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This announcement and the offering circular do not constitute an invitation or solicitation of an offer to acquire, purchase or subscribe for securities or an invitation to enter into an agreement to do any such things, nor is it calculated to invite any offer to acquire, purchase or subscribe for any securities. This announcement and the information herein (including the offering circular) are not for distribution, directly or indirectly, in or into the United States (including its territories and possessions, any state of the United States and the District of Columbia).

*This announcement and the information herein (including the offering circular) do not constitute or form a part of any offer or solicitation to purchase, subscribe or sell securities in the United States. The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any state of the United States or other jurisdiction. The securities referred to herein are being offered and sold outside the United States in reliance on Regulation S under the Securities Act (the "**Regulation S**") and may not be offered or sold within the United States absent registration or an applicable exemption from registration under the Securities Act. No public offering of the securities referred to herein will be made in the United States or in any other jurisdiction where such an offering is restricted or prohibited. No money, securities or other consideration is being solicited by this announcement or the information contained herein (including the offering circular) and, if sent in response to this announcement or the information contained herein (including the offering circular), will not be accepted.*

PUBLICATION OF THE OFFERING CIRCULAR

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)

U.S.$300,000,000 2.625 per cent. Notes Due 2026 (the "2026 Notes")

(Stock Code: 40699)

and

U.S.$350,000,000 3.750 per cent. Notes Due 2031 (the "2031 Notes")

(Stock Code: 40700)

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

Please refer to the offering circular dated 25 May 2021 (the "**Offering Circular**") appended herein in relation to the issuance of the 2026 Notes and the 2031 Notes. The Offering Circular is published in English only.

Notice to Hong Kong investors: AAC Technologies Holdings Inc. (the "**Company**") confirms that the 2026 Notes and the 2031 Notes are intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and have been listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Company confirms that the 2026 Notes and the 2031 Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Circular.

By order of the Board
AAC Technologies Holdings Inc.
Ho Siu Tak Jonathan
Company Secretary

Hong Kong, 3 June 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 Mr. Mok Joe Kuen Richard
Independent Non-executive Directors:	Mr. Zhang Hongjiang Mr. Au Siu Cheung Albert Mr. Peng Zhiyuan Mr. Kwok Lam Kwong Larry
Non-executive Director:	Ms. Wu Ingrid Chun Yuan

IMPORTANT NOTICE

STRICTLY CONFIDENTIAL DO NOT FORWARD

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES. THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer (as defined in the Offering Circular) as a result of such access. The terms "United States", "directed selling efforts" and "offshore transaction" shall have the same meaning as in Regulation S of the U.S. Securities Act of 1933, as amended (the "**Securities Act**").

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND THE SECURITIES MAY NOT BE OFFERED OR SOLD EXCEPT IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR OTHERWISE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON, ELECTRONICALLY OR OTHERWISE, AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must not be located in the United States. The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to the Issuer (as defined herein), J.P. Morgan Securities plc, Citigroup Global Markets Limited, China International Capital Corporation Hong Kong Securities Limited, DBS Bank Ltd. and The Hongkong and Shanghai Banking Corporation Limited as the joint lead managers (the "**Joint Lead Managers**") that (1) you and any customers you represent are not, and the electronic mail address that you gave to the Issuer and to which this e-mail has been delivered is not located in the United States and, to the extent you purchase the securities described in the Offering Circular, you will be doing so pursuant to Regulation S under the Securities Act and (2) you consent to delivery of such Offering Circular and any amendments and supplements thereto by electronic transmission.

The attached document is being furnished in connection with an offering in offshore transactions outside the United States in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein. You are reminded that the information in the attached Offering Circular is not complete and may be changed.

Prohibition of sales to EEA retail investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 ("**IDD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling any of the Notes or otherwise making such Notes available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Prohibition of sales to UK retail investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to any of the foregoing restrictions, you are not authorised and will not be able to purchase any of the securities described herein.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of the Issuer, the Joint Lead Managers, the Trustee (as defined in the Offering Circular) or any agent of the foregoing to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute directed selling efforts (within the meaning of Regulation S under the Securities Act) in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or its affiliates on behalf of the issuer in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Joint Lead Managers, the Trustee (as defined in the Offering Circular) nor the Agents (as defined in the Offering Circular), nor any person who controls any of them, nor any director, officer, employee or agent of any of them, nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any such alteration or change to the Offering Circular distributed to you in electronic format or any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

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

(incorporated in the Cayman Islands with limited liability and listed on The Stock Exchange of Hong Kong Limited under the stock code 2018)

U.S.$300,000,000 2.625 PER CENT. NOTES DUE 2026 (the "2026 Notes")
U.S.$350,000,000 3.750 PER CENT. NOTES DUE 2031 (the "2031 Notes")
ISSUE PRICE OF THE 2026 NOTES: 99.870 per cent.
ISSUE PRICE OF THE 2031 NOTES: 99.193 per cent.

The 2.625 per cent. Notes due 2026 will be issued in an aggregate principal amount of U.S.$300,000,000 (the "**2026 Notes**") and the 3.750 per cent. Notes due 2031 will be issued in an aggregate principal amount of U.S.$350,000,000 (the "**2031 Notes**", together with the 2026 Notes, the "**Notes**" and each, a "**Series**") by AAC Technologies Holdings Inc. 瑞聲科技控股有限公司 (the "**Issuer**") and will be in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

The 2026 Notes will bear interest from 2 June 2021 at the rate of 2.625 per cent. per annum payable semi-annually in arrear on 2 June and 2 December in each year, and the 2031 Notes will bear interest from 2 June 2021 at the rate of 3.750 per cent. per annum payable semi-annually in arrear on 2 June and 2 December in each year (each, an "**Interest Payment Date**"), commencing with the first Interest Payment Date, falling on 2 December 2021. Each Series of the Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations(國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the "**NDRC Circular**") issued by the National Development and Reform Commission (the "**NDRC**") on 14 September 2015, the Issuer has registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC on 27 April 2021 evidencing such registration. Pursuant to the NDRC Circular, the Issuer will cause the relevant information relating to the issue of the Notes to be reported to the NDRC within the time period prescribed by the NDRC or pursuant to relevant laws and regulations after the Issue Date.

All payments of principal, premium (if any) and interest in respect of each Series of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied collected, withheld or assessed by or on behalf of Cayman Islands or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxed, duties, assessments or governmental charges is required by law, all to the extent described under "*Terms and Conditions of the 2026 Notes – Taxation*" and *"Terms and Conditions of the 2031 Notes – Taxation*".

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 2 June 2026 in respect of the 2026 Notes and on 2 June 2031 in respect of the 2031 Notes. The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, at their principal amount together with interest accrued to the date fixed for redemption, in the event of certain changes affecting taxation in Cayman Islands. In addition, at any time following the occurrence of a Change of Control (as defined in the terms and conditions of each Series of the Notes (the "**Terms and Conditions of the 2026 Notes**" and "**Terms and Conditions of the 2031 Notes**")), each Noteholder of a Series (as defined in the Terms and Conditions of the relevant Series) will have the right, at such Noteholder's option, to require the Issuer to redeem all but not some only of such Noteholder's Notes on the Put Settlement Date (as defined in the Terms and Conditions of the Notes of the relevant Series) at 101 per cent. of their principal amount together with accrued interest up to but excluding such Put Settlement Date. The Notes of each Series may be redeemed at the option of the Issuer on giving not less than 21 nor more than 60 days' notice to the Noteholders (the "**Optional Redemption Notice**") in whole, but not in part, (x) at their Make Whole Amount (as defined herein) at any time before 2 May 2026 in respect of the 2026 Notes and at any time before 2 March 2031 in respect of the 2031 Notes or (y) at 100 per cent. of the principal amount of the Notes to be redeemed on or after 2 May 2026 in respect of the 2026 Notes and on or after 2 March 2031 in respect of the 2031 Notes, in each case together with interest accrued to such call settlement date specified in the relevant Optional Redemption Notice. See "*Terms and Conditions of the Notes of the 2026 Notes – Redemption and Purchase*". and "*Terms and Conditions of the Notes of the 2031 Notes – Redemption and Purchase*".

