,330** | 5,511,974 |
| | | **16,849,728** | 14,807,506 |
| Current liabilities | | | |
| Trade and other payables | *16* | **5,204,503** | 5,474,116 |
| Contract liabilities | *16* | **14,734** | 10,271 |
| Lease liabilities | *17* | **493,657** | 96,742 |
| Amounts due to related companies | | **43,593** | 75,354 |
| Taxation payable | | **166,881** | 178,169 |
| Bank loans | *18* | **3,348,546** | 1,876,094 |
| Government grants | *21* | **83,015** | - |
| Derivative financial instruments | *14* | **24,695** | - |
| | | **9,379,624** | 7,710,746 |
| Net current assets | | **7,470,104** | 7,096,760 |
| Total assets less current liabilities | | **29,531,684** | 26,496,546 |
| Non-current liabilities | | | |
| Lease liabilities | *17* | **317,073** | 310,332 |
| Bank loans | *18* | **2,542,950** | 3,849,605 |
| Unsecured notes | *19* | **2,511,748** | 2,685,475 |
| Contingent settlement provision | *20* | **1,671,812** | - |
| Government grants | *21* | **603,959** | 208,938 |
| Deferred tax liabilities | *22* | **48,886** | 65,392 |
| Derivative financial instruments | *14* | **14,421** | 15,812 |
| | | **7,710,849** | 7,135,554 |
| Net assets | | **21,820,835** | 19,360,992 |
| Capital and reserves | | | |
| Share capital | *23* | **98,135** | 98,135 |
| Reserves | | **21,060,606** | 19,253,058 |
| Equity attributable to owners of the Company | | **21,158,741** | 19,351,193 |
| Non-controlling interests | | **662,094** | 9,799 |
| Total equity | | **21,820,835** | 19,360,992 |

## 1. GENERAL

AAC Technologies Holdings Inc. ("**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")

### Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the International Accounting Standard Board for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendments to IAS 1 and IAS 8 | Definition of Material |
| Amendments to IFRS 3 | Definition of a Business |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform |

In addition, the Group has early applied the Amendments to IFRS 16 "COVID-19-Related Rent Concession".

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

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

**Amendments to IFRSs that are mandatorily effective for the current year - continued**

### 2.1 Impacts on application of Amendments to IAS 1 and IAS 8 "Definition of Material"

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

### 2.2 Impacts on application of Amendments to IFRS 3 "Definition of a Business"

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

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

**Amendments to IFRSs that are mandatorily effective for the current year - continued**

### 2.3 Impacts on application of Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"

The Group has applied the amendments for the first time in the current year. The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform. The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures.

The amendments had no impact on the consolidated financial statements of the Group as the amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.

### 2.4 Impacts on early application of Amendments to IFRS 16 "COVID-19-related Rent Concessions"

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a COVID-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 "Leases" if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening retained profits at 1 January 2020. The amendments had no material impact on the consolidated financial statements of the Group.

## 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 IFRS Standards that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 17 | Insurance Contracts and the related Amendments[1] |
| Amendments to IFRS 3 | Reference to the Conceptual Framework[2] |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform - Phase 2[4] |
| 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[1] |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies[1] |
| Amendments to IAS 8 | Definition of Accounting Estimates[1] |
| Amendments to IAS 16 | Property, Plant and Equipment: Proceeds before Intended Use[2] |
| Amendments to IAS 37 | Onerous Contracts - Cost of Fulfilling a Contract[2] |
| Amendments to IFRS Standards | Annual Improvements to IFRS Standards 2018 - 2020[2] |

[1] Effective for annual periods beginning on or after 1 January 2023.
[2] Effective for annual periods beginning on or after 1 January 2022.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2021.

Except for the amendments to IFRSs mentioned below, the directors of the Company ("**Directors**") anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

**Amendments to IFRS 3 "Reference to the Conceptual Framework"**

The amendments:

- update a reference in IFRS 3 "Business Combinations" so that it refers to the "Conceptual Framework for Financial Reporting" issued by International Accounting Standards Board in March 2018 (the "**Conceptual Framework**") instead of the International Accounting Standards Committee's "Framework for the Preparation and Presentation of Financial Statements" (replaced by the "Conceptual Framework for Financial Reporting" issued in September 2010);
- add a requirement that, for transactions and other events within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or IFRIC 21 "Levies", an acquirer applies IAS 37 or IFRIC 21 instead of Conceptual Framework to identify the liabilities it has assumed in a business combination; and
- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

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

**New and amendments to IFRSs in issue but not yet effective - continued**

**Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform - Phase 2"**

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform - Phase 2" relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying IFRS 7 "Financial Instruments: Disclosures" to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRSs requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16;

- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and

- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has several London Interbank Offered Rate ("**LIBOR**") and other relevant interbank offered rates bank loans which will be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

In addition, the Group has interest rate swaps linked to LIBOR which are cash flow hedges. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reform. The Group expects no material impact on the Group's consolidated financial statements.

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

**New and amendments to IFRSs in issue but not yet effective - continued**

**Amendments to IAS 1 Classification of Liabilities as Current or Non-current**

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments to clarify that:

  (i) the classifcation should not be affected by management intentions or expectations to settle the liabilities within 12 months; and
  
  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 "Financial Instruments: Presentation".