Application will be made to The Stock Exchange of Hong Kong Limited (the "**HKSE**") for the listing of, and permission to deal in, each Series of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (the "**Professional Investors**") only. This document is for distribution for Professional Investors only. **Notice to Hong Kong investors: The Issuer confirms that the Notes of each Series are intended for purchase by Professional Investors only and will be listed on the HKSE on that basis. Accordingly, the Issuer confirms that the Notes of each Series are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.**

The HKSE has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. Listing of the Notes on the HKSE is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Issuer or quality of disclosure in this Offering Circular. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Investing in the Notes involves risks. See *"Risk Factors"* beginning on page 14 for a discussion of certain factors to be considered in connection with an investment in the Notes.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and are subject to United States tax law requirements. The Notes are being offered in offshore transactions outside the United States in accordance with Regulation S under the Securities Act ("Regulation S"), and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*".

Prohibition of sales to EEA retail investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 ("**IDD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling any of the Notes or otherwise making such Notes available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Prohibition of sales to UK retail investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Each Series of the Notes will be represented by beneficial interests in a global note certificate (each, a "**Global Note Certificate**") in registered form which will be registered in the name of a nominee for, and shall be deposited, on or about the Issue Date, with a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Note Certificate of each Series will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Individual note certificates ("**Individual Note Certificates**") evidencing holdings of Notes will only be available in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form*".

The Issuer has been assigned a corporate rating of "Baa2" with "stable" outlook by Moody's Investors Service, Inc. ("**Moody's**"). The Notes of each Series are expected to be rated "Baa2" by Moody's. **A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.**

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

J.P. Morgan | **Citigroup** | **China International Capital Corporation**

Joint Bookrunners and Joint Lead Managers

DBS Bank Ltd. | **HSBC**

Offering Circular dated 25 May 2021

NOTICE TO INVESTORS

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This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable inquiries that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Issuer, having made all reasonable enquiries, confirms that (i) this Offering Circular at the date of its publication contains all information with respect to the Issuer, the Group and the Notes which is material in the context of the issue, offering or sale of the Notes (including all information which is required by all applicable laws or, according to the particular nature of the Issuer, the Group and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Group, and of the rights attaching to the Notes); (ii) the statements of facts contained herein at the date of its publication are in every material respect true and accurate and not misleading; (iii) the statements of intention, opinion, belief or expectation contained in this Offering Circular at the date of its publication are honestly and reasonably made or held and have been reached after considering all relevant circumstances and based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Group and the Notes the omission of which would, in the context of the issue, offering or sale of the Notes, make any statement in this Offering Circular misleading; and (v) all reasonable enquiries have been and will be made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

This Offering Circular has been prepared by the Issuer solely for use in connection with the proposed offering of the Notes described in this Offering Circular. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Joint Lead Managers, the Trustee and the Agents (as defined herein) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the distribution of this Offering Circular or any offering or publicity material relating to the Notes in any jurisdiction where action would be required for such purposes. There are restrictions on the offer, sale and resale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions including, without limitation, the United States, the United Kingdom, Hong Kong, PRC, Singapore, Japan, Canada and Cayman Islands, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and distribution of this Offering Circular, see "*Subscription and Sale*". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful. By purchasing the Notes, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Group and the Notes other than as contained in this Offering Circular and, if given or made, such other information or representation must not be relied upon as having been authorised by or on behalf of any of the Issuer, the Group, the Joint Lead Managers, the Trustee or the Agents (as defined herein) (or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them or their respective advisers). Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change, or development reasonably likely to involve a change, in the affairs of the Issuer or the Group or any member of the Group since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Joint Lead Managers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them or their respective advisers) to subscribe for or purchase any Notes and this document may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular is being furnished by the Issuer in connection with the offering of the Notes exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Notes. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Issuer and other sources identified in this Offering Circular. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Notes offered by this Offering Circular is prohibited. Each offeree of the Notes, by accepting delivery of this Offering Circular, agrees to the foregoing.

Prohibition of sales to EEA retail investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II"**); or (ii) a customer within the meaning of Directive (EU) 2016/97 ("**IDD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling any of the Notes or otherwise making such Notes available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Prohibition of sales to UK retail investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

IN CONNECTION WITH THIS ISSUE, ANY OF THE JOINT LEAD MANAGERS APPOINTED AND ACTING IN THE CAPACITY AS THE STABILISATION MANAGER OR ANY PERSON ACTING ON ITS BEHALF MAY OVERALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF EACH SERIES OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THE JOINT LEAD MANAGERS (OR ANY PERSON ACTING ON ITS BEHALF) IS NOT OBLIGED TO UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF EACH SERIES OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them or their respective advisers has independently verified the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete. Accordingly, no representation, warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted, by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them or their respective advisers, as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Notes. Nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them or their respective advisers.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them or their respective advisers accept any responsibility for the contents of this Offering Circular and assume no responsibility for the contents, accuracy, completeness or sufficiency of any such information or for any other statement, made or purported to be made by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them or their respective advisers or on their behalf in connection with the Issuer or the issue and offering of the Notes. Each of the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them or their respective advisers accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them or their respective advisers undertakes to review the results of operations, financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Joint Lead Managers, the Trustee or the Agents or their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them or their respective advisers.

This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them or their respective advisers that any recipient of this Offering Circular should purchase the Notes. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them or their respective advisers in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Issuer and the merits and risks involved in investing in the Notes. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

Any of the Joint Lead Managers and their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or its subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). Furthermore, investors in the Notes may include entities affiliated with the Issuer.

Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, investors should consult his or her advisor. The Issuer, the Group, the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them or their respective advisers are not making any representation to any purchaser of the Notes regarding the legality of any investment in the Notes by such purchaser under any legal investment or similar laws or regulations.

The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them or their respective advisers in connection with its investigation of the accuracy of such information or its investment decision.

All non-company specific statistics and data relating to the Group's industry or the economies of pertinent jurisdictions, such as the PRC, have been extracted or derived from publicly available information and various government sources. The Issuer believes that the sources of this information are appropriate for such information and the Issuer has taken reasonable care in extracting and reproducing such information. The Issuer does not have reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, this information has not been independently verified by the Issuer or the Joint Lead Managers, the Trustee or the Agents and none of the Issuer, the Joint Lead Managers, the Trustee or the Agents make any representation as to the correctness, accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon.

Unless otherwise stated in this Offering Circular, all translations from Renminbi into U.S. dollars were made at the rate of RMB 6.5250 to U.S.$1.00 and all translations from Hong Kong dollars into U.S. dollars were made at the rate of HK$7.7534 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 December 2020. All such translations in this Offering Circular are provided solely for investors' convenience and no representation is made that the amounts referred to herein have been, could have been or could be converted into U.S. dollars or Renminbi or Hong Kong dollars, or *vice versa,* at any particular rate or at all.