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

## 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 key operating decision makers in order to allocate resources to the segment and to assess its performance.

Information reported to the key operating decision makers 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. In the current year, the Group reorganised its internal reporting structure which resulted in adding optics products as a separate standalone business to the composition of its reportable segments. With the significant growth in the business of optics products, the operating result is separately reported to the management. Prior year segment disclosures have been represented to conform with the current year's presentation.

## 3. REVENUE AND SEGMENT INFORMATION - continued

The Group's operating and reportable segments under IFRS 8 are dynamic components (including acoustic modules and acoustic unit), electromagnetic drives and precision mechanics, optics products, MEMS components and other products, 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 had transferred.

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

All sales contracts terms and the performance obligations of goods and services provided by the Group 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.

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Operating and reportable segments | | |
| Segment revenue - recognised at a point in time | | |
| Dynamic components | **7,559,954** | 8,167,276 |
| Electromagnetic drives and precision mechanics | **6,847,410** | 7,694,198 |
| Optics products | **1,634,423** | 1,070,152 |
| MEMS components | **1,082,582** | 928,524 |
| Other products | **15,850** | 23,607 |
| Revenue | **17,140,219** | 17,883,757 |
| Segment results | | |
| Dynamic components | **2,109,693** | 2,535,568 |
| Electromagnetic drives and precision mechanics | **1,627,981** | 2,280,264 |
| Optics products | **307,660** | 18,208 |
| MEMS components | **189,863** | 255,682 |
| Other products | **(7,712)** | 17,270 |
| Total profit for operating and reportable segments | **4,227,485** | 5,106,992 |
| Unallocated amounts: | | |
| Interest income | **58,989** | 50,273 |
| Other income, gains and losses, excluding interest income | **443,288** | 196,718 |
| Fair value gain on financial assets at fair value through profit or loss | **-** | 19,234 |
| Distribution and selling expenses | **(285,427)** | (275,329) |
| Administrative expenses | **(671,861)** | (642,803) |
| Research and development costs | **(1,920,255)** | (1,717,251) |
| Exchange gain | **147,938** | 62,798 |
| Finance costs | **(352,558)** | (248,210) |
| Profit before taxation | **1,647,599** | 2,552,422 |

## 3. REVENUE AND SEGMENT INFORMATION - continued

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, fair value gain on financial assets at fair value through profit or loss and exchange gain. This is the measure reported to the key operating decision makers for the purpose of resource allocation and performance assessment.

The key operating decision makers make decisions according to operating results of each segments. The Group analysed its assets and liabilities and other financial information at group level. Therefore, only segment revenue and segments results are presented. Depreciation and amortisation charges related to assets employed by different segments are presented to the key operating decision makers for review.

Depreciation and amortisation included in measure of segment results are as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dynamic components | **983,297** | 896,662 |
| Electromagnetic drives and precision mechanics | **590,525** | 552,284 |
| Optics products | **359,298** | 219,053 |
| MEMS components | **38,354** | 34,700 |
| Other products | **1,587** | 7,272 |
| | **1,973,061** | 1,709,971 |
| Unallocated portion | **504,468** | 466,335 |
| | **2,477,529** | 2,176,306 |

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:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Greater China* (country of domicile) | **8,080,078** | 8,093,447 |
| Other foreign countries: | | |
| Other Asian countries | **800,252** | 1,485,943 |
| America | **8,256,632** | 8,281,791 |
| Europe | **3,257** | 22,576 |
| | **17,140,219** | 17,883,757 |

* 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 RMB12,669,545,000 (2019: RMB9,922,899,000). 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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on bank loans | **215,368** | 228,822 |
| Interest on unsecured notes | **95,847** | 7,051 |
| Interest on lease liabilities | **27,333** | 12,337 |
| Others | **14,010** | - |
| | **352,558** | 248,210 |

## 5. OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses mainly comprise of:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Government grants* | **316,263** | 163,843 |
| Interest income | **58,989** | 50,273 |
| Rental income | **12,203** | 13,714 |
| Gain (loss) on disposal/write-off of property, plant and equipment | **2,305** | (2,149) |
| Gain on disposal of right-of-use assets | **1,132** | 65 |
| Impairment losses recognised in respect of property, plant and equipment (note 10) | **-** | (35,096) |

* Included in the amount is RMB126,305,000 (2019: RMB51,019,000) representing amortisation of government grants as detailed in note 21. In addition, during the current year, the Group recognised government grants of RMB57,253,000 in respect of COVID-19-related subsidies. 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. PROFIT BEFORE TAXATION

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation has been arrived at after charging (crediting): | | |
| Directors' emoluments | **15,813** | 16,185 |
| Other staff's retirement benefits scheme contributions | **336,411** | 421,275 |
| Other staff costs | **4,070,868** | 4,187,564 |
| Total staff costs* | **4,423,092** | 4,625,024 |
| Depreciation of property, plant and equipment | **2,261,585** | 2,018,539 |
| Depreciation of right-of-use assets | **166,058** | 112,735 |
| Total depreciation* | **2,427,643** | 2,131,274 |
| Allowance for inventories, included in cost of goods sold | **93,013** | 41,527 |
| Amortisation of intangible assets | **48,692** | 43,838 |
| Amortisation of upfront fee for bank loans | **-** | 6,492 |
| Auditor's remuneration | **3,383** | 3,319 |
| Cost of inventories recognised as expense | **12,819,721** | 12,735,238 |
| Cost of raw materials included in research and development costs | **304,624** | 250,248 |
| Depreciation of investment property | **1,194** | 1,194 |
| Reversal of impairment loss on trade receivables | **(133)** | (110) |
| Short-term and low value asset leases expense | **25,129** | 24,818 |

* Staff costs of RMB969,142,000 (2019: RMB873,928,000) and depreciation of RMB298,197,000 (2019: RMB296,194,000) had been included in research and development costs.

## 7. TAXATION

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| The current tax charge (credit) comprises: | | |
| PRC Enterprise Income Tax | **141,190** | 226,057 |
| Other jurisdictions | **95,669** | 109,893 |
| Hong Kong Profits Tax | **-** | 2,931 |
| PRC and overseas withholding tax | **25,098** | 6,376 |
| Overprovision of taxation in prior years | **(3,093)** | (8,831) |
| | **258,864** | 336,426 |
| Deferred tax (see note 22) | **(112,293)** | (6,378) |
| | **146,571** | 330,048 |

## 7. TAXATION - continued

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%.

The PRC dividend withholding tax is calculated at the applicable rate in accordance with the relevant laws and regulations in the PRC.

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 28 November 2021 to 11 December 2023. 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 had expired in 2018 and agreement for its extension on similar terms for another 10-year period has been signed, and is effective from 1 January 2019.

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 jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## 7. TAXATION - continued

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **1,647,599** | 2,552,422 |
| Tax at the applicable income tax rate (Note a) | **411,900** | 638,106 |
| Tax effect of income not taxable for tax purpose | **(62,003)** | (50,959) |
| Tax effect of expenses not deductible for tax purpose | **58,849** | 51,780 |
| Tax effect of tax holiday and concession | **(181,791)** | (208,517) |
| Tax effect of tax losses not recognised | **172,745** | 106,377 |
| Tax effect of deductible temporary differences not recognised | **6,638** | - |
| Utilisation of deductible temporary differences not recognised | **-** | (20,086) |
| Utilisation/recognition of tax losses previously not recognised | **(117,717)** | (9,757) |
| Effect of super deduction for research and development cost (Note b) | **(60,147)** | (49,967) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(86,670)** | (122,990) |
| Overprovision in prior years | **(3,093)** | (8,831) |
| PRC and overseas withholding tax | **9,578** | 6,376 |
| Others | **(1,718)** | (1,484) |
| Tax charge for the year | **146,571** | 330,048 |

Notes:

(a) The PRC EIT rate of 25% (2019: 25%) is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

(b) Cai Shui [2018] No. 99 "Notice on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses" ("**the Notice**") was released in August 2018. According to the Notice, certain PRC subsidiaries are entitled to an additional 75% tax deduction on eligible research and development expenses incurred by them for both years.

## 8. DIVIDENDS

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividends recognised as distribution during the year: | | |
| 2019 final dividend of nil (2018: HK$1.03) per ordinary share | **-** | 1,094,264 |
| 2020 interim dividend of HK$0.10 (2019: HK$0.40) per ordinary share | **106,807** | 436,655 |
| | **106,807** | 1,530,919 |

Subsequent to the end of the reporting period, a final dividend of HK$0.20 (2019: Nil) per share has been proposed by the Directors and is subject to approval by the Shareholders in the forthcoming annual general meeting.

## 9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2020 is based on the profit for the year attributable to owners of the Company of RMB1,506,707,000 (2019: RMB2,222,375,000) and on the weighted average of 1,208,500,000 (2019: 1,210,173,000 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.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of RMB4,123,362,000 (2019: RMB3,552,877,000). Part of the consideration of RMB454,527,000 (2019: RMB1,085,904,000) was paid up in advance in prior year.

Also, during the year, the Group disposed/write-off of certain property, plant and equipment with an aggregate carrying amount of RMB142,547,000 (2019: RMB32,910,000) for proceeds of RMB144,852,000 (2019: RMB30,761,000) and resulting in a gain on disposal of RMB2,305,000 (2019: loss on disposal of RMB2,149,000).

During the year ended 31 December 2020, no impairment loss has been recognised as there has no indication for impairment (2019: The Group has fully impaired certain property, plant and equipment with carrying value of RMB35,096,000 due to termination of production on certain products that were not part of the Group's core business.).

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

## 11. RIGHT-OF-USE ASSETS

| | Leasehold land<br>*RMB'000* | Buildings<br>*RMB'000* | Machineries<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|
| **As at 31 December 2020** | | | | |
| Carrying amount | 1,393,870 | 421,087 | 80,914 | 1,895,871 |
| **As at 31 December 2019** | | | | |
| Carrying amount | 628,384 | 354,422 | 89,106 | 1,071,912 |
| **For the year ended 31 December 2020** | | | | |
| Depreciation for the year | 21,001 | 136,865 | 8,192 | 166,058 |
| **For the year ended 31 December 2019** | | | | |
| Depreciation for the year | 14,531 | 96,288 | 1,916 | 112,735 |

| | **2020**<br>***RMB'000*** | 2019<br>*RMB'000* |
|---|---|---|
| Expense relating to short-term leases | **24,255** | 23,370 |
| Expense relating to leases of low-value assets, excluding short-term leases of low value assets | **874** | 1,448 |
| Total cash outflow for leases | **688,962** | 190,815 |
| Additions to right-of-use assets | **1,044,795** | 479,455 |

## 11. RIGHT-OF-USE ASSETS - continued

For both years, the Group leases various leasehold land, buildings and machineries 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.