The contents of this Offering Circular have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this Offering Circular, you should obtain independent professional advice.

ROUNDING

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

CERTAIN DEFINITIONS AND CONVENTIONS

In this Offering Circular, unless otherwise specified or the context requires otherwise:

References herein to the "Issuer" or "AAC Technologies" are to AAC Technologies Holdings Inc. 瑞聲科技控股有限公司 and references to the "Group" are to the Issuer and its consolidated subsidiaries.

References herein to "China" or the "PRC" are to the People's Republic of China and, for the purpose of this Offering Circular only, exclude Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan, and all references to "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China.

References to "COVID-19" are to the novel coronavirus disease 2019.

References to "Greater China" refer to mainland China, Hong Kong and Taiwan.

References to "MOFCOM" are to the Ministry of Commerce of the PRC.

References to "NDRC" are to the National Development and Reform Commission of the PRC.

References to "PBOC" are to the People's Bank of China, the central bank of the PRC.

References to "PRC government" are to the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or where the context requires, any of them.

References herein to "Renminbi", "RMB" or "CNY" are to the lawful currency of the PRC, references herein to "Hong Kong dollars", "HK dollars", "HK$", "HK cents" or "HK¢" are to the lawful currency of Hong Kong, references herein to "U.S. dollars", "U.S.$", "US cents" or "US¢" are to the lawful currency of the United States of America, references herein to "IFRS" are to International Financial Reporting Standards.

References to "SCNPC" are to the Standing Committee of National People's Congress of the PRC.

The English names of PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains terms used in this Offering Circular as used in the Group's business. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

"3D"	Three dimensional
"5G"	Fifth generation, the latest generation of cellular network technology standard
"ADAS"	Advanced driver-assistance system
"AIoT"	Artificial intelligence of things
"AR"	Augmented reality
"Autonomy Level"	Levels of vehicle autonomy as provided by The Society of Automotive Engineers
"die"	Block of metal with a design used for stamping and shaping
"EMS"	Electronic Manufacturing Services
"ESG"	Environmental, social and corporate governance
"FPC"	Flexible printed circuit
"IoE"	Internet of Everything
"IoT"	Internet of Things
"IP"	Intellectual property
"LCP"	Liquid crystal polymer
"LDS"	Laser direct structuring
"MEMS microphone"	Micro Electro Mechanical Systems ("**MEMS**") microphones are compact, light weight and based on MEMS technology. MEMS is based on semiconductor technology which uses silicon to create pathways for electricity within components
"miniature receiver"	Electronic device that receives electrical signals from an amplifier or signal processor and converts them into sound signals
"module suppliers"	Suppliers of modules such as liquid crystal display modules or sub-parts for mobile phone handsets
"ODM"	Original Design Manufacturer, a company that both designs and manufactures a product for its customers
"OEM"	Original Equipment Manufacturer, the original manufacturer and its designated contract manufacturers
"OIS"	Optical image stabilisation

"R&D"	Research and development
"RF".	Radio frequency
"transducer".	Simple-tone audio output device for use in pagers, low-end mobile phone handsets and other consumer electronic products that produces beeping or clicking sounds or simple music tones
"TTL".	Total track length
"TWS"	True wireless stereo
"VCM"	Voice coil motor
"VR"	Virtual reality
"WLG"	Wafer-level glass

PRESENTATION OF FINANCIAL INFORMATION

This Offering Circular contains the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2019 and 2020 (the "**Issuer's Audited Financial Statements**"). The Issuer's Audited Financial Statements were prepared and presented in accordance with IFRS and have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants ("**Deloitte**"), independent auditors of the Issuer.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes "forward-looking statements". All statements other than statements of historical fact contained in this Offering Circular, including, without limitation, those regarding the Group's future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where the Group participates or is seeking to participate, and any statements preceded by, followed by or that include the words "believe", "expect", "aim", "intend", "will", "may", "anticipate", "seek", "should", "estimate" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond the Group's control, which may cause its actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Important factors that could cause the Group's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- unforeseen changes in miniaturised components from the Group's largest customers;
- the Group's ability to obtain, enforce, defend or monetise its IP rights;
- the business and operating strategies and the future business development of the Group;
- the risks inherent to the industries in which the Group operates;
- changes in competitive conditions and the Group's ability to compete under these conditions, including the actions and developments of competitors;
- the Group's capital expenditure and development plans;
- the Group's expectations with respect to its ability to acquire and maintain regulatory qualifications required to operate its business;
- the availability and charges of bank loans and other forms of financing;
- the Group's operations, financial condition, results of operations and business prospects;
- the Group's dividend distribution plans;
- pandemics (including the COVID-19 pandemic), natural disasters and industrial actions;
- escalating international trade tensions, new or increased tariffs and trade wars among countries;
- the general economic, political, social conditions and developments in the PRC and other jurisdictions where the Group operates;
- changes or volatility in currency exchange rates, interest rates, taxes and duties, equity prices or other rates or prices, including those pertaining to the PRC and other jurisdictions where the Group operates;
- changes in the laws, rules and regulations of the governments in the PRC and other jurisdictions where the Group operates and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of the Group's business; and
- other factors beyond the Group's control.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed in "*Risk Factors*" and elsewhere in this Offering Circular. Forward-looking statements speak only as at the date of this Offering Circular and the Group expressly disclaims any obligation or undertaking to update publicly or revise any forward-looking statements in this Offering Circular to reflect any change in the Group's expectations or any change in events, conditions or circumstances on which these forward-looking statements are based. Given the uncertainties of forward-looking statements, there can be no assurance that projected results or events will be achieved and undue reliance should not be placed on these statements.

CONTENTS

SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. This summary does not contain all of the information that may be important to investors in deciding to invest in the Notes. Terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Investors should therefore read this entire Offering Circular, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making an investment decision.

The Issuer

The Group is one of the world's leading providers of advanced miniaturised and proprietary technology solutions for the global electronics industry in the consumer market. This position is enabled by the Group's cutting-edge technologies in materials research, simulation, algorithms, design, automation and process development. The Group has close to three decades of experience in designing and making miniaturised electronic components and integrated solutions through innovation driven by creating excellent user experience and high-precision manufacturing capabilities. Its diversified businesses include dynamic components, electromagnetic drives and precision mechanics, optics products and MEMS components. The Group's products and solutions have extensive end applications in smartphones, smart home appliances, IoT, wearables, AR/VR and automotive markets.

The Group's leading positions are evident from the market share of its key products. AAC Technologies believes it is one of the world's top suppliers of acoustics products and x-axis haptic motors and one of the world's top three suppliers of plastic lenses for smartphones. AAC Technologies was named as one of *Forbes'* "Asia's Fab 50 Companies" in 2018 for the third consecutive year, *Fortune's* "Fortune China 500" from 2017 to 2020 and China Electronic Components Association's "Top 100 China Electronic Components Enterprises" in terms of revenue since 2005.

The Group continuously invests in R&D on its core technologies to develop new products and enhance customer satisfaction to maintain technology leadership. As at 31 December 2020, the Group had 19 R&D centres in countries such as China, Singapore, Japan, the United States, Finland, Denmark, South Korea and the United Kingdom. As at 31 December 2020, the Group had an IP portfolio of 6,034 patents and 6,287 patent applications pending worldwide. During the years ended 31 December 2018, 2019 and 2020, the Group's R&D expenses represented 8.3 per cent., 9.6 per cent. and 11.2 per cent. of its revenue, respectively.