During the year, the Group disposed of leasehold land of RMB52,015,000, at the proceed of RMB53,147,000. A gain of disposal of RMB1,132,000 has been recognised in profit or loss. As at 31 December 2020, the Group has obtained the land use right certificates for all leasehold lands except for leasehold lands with carrying amount of RMB730,150,000 (2019: Nil) in which the Group is in the process of obtaining.

The Group regularly entered into short-term leases for certain building premises and machineries, etc. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

During the year, the Group entered into new lease agreements for the use of leasehold land, buildings and machineries from 13 months to 50 years. On the lease commencement, the Group recognised right-of-use asset of RMB559,257,000 and lease liabilities of RMB558,748,000 (2019: right-of-use assets of RMB459,103,000 and lease liabilities of RMB458,554,000). Except for the payment made on the acquisition of leasehold land of RMB485,538,000 (2019: RMB20,352,000), the recognition of remaining newly added right-of-use assets constitutes non-cash transactions.

**Restrictions or covenants on leases**

As at 31 December 2020, lease liabilities of RMB450,986,000 are recognised with related right-of-use assets of RMB502,001,000 (2019: lease liabilities of RMB407,074,000 and related right-of-use assets of RMB443,528,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

## 12. INVESTMENT PROPERTIES

| | *RMB'000* |
|---|---|
| **CARRYING VALUES** | |
| At 1 January 2019 | 14,854 |
| Depreciation during the year | (1,194) |
| At 31 December 2019 | 13,660 |
| Depreciation during the year | (1,194) |
| At 31 December 2020 | 12,466 |

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

(i) Equity instruments at fair value through other comprehensive income ("**FVTOCI**")

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Unlisted shares | **303,995** | 281,181 |
| Listed shares | **48,011** | 69,559 |
| | **352,006** | 350,740 |

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*

The unlisted equity investments represent the Group's equity interest in private entities. The equity instruments comprise of equity interests in companies which engaged in (i) producing semiconductor components in integrated circuits and development of intellectual properties, (ii) research, development and manufacturing of MEMS business and (iii) producing high technology products.

During the year ended 31 December 2020, there is no new unlisted equity investment acquired by the Group. During the year ended 31 December 2019, the Group acquired a new unlisted equity investment at a consideration of RMB92,696,000.

*Listed shares*

The amount represents the Group's investment in a company listed in Japan. As at 31 December 2020, the fair value of the investment determined by reference to the quoted market bid prices available was RMB48,011,000.

(ii) Financial assets at fair value through profit or loss ("**FVTPL**")

During the year ended 31 December 2019, the Group disposed all shares of AMS AG ("**AMS**"), which is a Swiss listed company incorporated in Austria and is engaged in the manufacturing of sensor and analogy solutions, in the market for an aggregate proceed of RMB41,804,000. A gain on changes in fair value on the AMS shares of RMB19,234,000 has been recognised in the profit or loss.

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

| | Current | | Non-current | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Derivatives financial liabilities** | | | | |
| **– under hedge accounting** | | | | |
| Interest rate swap contracts | **16,467** | - | **5,381** | 15,812 |
| Cross currency swap contract | **8,228** | - | **9,040** | **-** |
| | **24,695** | - | **14,421** | 15,812 |

The Group entered into the interest rate swap contracts with notional amount of US$160,000,000 (2019: US$200,000,000) with commercial banks to minimise its exposure to cash flow changes of its floating-rate United States dollars ("**US$**") denominated bank loans, with details set out in note 18, with principal amount of US$160,000,000 (2019: US$200,000,000). 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 purposes. Fair value change on these hedging instruments in cash flow hedge of loss of RMB8,101,000 (2019: Loss of RMB25,632,000) for the year ended 31 December 2020 have been recognised in other comprehensive income and accumulated in the hedging reserve. Loss of RMB19,577,000 (2019: Gain of RMB1,001,000) on cash flow hedge was reclassified to profit or loss. 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.

During the year ended 31 December 2020, the Group entered into a cross currency swap contract with total notional amount of US$50,000,000 with a commercial bank to minimise the exposure to fluctuations in foreign currency exchange rates of US$ denominated unsecured notes, with details set out in note 19. The critical terms of the cross currency swap contract and the corresponding US$ denominated unsecured notes were closely aligned and the management considers that the cross currency swap contract is highly effective hedging instrument and qualified as cash flow hedge. Fair value change on this hedging instrument in cash flow hedge of gain of RMB15,044,000 for the year ended 31 December 2020 has been recognised in other comprehensive income and accumulated in the hedging reserve. Loss of RMB37,504,000 (2019: Nil) on cash flow hedge was reclassified to profit or loss.