The core competencies of the Group include simulations, innovative research and design as well as vertically integrated smart manufacturing, complemented by efficient management, proven operational systems and its efforts in nurturing talents. AAC Technologies believes that these competencies will help secure the Group's position in the unique class of companies which are able to compete over technological barriers and customer stickiness. As a testament of its products' high performance and superior quality, the Group has established and maintained long-term relationships with its customers which include some of China's and the world's leading smartphone makers. The Group also strives to expand beyond smartphone sector into other smart devices markets, including IoT, wearables, AR/VR, automotive etc., and continue to enhance user experience.

Competitive Strengths

AAC Technologies believes its principal strengths include:

- a diversified portfolio of leading products for the smart devices industry;
- strong R&D capability and relentless product innovation;
- established supplier to market leaders in the smartphone market;

- vertically integrated and geographically diversified manufacturing capability;
- effective corporate governance;
- prudent financial management with strong financial metrics; and
- committed management team with extensive industrial expertise.

Business Strategies

AAC Technologies believes the following strategies will enable it to strengthen its position as one of the world's leading integrated solutions provider for the smart devices market with cutting-edge technologies and achieve its goal to lead innovation and enhance user experience:

- development through innovation to enhance user experience;
- establishing advanced technology platforms to optimise production costs and improve competitiveness;
- leadership position in each business area through development of differentiated and cutting-edge technology;
- expand application scenarios to capture greater market opportunities in the 5G era; and
- maintain healthy liquidity to provide strategic flexibility

The Group's core strategic focus, and where it invests the majority of its resources, is to drive growth through innovation and enhance its R&D as well as high-precision manufacturing capabilities, so as to provide the best products and solutions meeting future market demands. The Group aims to achieve sustainable development capability through focusing on high-tech entry barrier and high value-added precision manufacturing business and establishing a leading edge in each segment of the Group.

The table below sets forth the Group's revenue by reportable segments for the periods indicated:

	Year ended 31 December					
	2018		**2019**		**2020**	
	(RMB'000)	*(per cent.)*	*(RMB'000)*	*(per cent.)*	*(RMB'000)*	*(per cent.)*
Dynamic components	8,674,642	47.9	8,167,276	45.7	7,559,954	44.1
Electromagnetic drives and precision mechanics	8,073,135	44.5	7,694,198	43.0	6,847,410	40.0
Optics products(1)	–	–	1,070,152	6.0	1,634,423	9.5
MEMS components	814,438	4.5	928,524	5.2	1,082,582	6.3
Other products(2)	568,938	3.1	23,607	0.1	15,850	0.1
Total	**18,131,153**	**100.0**	**17,883,757**	**100.0**	**17,140,219**	**100.0**

Notes:

(1) Revenue of optics products was first recorded under a standalone segment in the Issuer's audited financial statements ended 31 December 2020. Revenue of optics products for the year ended 31 December 2019 was derived from the Issuer's audited financial statements ended 31 December 2020.

(2) Revenue of optics products for the year ended 31 December 2018 was combined into "other products".

AAC Technologies was listed on the main board of the HKSE on 9 August 2005. As at 31 December 2020, AAC Technologies had a market capitalization of approximately HK$52.4 billion or US$6.8 billion based on the total number of 1,208,500,000 issued shares and the closing price of HK$43.40 per share. It has been a constituent of the Hang Seng Index since 2016 and a constituent of the Hang Seng TECH Index effective from July 2020. In 2020, the Group received a rating of "AA" from the Hang Seng Corporate Sustainability Index, a rating of "A" from MSCI ESG Ratings, "Low Risk 17.8" from

Sustainalytics ESG risks ratings and "3.3" from FTSE4Good. The Institutional Investor awarded AAC Technologies with titles including "Best IR Company", "Most Honoured Company Awards" and "Best Corporate Governance" in 2018. The Group was granted the "Grand Awards in Best ESG Report – Large Cap Best GRI Report Excellence in ESG Governance" by the Hong Kong ESG Reporting Awards (HERA) in 2020. It also received a special mention and a citation for ESG disclosure by HKICPA Best Corporate Governance Awards and HKMA Best Annual Reports Awards, respectively, in 2020.

Recent Developments

Management of Impact of COVID-19

There has been a recent resurgence of reported infections, including in Europe, India and Vietnam, as well as the emergence and rapid spread of new variants of the COVID-19 virus. There are substantial uncertainties in the development of the pandemic and its potential impact on the Group. For details, please see "*Risk Factors – Risks relating to the Group and its Business – The Group's China and overseas businesses and results of operations may be materially and adversely affected by the COVID-19 pandemic and other pandemics*".

The outbreak of the COVID-19 pandemic brought unprecedented challenges globally. The Group's revenue and net profit for the year ended 31 December 2020 decreased as a result of a decline in global smartphone shipment volume brought on by the COVID-19 pandemic and shortage of chips and other components. Although, the global spread of the COVID-19 pandemic brought disruptions to manufacturing for some of the product lines, the Group took swift actions to protect the health and safety of its employees, and to strive for speedy recovery of daily operations.

The Group's business performance has improved after the first quarter of 2020. The Group's gross profit margin for the fourth quarter of 2020 improved considerably as compared to the first quarter of 2020. In particular, the Group's gross profit margin of optics products increased quarter to quarter throughout the year of 2020. In the fourth quarter of 2020, gross profit margins of dynamic components, electromagnetic drives and precision mechanics and MEMS components had all increased from the respective levels in the first quarter of 2020. See also "*– Unaudited Quarterly Results of the Group for the Three Months ended 31 March 2021*" for the discussion of the results of operations of the first quarter of 2021 of the Group.

The Group's effective anti-pandemic measures contributed to the Group's quick recovery. Following the principle of "early detection, early reporting, early isolation and early treatment", the Group set up a pandemic prevention taskforce to manage the anti-pandemic effort. In addition to stringent pandemic prevention and control measures, the Group made specific arrangements on human resources and manufacturing management to minimise the adverse impact of the COVID-19 pandemic on employee well-being, overall production capacity and product quality. The pandemic prevention taskforce and the environmental, health and safety department conducted checks to ensure all parts of operations have been well-equipped for pandemic prevention. The Group allocated sufficient supplies and implemented social distancing restrictions in product lines, dormitories and shuttle bus services. At the beginning of the outbreak, the Group provided free nucleic acid testing for all employees, and established and implemented guidelines and procedures for controlling visitors, on-boarding of new employees, arranging quarantine for employees who return to the workplace after public holidays, as well as handling suspected cases swiftly and safely. The Group also developed contingency plans to maintain productivity during the COVID-19 pandemic. Employees who were unable to return to the workplace adopted remote working. To reduce physical contact among employees, the Group allowed for staggered working hours and lunch breaks. The Group arranged temporary job transfers for affected employees in order to assure their income and to meet delivery requirements at the same time.

Unaudited Quarterly Results of the Group for the Three Months ended 31 March 2021

AAC Technologies published on the HKSE the unaudited condensed consolidated results of the Group ("**Unaudited Quarterly Results**") for the three months ended 31 March 2021 ("**Q1 2021**") together with the comparative figures for the corresponding period in 2020 ("**Q1 2020**"). The Unaudited Quarterly Results relate only to selected unaudited key performance indicators of the Group and are based on the Group's internal records and management accounts. The Unaudited Quarterly Results have not been reviewed or audited by independent auditors and should not be relied upon by investors to provide the same quality of information associated with financial results that have been subject to an audit or review. None of the Joint Lead Managers, the Trustee, the Agents, or any of their respective directors, affiliates, officers, advisers, employees or agents makes any representation, warranty or undertaking, express or implied of, or accepts any responsibility or liability with respect to the Unaudited Quarterly Results. The Unaudited Quarterly Results are historical in nature and past performance is not a guarantee of future performance. The Unaudited Quarterly Results are not included in and do not form a part of this Offering Circular. See also "*Risks relating to the Group and its Business – The Issuer has published and may continue to publish periodical financial information on the HKSE. Investors should be cautious and not place any reliance on the financial information other than that disclosed in this Offering Circular*".