## 14. DERIVATIVE FINANCIAL INSTRUMENTS - continued

The major terms of the outstanding derivative contracts under cash-flow hedges at the end of reporting period are as follows:

| National amount | Range of maturity | Forward contract rate | Interest rate Receive | Interest rate Pay | Exchange frequency Receive | Exchange frequency Pay |
|---|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | | |
| Interest rate swap contracts | | | | | | |
| US$80,000,000 | 8 March 2021 to 7 September 2022 | N/A | LIBOR + 1.30% | 3.20% | Monthly | Monthly |
| US$80,000,000 | 8 March 2021 to 7 September 2022 | N/A | LIBOR + 1.30% | 3.82% | Monthly | Monthly |
| Cross currency swap contracts | | | | | | |
| US$50,000,000 | 27 November 2024 | US$1 to RMB6.7345 | 3.00% | 5.38% | Semi-annually | Semi-annually |
| **At 31 December 2019** | | | | | | |
| Interest rate swap contracts | | | | | | |
| US$100,000,000 | 8 September 2020 to 7 September 2022 | N/A | LIBOR + 1.30% | 3.20% | Monthly | Monthly |
| US$100,000,000 | 8 September 2020 to 7 September 2022 | N/A | LIBOR + 1.30% | 3.82% | Monthly | Monthly |

The above derivatives are measured at fair value. The classification of the measurement of the above derivatives at 31 December 2020 and 2019 is Level 2 under the fair value hierarchy (details set out in note 25).

## 15. TRADE AND OTHER RECEIVABLES

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **3,185,395** | 4,177,967 |
| Bank acceptance and commercial bills | **334,175** | 167,339 |
| | **3,519,570** | 4,345,306 |
| Prepayments | **376,170** | 314,203 |
| Value-added tax recoverable | **953,669** | 768,098 |
| Other receivables | **312,912** | 127,029 |
| Loan and interest receivables* | **14,137** | 21,400 |
| | **5,176,458** | 5,576,036 |

* Loans of RMB13,000,000 (2019: RMB20,500,000) made to certain suppliers of the Group are secured, and carry interest rates at 4.35% (2019: 4.35%) per annum. The amounts are repayable in 1 year.

## 15. TRADE AND OTHER RECEIVABLES – continued

The following is an analysis of trade receivables and bank acceptance and commercial bills net of allowance for credit losses presented based on the invoice dates or notes issued dates at the end of the reporting period, which approximate the respective revenue recognition dates.

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Age | | |
| 0 - 90 days | **3,200,890** | 4,204,458 |
| 91 - 180 days | **318,680** | 140,388 |
| Over 180 days | **-** | 460 |
| | **3,519,570** | 4,345,306 |

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 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB18,023,000 (2019: RMB70,656,000) which are past due as at the reporting date. Included in the past due balances, none of the balance has been past due 90 days or more (2019: RMB460,000 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:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| US$ | **40,830** | 77,704 |
| Euro | **83** | 243 |

## 16. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Trade and other payables

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **2,447,120** | 2,838,031 |
| Notes payables - guaranteed | **1,237,986** | 1,122,915 |
| | **3,685,106** | 3,960,946 |
| Payroll and welfare payables | **445,326** | 547,060 |
| Payables for acquisition of property, plant and equipment | **446,733** | 450,655 |
| Other payables and accruals | **627,338** | 515,455 |
| | **5,204,503** | 5,474,116 |

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

## 16. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES - continued

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Age | | |
| 0 - 90 days | **2,917,433** | 3,346,891 |
| 91 - 180 days | **747,542** | 599,632 |
| Over 180 days | **20,131** | 14,423 |
| | **3,685,106** | 3,960,946 |

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:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| US$ | **648,320** | 548,346 |
| Japanese Yen | **61,572** | 25,144 |
| Euro | **42,971** | 7,038 |

Contract liabilities

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Contract liabilities on sales of miniaturised components | **14,734** | 10,271 |

As at 1 January 2019, contract liabilities amounted to RMB8,673,000. The contract liabilities at the beginning of the year are recognised as revenue during the 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.

## 17. LEASE LIABILITIES

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Lease liabilities payable:** | | |
| Within one year | **493,657** | 96,742 |
| Within a period of more than one year but not more than two years | **99,395** | 90,260 |
| Within a period of more than two years but not more than five years | **93,907** | 119,180 |
| Within a period of more than five years | **123,771** | 100,892 |
| | **810,730** | 407,074 |
| Less: Amount due for settlement with 12 months shown under current liabilities | **493,657** | 96,742 |
| Amount due for settlement after 12 months shown under non-current liabilities | **317,073** | 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 weighted average incremental borrowing rates applied to lease liabilities is 4.36% (2019: 4.46%). These lease liabilities were measured at the present value of the lease payments that are not yet paid.