In Q1 2021, the Group achieved a considerable increase in revenue as compared to Q1 2020. This was mainly due to the recovery of global smartphone market demand, a delay of a major overseas customer's peak season from the fourth quarter of 2020 to Q1 2021 and the increase of market share of the Group across various businesses in the Android market. Benefiting from operating efficiency, effective cost control measures and the continuous optimisation of product portfolios, gross profit margin of the Group for Q1 2021 increased notably and net profit increased substantially as compared to Q1 2020.

Dynamic Components

In Q1 2021, as a major overseas customer's peak season had partially delayed from the fourth quarter of 2020 to Q1 2021, and the Group's market share had increased in the Android acoustics market, revenue from the dynamic components segment rose significantly on a year-on-year basis. Android acoustic products' gross profit margin continued to improve further from the growth momentum in the fourth quarter of 2020. The overall gross profit margin of dynamic components increased notably.

Optics Products

In Q1 2021, along with an increasing shipment of plastic lenses and a steady growth of the camera module business, revenue from the optics products segment increased substantially as compared to Q1 2020. Leveraging the Group's high-precision and customized production equipment, as well as an automated manufacturing process, the production yield and production efficiency of the optics business improved steadily. The overall gross profit margin for Q1 2021 also increased substantially as compared to Q1 2020, with the gross profit margins of the plastic lens business and the camera module business both improving as compared to Q1 2020.

Based on the Group's core strategy of vertical integration to provide total optical solution to customers encompassing lenses, modules and VCM, the camera module business has shown a steady progress with gross profit margin turning positive in Q1 2021.

Electromagnetic Drives and Precision Mechanics

In Q1 2021, due to a decline in unit price for electromagnetic products from a major customer, and the decrease in shipment volume of the metal casing business, revenue for the electronic drives and precision mechanics segment decreased considerably as compared to Q1 2020. Due to an increased gross profit margin from the metal casing business, the gross profit margin for this business segment increased slightly in Q1 2021 as compared to Q1 2020.

The Group's precision mechanics business was affected by a customer's shipment decline. However, benefitting from the flexible adjustment of production capacity and effective cost control measures, the utilisation rate remained stable and gross profit margin increased slightly.

MEMS Components

In Q1 2021, revenue from the MEMS components segment grew significantly as compared to Q1 2020 as a result of an increase in market share. Gross profit margin of the MEMS components segment of Q1 2021 remained stable as compared to Q1 2020.

Proposed Spin-off and Separate Listing of AAC Optics Group

AAC Technologies is considering a proposed spin-off of AAC Optics (Changzhou) Co., Ltd.(誠瑞光學(常州)股份有限公司)("**AAC Optics**") and its subsidiaries (the "**Proposed Spin-off**"), by way of a separate listing of the shares of AAC Optics on a stock exchange in the PRC (the "**Separate Listing**"). AAC Optics and its subsidiaries ("**AAC Optics Group**") are principally engaged in the R&D, production and sale of optics products. AAC Optics Group is dedicated to becoming a leading optics solution provider with cutting edge technologies and superior products in order to capture the fast-growing market opportunities in the optics industry, and to deliver innovative user experience. The Proposed Spin-off and Separate Listing is expected to enhance AAC Optics Group's market positioning and integration of business resources, which would reinforce the competitiveness of AAC Optics Group in optics and establish a solid foundation for its long-term sustainable growth. At the same time, AAC Technologies and other members of the Group will be able to focus more on the development of the other business segments, thereby realising the maximum growth potential of AAC Technologies and AAC Optics Group.

As at the date of this Offering Circular, AAC Technologies had obtained the HKSE's approval to proceed with the Proposed Spin-off. The Proposed Spin-off and Separate Listing of AAC Optics Group are subject to, *inter alia*, approvals from relevant authorities, including the CSRC and the relevant stock exchange in the PRC, as well as the prevailing market conditions. The Proposed Spin-off and Separate Listing may or may not proceed and no assurance is given as to the timing thereof.

SUMMARY OF THE OFFERING

The following summary contains some basic information about the Notes of each Series. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the 2026 Notes" and "Terms and Conditions of the 2031 Notes" shall have the same meanings in this summary. For a more complete description of the terms and conditions of the Notes, see "Terms and Conditions of the 2026 Notes" and "Terms and Conditions of the 2031 Notes".

Issuer	AAC Technologies Holdings Inc. 瑞聲科技控股有限公司.
Notes.	U.S.$300,000,000 2.625 per cent. notes due 2026 (the "**2026 Notes**"). U.S.$350,000,000 3.750 per cent. notes due 2031 (the "**2031 Notes**").
Issue Price.	99.870 per cent. for the 2026 Notes. 99.193 per cent. for the 2031 Notes.
Form and Specified Denomination	The Notes will be issued in registered form in the specified denomination of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof.
Interest	The 2026 Notes will bear interest from 2 June 2021 at the rate of 2.625 per cent. per annum, payable semi-annually in arrear on 2 June and 2 December in each year (each, an "**Interest Payment Date**"), commencing on 2 December 2021, subject as provided in Condition 6 (*Payments*) of the Terms and Conditions of the 2026 Notes. The 2031 Notes will bear interest from 2 June 2021 at the rate of 3.750 per cent. per annum, payable semi-annually in arrear on 2 June and 2 December in each year, commencing on 2 December 2021, subject as provided in Condition 6 *(Payments)* of the Terms and Conditions of the 2031 Notes.
Issue Date	2 June 2021.
Maturity Date	2 June 2026 for the 2026 Notes. 2 June 2031 for the 2031 Notes.
Status of the Notes.	The Notes of each Series will constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Negative Pledge	The Notes of each Series will contain a negative pledge provision as further described in Condition 3(a) (*Covenants – Negative pledge*) of the Terms and Conditions of the Notes of the relevant Series.

Redemption at Maturity	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 2 June 2026 in respect of the 2026 Notes and 2 June 2031 in respect of the 2031 Notes, subject as provided in Condition 6 (*Payments*) of the Terms and Conditions of the Notes of the relevant Series.
Taxation	All payments of principal, premium (if any) and interest in respect of the Notes of each Series by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Cayman Islands or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such Series after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, subject to the exception as set out in Condition 7 *(Taxation)* of the Terms and Conditions of the Notes of the relevant Series.
Redemption for tax reasons	The Notes of each Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders of such Series (which notice shall be irrevocable) at their principal amount together with interest accrued to the date fixed for redemption, at any time in the event of certain changes affecting taxation in Cayman Islands, as further described in Condition 5(b) *(Redemption and Purchase – Redemption for tax reasons)* of the Terms and Conditions of the Notes of the relevant Series.
Redemption for Change of Control	At any time following the occurrence of a Change of Control, the holder of any Note of a Series will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Notes of such Series on the Put Settlement Date at 101 per cent. of their principal amount, together with accrued interest up to but excluding such Put Settlement Date. A "**Change of Control"** occurs when: (a) the Permitted Holders (as defined in the Terms and Conditions of the Notes of the relevant Series) and their respective Related Persons (as defined in the Terms and Conditions of the Notes of the relevant Series), acting together cease to, directly or indirectly, Control (as defined in the Terms and Conditions of the Notes of the relevant Series) the Issuer; or

(b) the Permitted Holders and their respective Related Persons, acting together, cease to be the largest holder of the Capital Stock (as defined in the Terms and Conditions of the Notes of the relevant Series) or the Voting Stock (as defined in the Terms and Conditions of the Notes of the relevant Series) (whether through direct or indirect shareholding (including beneficial ownerships)) of the Issuer; or

(c) the Issuer consolidates with or merges into or sells or transfers all or substantially all of its assets to any Person (as defined in the Terms and Conditions of the Notes of the relevant Series) (other than any Permitted Holder or any of his/her Related Persons), unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Issuer or the successor entity.