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

| | EURO | Singapore Dollar ("**SGD**") | US$ |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| As at 31 December 2020 | **111,605** | **678** | **2,014** |
| As at 31 December 2019 | 52,217 | 5,563 | - |

## 18. BANK LOANS

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bank loans | **5,891,496** | 5,725,699 |
| Less: Amount due within one year included in current liabilities | **3,348,546** | 1,876,094 |
| Amount due after one year | **2,542,950** | 3,849,605 |
| Bank loans are repayable as follows*: | | |
| Within one year | **3,348,546** | 1,876,094 |
| After one year but within two years | **2,128,377** | 2,296,001 |
| After two years but within five years | **324,873** | 1,253,604 |
| After five years | **89,700** | 300,000 |
| | **5,891,496** | 5,725,699 |

* The amount due are based on scheduled repayment dates set out in the loan agreements.

## 18. BANK LOANS - continued

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

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| US$ | **513,874** | 683,188 |
| HK$ | **162,330** | 241,851 |
| RMB | **259,997** | - |

The exposure of the Group's borrowings are as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Fixed-rate borrowings | **3,932,525** | 3,989,053 |
| Variable-rate borrowings | **1,958,971** | 1,736,646 |
| | **5,891,496** | 5,725,699 |

The Group's variable loans carry interest at mainly LIBOR and other relevant interbank offered rates plus a certain basis point adjustment.

The variable rate bank loans carry interest rate ranging from 0.89% to 3.90% per annum (31 December 2019: 3.61% to 4.21% per annum). The fixed rate bank loans carry interest rate ranging from 1.98% to 4.90% per annum (31 December 2019: 3.20% to 4.90% per annum). The Company issued guarantees to respective banks to secure these borrowings.

## 19. 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.

## 20. CAPITAL CONTRIBUTIONS FROM NON-CONTROLLING INTERESTS OF A SUBSIDIARY AND CONTINGENT SETTLEMENT PROVISION

As announced on 22 July 2020, AAC Optics (Changzhou) Co., Ltd. ("**AAC Optics**", formerly known as AAC Communications Technologies (Changzhou) Co., Ltd.), a company incorporated in the PRC, and its immediate holding companies, AAC Technologies Limited ("**AAC HK**") and AAC Technology Information Consultancy (Changzhou) Co., Ltd. ("**AAC Consultancy**") entered into capital increase agreements successively with four independent strategic investors ("**First Round Strategic Investors**"), who have agreed to make a capital increase of RMB1,150,000,000 in aggregate to AAC Optics. As a result of the introduction of this First Round Strategic Investors, the Group's interest in AAC Optics Group was diluted from 100% to 90.42%. The proportional share of the carrying amount of the net assets of AAC Optic Group of RMB658,654,000 has been transferred to non-controlling interests.

## 20. CAPITAL CONTRIBUTIONS FROM NON-CONTROLLING INTERESTS OF A SUBSIDIARY AND CONTINGENT SETTLEMENT PROVISION - continued

On 9 October 2020, it was further announced that AAC Optics, AAC HK, AAC Consultancy and the First Round Strategic Investors entered into shareholders agreement with 18 new independent strategic investors ("**Second Round Strategic Investors**") for Second Round Strategic Investors to subscribe newly issued shares of AAC Optics to make a capital increase of RMB1,658,000,000 in AAC Optics. As a result of the completed introduction of this Second Round Strategic Investors, the Group's interest in AAC Optics Group was further diluted to 82.02%.

In accordance with shareholders agreement described in the announcement on 9 October 2020, on occurrence or non-occurrence of future events including the separate listing condition, the Second Round Strategic Investors are entitled to require the Group for capital repayment plus a premium. A contingent settlement provision has been recognised against equity as the Group has a contractual obligation to deliver cash and presented under non-current liabilities as the conditions set have a three-year period.

According to the Company's announcement dated 1 February 2021 on the update on the progress of the proposed spin-off and separate listing of AAC Optics on a stock exchange in the PRC, the sponsor of the proposed spin-off and separate listing of AAC Optics submitted an application to the Jiangsu Province Regulatory Bureau of the China Securities Regulatory Commission ("**CSRC**") for the commencement of the pre-listing tutoring process on 1 February 2021. Subsequently, the Jiangsu Province Regulatory Bureau of the CSCR had also acknowledged receipt of such application through its tutoring regulatory information system.

According to the Company's announcement dated 16 February 2021, the Company had received approval from the Stock Exchange on 11 February 2021 that the Company may proceed with the proposed spin-off under Practice Note 15 of the Hong Kong Listing Rules, and that the Company anticipated that AAC Optics would issue new shares by initial public offering on a stock exchange in the PRC in the future.

## 21. GOVERNMENT GRANTS

During the year, the Group received government grants of RMB604,341,000 (2019: RMB142,178,000) 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, RMB126,305,000 (2019: RMB51,019,000) of the grants have been released to profit or loss.

## 22. DEFERRED TAX ASSETS/LIABILITIES

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

Deferred tax assets

| | Tax losses<br>*RMB'000* | Inventories<br>*RMB'000*<br>*(Note a)* | Total<br>*RMB'000* |
|---|---|---|---|
| At 1 January 2020 | - | - | - |
| Credit to profit or loss | **63,000** | **32,000** | **95,000** |
| At 31 December 2020 | **63,000** | **32,000** | **95,000** |

## 22. DEFERRED TAX ASSETS/LIABILITIES - continued

Deferred tax liabilities

| | Depreciation/ Amortization *RMB'000* *(Note b)* | PRC withholding tax on undistributed earnings *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| At 1 January 2019 | 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 |
| Reversal of withholding tax upon distribution | - | (15,520) | (15,520) |
| Credited to profit or loss | (1,773) | - | (1,773) |
| Currency realignment | 787 | - | 787 |
| At 31 December 2020 | 43,729 | 5,157 | 48,886 |

Notes:

(a) The deductible temporary difference arising from inventories would be reversed upon sales of inventories.