See Condition 5(d) *(Redemption and Purchase – Redemption for a Change of Control)* of the Terms and Conditions of the Notes of the relevant Series.

Redemption at the Option of the Issuer. . . . .

The 2026 Notes may be redeemed at the option of the Issuer (x) in whole, but not in part, at any time before 2 May 2026 or (y) in whole, but not in part, on or after 2 May 2026, on giving not less than 21 nor more than 60 days' notice to the Noteholders (each an "**Optional Redemption Notice**") (which notice shall be irrevocable):

i (in the case of a Call Settlement Date (as defined in the Terms and Conditions of the Notes) falling before 2 May 2026) at their Make Whole Amount (as defined in the Terms and Conditions of the Notes), together with interest accrued to such Call Settlement Date specified in the relevant Optional Redemption Notice; and

ii (in the case of a Call Settlement Date falling on or after 2 May 2026) at 100 per cent. of the principal amount of the 2026 Notes to be redeemed, together with interest accrued to such Call Settlement Date specified in the relevant Optional Redemption Notice.

The 2031 Notes may be redeemed at the option of the Issuer (x) in whole, but not in part, at any time before 2 March 2031 or (y) in whole, but not in part, on or after 2 March 2031, on giving not less than 21 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable):

i (in the case of a Call Settlement Date (as defined in the Terms and Conditions of the Notes) falling before 2 March 2031) at their Make Whole Amount (as defined in the Terms and Conditions of the Notes), together with interest accrued to such Call Settlement Date specified in the relevant Optional Redemption Notice; and

	ii (in the case of a Call Settlement Date falling on or after 2 March 2031) at 100 per cent. of the principal amount of the 2031 Notes to be redeemed, together with interest accrued to such Call Settlement Date specified in the relevant Optional Redemption Notice. See Condition 5(c) *(Redemption and Purchase – Redemption at the Option of the Issuer)* of the Terms and Conditions of the Notes of the relevant Series.
Events of Default	Upon the occurrence of certain events as described in Condition 8 (*Events of Default*) of the Terms and Conditions of the Notes of a Series, the Trustee at its discretion may, and if so requested in writing by holders of at least one quarter of the aggregate principal amount of the outstanding Notes of such Series or if so directed by an Extraordinary Resolution (as defined in the Trust Deed), shall (subject to the Trustee having been indemnified or provided with security to its satisfaction), give written notice to the Issuer declaring the of such Series Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.
Cross-Acceleration	Each Series of Notes will contain a cross-acceleration provision as further described in Condition 8(c) (*Events of Default – Cross-acceleration of Issuer or Subsidiary*) of the Terms and Conditions of the Notes of the relevant Series.
Clearing Systems	Each Series of the Notes will be represented by beneficial interests in a Global Note Certificate in registered form, which will be registered in the name of a nominee of, and shall be deposited with, a common depository for Euroclear and Clearstream. Beneficial interests in the Global Note Certificate of each Series will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream. Except in the limited circumstances described in the Global Note Certificates, owners of interests in Notes represented by the Global Note Certificates will not be entitled to receive Individual Note Certificates in respect of their individual holdings of Notes. The Notes are not issuable in bearer form.
Clearance and Settlement	The Notes have been accepted for clearance by Euroclear and Clearstream under the following codes:

	ISIN	Common Code
2026 Notes	XS2341038656	234103865
2031 Notes	XS2342248593	234224859

Legal Entity Identifier	549300SKEDE1VKS0A552.
Governing Law and Jurisdiction .	English law. Exclusive jurisdiction of the Hong Kong courts.
Trustee	DB Trustees (Hong Kong) Limited.

Principal Paying Agent.	Deutsche Bank AG, Hong Kong Branch.
Registrar.	Deutsche Bank AG, Hong Kong Branch.
Rating.	The Notes of each Series are expected to be rated "Baa2" by Moody's Investors Service, Inc. ("**Moody's**"). A rating is not a recommendation to buy, sell or hold Notes and maybe subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Listing	Application will be made to the HKSE for the listing of each Series of the Notes by way of debt issues to Professional Investors only. The HKSE assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular.
Further Issues	The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and the timing to perform and complete the NDRC Post-issue Filing) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.
Use of Proceeds	See the section entitled *"Use of Proceeds"*.

SUMMARY FINANCIAL INFORMATION AND OTHER DATA OF THE ISSUER

The following tables set forth the summary consolidated financial information of the Issuer as at and for the years and periods indicated.

The summary audited consolidated financial information of the Issuer as at and for the years ended 31 December 2018, 2019 and 2020 (except for the EBITDA data) have been derived from the Issuer's Audited Financial Statements which have been prepared and presented in accordance with IFRS and have been audited by Deloitte, the Issuer's independent auditor.

The summary financial information below should be read in conjunction with the consolidated financial statements and the notes to those statements included elsewhere in this offering circular.

Summary Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December		
	2018	**2019**	**2020**
	(Audited)	**(Audited)**	**(Audited)**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**
Revenue	18,131,153	17,883,757	17,140,219
Cost of goods sold	(11,388,078)	(12,776,765)	(12,912,734)
Gross profit	6,743,075	5,106,992	4,227,485
Other income, gains and losses	236,556	246,991	502,277
Gain on final settlement of earn-out consideration	147,830	–	–
Fair value (loss) gain on financial assets at fair value through profit or loss	(118,881)	19,234	–
Distribution and selling expenses	(316,521)	(275,329)	(285,427)
Administrative expenses	(649,856)	(642,803)	(671,861)
Research and development costs	(1,512,160)	(1,717,251)	(1,920,255)
Exchange (loss) gain	(1,853)	62,798	147,938
Finance costs	(217,888)	(248,210)	(352,558)
Profit before taxation	4,310,302	2,552,422	1,647,599
Taxation	(514,417)	(330,048)	(146,571)
Profit for the year	**3,795,885**	**2,222,374**	**1,501,028**
Other comprehensive (expense) income:			
Item that will not be subsequently reclassified to profit or loss:			
Fair value changes on equity instruments at fair value through other comprehensive income	(10,479)	76,479	14,178
Items that may be subsequently reclassified to profit or loss:			
Fair value changes on derivative financial instruments	4,449	(24,631)	(50,138)
Loss (gain) reclassified to profit or loss on hedged items	1,268	(1,001)	57,081
Exchange differences arising on translation of foreign operations	49,796	(47,742)	(105,499)
Total comprehensive income for the year	**3,840,919**	**2,225,479**	**1,416,650**
Profit (loss) for the year attributable to:			
Owners of the Company	3,795,885	2,222,375	1,506,707
Non-controlling interests	–	(1)	(5,679)
	3,795,885	**2,222,374**	**1,501,028**
Total comprehensive income (expense) attributable to:			
Owners of the Company	3,840,919	2,225,480	1,423,009
Non-controlling interests	–	(1)	(6,359)
	3,840,919	**2,225,479**	**1,416,650**