(b) The deferred tax arose from temporary difference between the carrying amounts of intangible assets, property, plant and equipment and their tax base.

At the end of the reporting period, the Group has unused tax losses of approximately RMB2,147,640,000 (2019: RMB1,507,528,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB420,000,000 (2019: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB1,727,640,000 (2019: RMB1,507,528,000) due to the unpredictability of future profit streams. The unrecognised tax losses maybe carried forward for up to 5 or 10 years to year 2025 or 2030 (2019: year 2024 or 2029) from the year when the losses are incurred.

At 31 December 2020, 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.

## 23. SHARE CAPITAL

| | Number of shares | Amount *US$'000* |
|---|---|---|
| Shares of US$0.01 each | | |
| Authorised: | | |
| Ordinary shares at 1 January 2019, 31 December 2019 and 31 December 2020 | 5,000,000,000 | 50,000 |
| Issued and fully paid: | | |
| Ordinary shares at 1 January 2019 | 1,218,000,000 | 12,180 |
| Shares repurchased and cancelled | (9,500,000) | (95) |
| Ordinary shares at 31 December 2019 and 31 December 2020 | 1,208,500,000 | 12,085 |

| | *RMB'000* |
|---|---|
| At 1 January 2019 | 98,906 |
| Shares repurchased and cancelled | (771) |
| At 31 December 2019 and 31 December 2020 | 98,135 |

During the year ended 31 December 2019, 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 2018.

## 24. OPERATING LEASE ARRANGEMENTS

**The Group as a lessor**

The property held for rental purposes have committed lessees for the next 3 years (2019: 4 years).

Undiscounted lease payments receivable on leases are as follows:

| | **2020** ***RMB'000*** | 2019 *RMB'000* |
|---|---|---|
| Within one year | **15,220** | 14,358 |
| In the second year | **15,220** | 15,220 |
| In the third year | **8,067** | 15,220 |
| In the fourth year | **-** | 8,067 |
| | **38,507** | 52,865 |

## 25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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.

| Financial assets | Fair value as at 2020 *RMB'000* | 2019 *RMB'000* | Fair value hierarchy | Valuation technique(s) and key input (s) | Significant unobservable input(s) | Sensitivity/relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| Equity instruments at FVTOCI - Listed shares | **48,011** | 69,559 | Level 1 | Quoted bid prices in an active market. | N/A | N/A |
| Equity instruments at FVTOCI - Unquoted equity investments | **6,669** | 6,920 | 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.<br><br>Forecasted future cash flows | The higher the discount rate, the lower the fair value, and vice versa.<br><br>The higher the forecast future cash flow, the higher the fair value, and vice versa. |
| Equity instruments at FVTOCI - Unquoted equity investments | **297,326** | 274,261 | 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.<br><br>TTM P/S multiples of selected comparable companies. | The higher the lack of marketability discount, the lower the fair value.<br><br>The higher the TTM P/S multiples, the higher the fair value. |

| Financial liabilities | Fair value as at 2020 *RMB'000* | 2019 *RMB'000* | Fair value hierarchy | Valuation technique(s) and key input (s) | Significant unobservable input(s) | Sensitivity/relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| Interest rate swap contracts | **21,848 Liabilities (under hedge accounting)** | 15,812 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 |
| Cross currency swap contracts | **17,268 Liabilities (under hedge accounting)** | - | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable yield curves at the end of the reporting period) and contracted exchange 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 |

Except for listed unsecured notes in which there is fair value based on the quoted bid price in an active market, 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.

## 25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS - continued

Reconciliation of level 3 fair value measurements

| | Equity instruments at FVTOCI *RMB'000* |
|---|---|
| At 1 January 2019 | 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 |
| Return of capital | (2,508) |
| Fair value changes on equity instruments at FVTOCI | 35,489 |
| Currency realignment | (10,167) |
| At 31 December 2020 | 303,995 |

## 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, which is at the centre of our corporate governance structure, has regularly reviewed and refined principles, policies and practices on the conduct with an aim to support the 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 risk management as well as internal controls systems. Based on regular reviews of the Company's actual performance against the Corporate Governance Code (the "**CG Code**") in Appendix 14 to the Hong Kong Listing Rules, the Board is satisfied that throughout the financial year ended 31 December 2020, the Company has complied with all the code provisions. Furthermore, the Company strives to go beyond code provisions compliance by embracing the latest and the best corporate governance practices, such as correlating a significant proportion of the executive Directors' remuneration with the corporate and individual performance, the Board and its committees conducting annual evaluation of the Board and committees performance, and putting effective whistleblowing policy in place.

In addition, the Board in 2020 reviewed the Company's policies and practices on corporate governance, the terms of reference of the Board and Board Committees and published its Sustainability Report for the year ended 31 December 2019 in April 2020. We believe that the Sustainability Report, together with the Corporate Governance Report, will help to better explain our environmental, social and governance ("**ESG**") strategies, policies and practices.

The following changes to the composition of the Board took place at the conclusion of the 2020 annual general meeting on 15 May 2020:

a) Mr. Koh Boon Hwee ("**Mr. Koh**") and Mr. Poon Chung Yin Joseph ("**Mr. Poon**") respectively retired from the Board as independent non-executive Directors ("**INEDs**"), thus Mr. Koh ceasing to act as the chairman of the Board, and Mr. Poon ceasing to act as the chairman of the remuneration committee and as a member of the audit and risk committee;

b) Mr. Zhang Hongjiang, INED, was appointed as the chairman of the Board; and

c) Mr. Peng Zhiyuan, INED, was appointed as the chairman of the remuneration committee.

## 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 2020. 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 2020. 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 2020.

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 2020 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 2020, and was satisfied that they were adequate and effective for the 2020 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, in the past few years, 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.

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 15 April 2021:

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

2020 was an uneasy year, with so many external events and market volatilities. The Group experienced major reorganisation around each business segment. We believe this transformation is a key step on our journey of sustainable development. By embracing a new mindset and enforcing a collaborative culture, we have set a solid foundation for effective implementation of sustainability initiatives, such as automation and clean energy programs. Each business segment and product line will be striving to create value not only for the Group but also the environment and the society, responding to the call for climate action by the global community.

Under the prevailing situation resulting from the pandemic, the Group took prompt actions for safeguarding the health and safety of its employees and resuming operations. The Group implemented comprehensive pandemic prevention measures across all facilities and engaged closely with suppliers on business contingency plans. We managed to minimise the adverse impact of the pandemic on employees' well-being, production capacity and product quality. During these difficult times, we supported relief efforts by donating medical equipment and supplies to medical staff and suppliers.

Despite challenges amidst outbreak of the COVID-19 pandemic, we are committed to improving our sustainability management and performance.

- We established the Sustainability Working Group to help enhance the Board's oversight of ESG risks and opportunities.
- We further defined our sustainability priorities through stakeholder engagement, paving the way for an enhanced management approach to our environmental and social impacts.
- The Group established a clean energy target for 2030 last year and has commenced transition initiatives such as switching to solar energy and introducing electric vehicles.
- Two of the plants in Changzhou have achieved 100% waste diversion under our Zero Waste to Landfill project.
- The Group made substantive progress in digitalizing human resources management, including launch of a mobile office platform, an online grievance reporting system and an online learning platform.

## 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 2021) 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 2021) 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 Hong Kong 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 Hong Kong Listing Rules, and is a discretional scheme of the Company.

Since the date of adoption of the Scheme and up to 31 December 2020, 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 on 15 May 2020, the Company's shareholders granted a general mandate to the Directors to repurchase shares of the Company, pursuant to which 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 annual general meeting.

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## HUMAN RESOURCES

As at 31 December 2020, the Group employed 33,735 permanent employees, reduced by 14% from 39,385 employees as at 31 December 2019. It was mainly due to the productivity per employee had further improved as the result of the Group's past and continuous effort on implementation of automation. The worldwide pandemic situation also contributes to lower manpower requirement.

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 the Czech Republic, Denmark, Finland, Hong Kong, India, Japan, the Philippines, Singapore, South Korea, Taiwan, the United Kingdom, the United States and Vietnam.

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.

## 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 Hong Kong 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 2020.

## CLOSURES OF REGISTER OF MEMBERS

**i. For attending and voting at the annual general meeting**

The registers of members of the Company will be closed from 11 May 2021 to 14 May 2021, 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 10 May 2021.

**ii. For entitlement of proposed final dividend**

The registers of members of the Company will be closed from 3 June 2021 to 7 June 2021, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 2 June 2021.

## DESPATCH OF ANNUAL REPORT

The Company's annual report containing the Directors' report and consolidated financial statements for the year ended 31 December 2020 will be published on the Company's website at www.aactechnologies.com and the website of the Hong Kong Stock Exchange on or around 15 April 2021.

The annual report and the notice of annual general meeting will be dispatched to Shareholders on or around 15 April 2021. All of these will be made available on the Company's website.

## IMPORTANT NOTE

The Company may have an investors' webcast and media conference after trading hours of the Hong Kong Stock Exchange on the date of this announcement. Please visit the Company's website www.aactechnologies.com for the Company's regular investor relations update.

Investors and shareholders of the Company are advised to exercise caution when dealing in the shares of the Company.

By order of the Board

**AAC Technologies Holdings Inc.**
**Zhang Hongjiang**

*Chairman*

Hong Kong, 25 March 2021

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 the Company as at the date of this announcement are:

| | |
|---|---|
| **Executive Directors:** | Mr. Pan Benjamin Zhengmin<br>Mr. Mok Joe Kuen Richard |
| **Independent Non-executive Directors:** | Mr. Zhang Hongjiang<br>Mr. Au Siu Cheung Albert<br>Mr. Peng Zhiyuan<br>Mr. Kwok Lam Kwong Larry |
| **Non-executive Director:** | Ms. Wu Ingrid Chun Yuan |