Summary Consolidated Statement of Financial Position

	As at 31 December		
	2018	2019	2020
	(Audited)	(Audited)	(Audited)
	(RMB'000)	(RMB'000)	(RMB'000)
Non-current assets			
Property, plant and equipment	15,440,039	16,910,713	18,592,060
Right-of-use assets	–	1,071,912	1,895,871
Goodwill	164,350	164,350	164,350
Prepaid lease payments	622,362	–	–
Deposits made for acquisition of property, plant and equipment	1,085,904	454,527	576,467
Investment properties	14,854	13,660	12,466
Equity instruments at fair value through other comprehensive income	178,684	350,740	352,006
Intangible assets	366,607	433,884	373,360
Derivative financial instruments	11,153	–	–
Deferred tax assets	–	–	95,000
Total non-current assets	**17,883,953**	**19,399,786**	**22,061,580**
Current assets			
Inventories	3,319,480	3,664,056	3,995,052
Trade and other receivables	4,474,213	5,576,036	5,176,458
Financial assets at fair value through profit or loss	22,426	–	–
Amounts due from related companies	4,991	3,622	5,595
Taxation recoverable	35,509	40,718	40,294
Pledged bank deposits	2,100	11,100	91,999
Bank balances and cash	4,126,494	5,511,974	7,540,330
Total current assets	**11,985,213**	**14,807,506**	**16,849,728**
Current liabilities			
Trade and other payables	4,548,240	5,474,116	5,204,503
Contract liabilities	8,673	10,271	14,734
Lease liabilities	–	96,742	493,657
Amounts due to related companies	62,468	75,354	43,593
Taxation payable	204,880	178,169	166,881
Bank loans	3,492,507	1,876,094	3,348,546
Government grants	–	–	83,015
Derivative financial instruments	–	–	24,695
Total current liabilities	**8,316,768**	**7,710,746**	**9,379,624**
Net current assets	**3,668,445**	**7,096,760**	**7,470,104**
Total assets less current liabilities	**21,552,398**	**26,496,546**	**29,531,684**
Non-current liabilities			
Lease liabilities	–	310,332	317,073
Bank loans	2,427,854	3,849,605	2,542,950
Unsecured notes	–	2,685,475	2,511,748
Contingent settlement provision	–	–	1,671,812
Government grants	117,779	208,938	603,959
Deferred tax liabilities	71,669	65,392	48,886
Derivative financial instruments	998	15,812	14,421
Total non-current liabilities	**2,618,300**	**7,135,554**	**7,710,849**
Net assets	**18,934,098**	**19,360,992**	**21,820,835**
Capital and reserves			
Share capital	98,906	98,135	98,135
Reserves	18,835,192	19,253,058	21,060,606
Equity attributable to owners of the Company	18,934,098	19,351,193	21,158,741
Non-controlling interests	–	9,799	662,094
Total equity	**18,934,098**	**19,360,992**	**21,820,835**

Summary Consolidated Statement of Cash Flows

	For the year ended 31 December		
	2018	2019	2020
	(Audited)	(Audited)	(Audited)
	(RMB'000)	(RMB'000)	(RMB'000)
Net cash generated from operating activities	6,789,300	3,843,492	3,592,604
Net cash used in investing activities	(3,599,086)	(3,394,585)	(3,262,076)
Net cash (used in) generated from financing activities	(3,246,838)	255,003	2,582,180
Net (decrease) increase in cash and cash equivalents	(56,624)	703,910	2,912,708
Cash and cash equivalents at 1 January	4,034,082	4,058,949	4,814,354
Effect of foreign exchange rate changes	81,491	51,495	(186,732)
Cash and cash equivalents at 31 December	4,058,949	4,814,354	7,540,330

Other Financial Data

	For the year ended 31 December		
	2018	2019	2020
EBITDA(1) (RMB'000)	6,291,817	4,976,938	4,477,686
EBITDA Margin(2) (per cent.)	34.7	27.8	26.1
EBITDA/finance costs (RMB'000)	28.9	20.1	12.7
Capital expenditure/EBITDA (per cent.)	62.0	60.9	113.6
Free cash flow(3) (RMB'000)	2,861,436	846,055	(1,399,535)
Gearing ratio(4) (per cent.)	19.8	24.6	21.6
Net gearing ratio(5) (per cent.)	6.2	10.5	2.2

Notes:

(1) EBITDA refers to profit before taxation plus finance costs, depreciation of property, plant and equipment, depreciation of right-of-use assets, amortisation of intangible assets, release of prepaid lease payments and depreciation of investment property. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, AAC Technologies believes that investors should consider, among other things, the components of EBITDA such as operating revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Group has included EBITDA because the Issuer believes that it is a useful supplement to the cash flow data as a measure of the Group's performance and the Group's ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Group's EBITDA to EBITDA presented by other companies because not all companies use the same definitions.

(2) EBITDA margin is calculated as EBITDA divided by revenue.

(3) Free cash flow is a non-GAAP measure derived by subtracting capital expenditures from cash flows from operating activities.

(4) Gearing ratio is calculated as total loans and unsecured notes divided by total assets.

(5) Net gearing ratio is calculated as total indebtedness (which refers to the total of the current and non-current portion of bank loans and the unsecured notes) minus cash and cash equivalents then divided by total assets.

RISK FACTORS

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Offering Circular, including the risks and uncertainties described below. PRC laws and regulations may differ from the laws and regulations in other countries. Additional risks not described below or not currently known to the Issuer or that it currently deems immaterial may also adversely affect the Issuer's and the Group's business, financial condition or results of operations or the price of the Notes. The Issuer believes that the risk factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for reasons which are not considered as significant risks by the Issuer based on information currently available to it or which it currently does not anticipate. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

RISKS RELATING TO THE GROUP AND ITS BUSINESS

The Group's China and overseas businesses and results of operations may be materially and adversely affected by the COVID-19 pandemic and other pandemics.

On 11 March 2020, the World Health Organisation declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The COVID-19 pandemic and governmental responses to the pandemic have had, and continue to have, a severe impact on global economic conditions, including significant disruption and volatility in the financial markets, disruption of global supply chains, temporary closures of many businesses, leading to loss of revenues and increased unemployment, and the institution of social distancing and sheltering-in-place requirements in many countries. If the pandemic is prolonged, or other diseases emerge that give rise to similar effects, the adverse impact on the global economy could deepen. With an aim to contain the COVID-19 pandemic, the PRC and other governments across the globe have imposed various strict measures including, but not limited to, travel restrictions, mandatory quarantine requirements, and postponed resumption of business operations.

Due to the outbreak of COVID-19, the Group closed most of the offices and production plants in mainland China for a certain period during the first quarter of 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 by February 2021. The Group has overseas R&D centres and manufacturing facilities outside mainland China that were also adversely affected by the continuing spread of COVID-19. In addition, the COVID-19 pandemic and the regulatory measures to combat the outbreak in place could significantly lower consumers' discretionary spending, which in turn, may lead to decrease or delay of order volume from the Group's customers. Economic conditions and weakened business performances may impede the Group's customers' ability to make timely payment. The Group may experience lower revenue resulting in less cash flow, along with delayed receivables collection. Supply chain disruptions and demand shrinkage arising as a consequence of the COVID-19 pandemic may delay their delivery of products to the Group.

As the COVID-19 pandemic continues, the extent to which the COVID-19 pandemic impacts the Group's financial condition and results of operations for the year of 2021 cannot be reasonably estimated at this time and will depend on future developments that currently cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic and the actions to contain the COVID-19 pandemic in certain countries and regions, the impact of the various new mutations and strains of COVID-19, government measures taken to combat these developments, as well as the ongoing impact on the Group's performance for the foreseeable future, among others. Any future outbreak of public health epidemics may restrict economic activities in affected regions, resulting in reduced business volume, disrupt the Group's business operations and adversely affect its results of operations.

The outbreak, or threatened outbreak, of other pandemics (such as severe acute respiratory syndrome or avian influenza) in China and globally could also materially and adversely affect the overall business sentiment and environment in China and globally, particularly if such outbreak is inadequately contained. This, in turn, could materially and adversely affect domestic consumption, labour supply and, possibly, the overall gross domestic product growth of China and globally. Labour shortages on contraction or slowdown in the growth of domestic consumption in China and globally could materially and adversely affect the Group's business and results of operations. In addition, if a material number of the Group's employees are affected by any severe epidemics, it could adversely affect or disrupt operations and may also involve a closure of the Group's offices and facilities to prevent the spread of the disease. The spread of any other pandemics in China and globally may also affect the operations of customers and suppliers of the Group, which could materially and adversely affect its business and results of operations.

The Group's business may be affected by force majeure events which may significantly reduce demand for its services and have an adverse effect on its results of operations.

Any force majeure events, including acts of terrorism, wars, threats of war, social unrest and the corresponding heightened travel security measures instituted in response to such events, as well as geopolitical uncertainty and international conflict and tension, could affect economic development and the stability of the economy where the Group operates, which in turn, could have a material adverse effect on the business, financial condition and results of operations of the Group. In addition, the Group may not be adequately prepared in terms of contingency planning or have recovery capabilities in place to deal with a major incident or crisis. As a result, operational continuity of the Group may be materially and adversely affected and the Group's reputation may be negatively impacted.

The Group is highly dependent on the smartphone market which is characterised by rapid technological change and short product life cycles.

A substantial part of the Group's revenue is derived from sales of its miniature products and integrated solutions to customers operating in the consumer electronics industry, primarily the smartphones makers. AAC Technologies expects that a substantial portion of its revenues will continue to be attributable to the smartphone market, which is cyclical and characterised by continuous and rapid technological change, product obsolescence, price erosion, evolving standards, short product life cycles, and significant fluctuations in product supply and demand. The Group's success depends on its ability to adequately respond and adapt to such technological changes in the market in a timely and cost-effective manner through continuous improvement of its existing products and services, refinement of improvement of its existing products and services, refinement of its technology and introduction of new products applying the latest technologies that improve performance, feature and reliability. The failure of the Group to adapt to such technological changes may render its products or production methods uncompetitive or obsolete and reduce the Group's market share and have a material adverse effect on the Group's business and results of operations.

Moreover, the smartphone market may not continue to grow at the rate experienced in recent years or may decline for reasons outside of the Group's control including competition among market participants, market saturation and global economic conditions. The smartphone market has experienced and may experience periodic downturns which may be characterised by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. Given that the strength of the smartphone market is a primary driver of the Group's revenues, any downturn in the smartphone market could have a material adverse effect on the Group's business and operating results. In addition, a decline in global economic conditions, particularly in China and other geographic regions with high concentrations of smartphone users, could have adverse, wide-ranging effects on demand for the Group's products or technologies, the products and services of the Group's customers or licensees, particularly OEM smartphone manufacturers, the solvency of key suppliers, failures by counterparties and negative effects on mobile handset inventories. See also "– *The Group's China and overseas businesses and results of operations may be materially and adversely affected by the COVID-19* *pandemic and other pandemics.*" In addition, the Group's customers' ability to purchase or pay for the products and services and ability to upgrade their smartphones could be adversely affected by economic conditions, leading to a reduction, cancellation, or delay of orders for the Group's products or services.

The consumer electronics industry is highly competitive and the Group's failure to successfully compete would adversely affect its business and prospects.

The Group competes in highly competitive, technology-based, industries that are highly dynamic as new technologies are developed and introduced. The Group faces intense competition in the miniature component sector. The Group competes based on a number of factors, such as technology leadership, breadth and depth of product features and design, performance, the ability to lead through critical technological cycles with new products, including products with technical and price performance advantages, long-term relationships with and deep knowledge of its customers, participation and influence in setting industry standards, effective end-to-end cost management (including R&D, production, service delivery, procurement, functional and operational support), brand name, energy efficiency, quality, market share, business scale, cost and selling price. Some of the domestic and overseas competitors of the Group may have stronger financial and R&D resources or are able to manufacture products on a larger scale or with higher cost efficiencies than the Group. Some specialised competitors may also have more flexibility to explore and develop alternative products and technologies that the Group's customers may prefer. Furthermore, due to rapid technology development and shortened product life cycles, it is becoming increasingly difficult for the Group to take advantage of the higher selling prices typically associated with new products, services and technologies while having to invest more on R&D. Increased competition has affected the profitability of some of the Group's key products. For the year ended 31 December 2020, the gross profit margin of the Group's dynamic components segment decreased to 27.9 per cent. from 31.0 per cent. for the year ended 31 December 2019. Current and prospective customers of the Group also evaluate the Group's capabilities with reference to the merits of manufacturing products themselves. There can be no assurance that the Group will be able to compete successfully in these markets and failure to do so could have a material adverse effect on the business, financial condition, results of operations and future prospects of the Group.

The Group derives a substantial portion of its revenue from a small number of customers. The loss of, or changes in product orders from, any one or more of these customers could materially and adversely affect the Group's financial condition and results of operations.

The Group derives a substantial portion of its revenue from a small number of customers, all of which operate in the consumer electronics industry. For the years ended 31 December 2018, 2019 and 2020, the aggregate sales attributable to the Group's five largest customers represented approximately 84.3 per cent., 79.7 per cent. and 85.5 per cent., respectively, of the Group's total revenue from sales. For the same periods, the Group's largest customer contributed approximately 48.7 per cent., 33.0 per cent. and 40.6 per cent., respectively, of the Group's total revenue from sales. Although the Group has established strong relationships with its five largest customers, all of which have been its customers for over seven years, the Group's business, financial condition and results of operations could be materially and adversely affected if the demand for the Group's products from any one or more of these customers decreases or if the Group loses any one or more of these customers.

The Group invests significant capital in developing, qualifying, and ramping up production of new products without any assurance of product sales.

A significant portion of the Group's revenues are derived from sales of components and solutions that are required to go through extensive customer qualification processes before being selected by customers for inclusion in their end products. In order to meet the product launch schedules of the Group's top customers, it may invest capital and devote substantial resources, including design, engineering, sales, marketing and programming efforts, based on non-binding forecasts provided by these customers, without any assurance that the Group's products will be designed into a customer's product or qualified by the customer. If the Group's product is not designed into or qualified by the customer, the Group may not recover or realise any return on the capital that it invested and its results of operations and profitability may be materially adversely affected. In addition, the time required and costs incurred by the Group to ramp-up production for new products can be significant. The Group often incurs certain non-recurring costs and expenditures for tooling and other equipment which may not be reusable in manufacturing products for other customers or different products for the same customer. Product ramp-ups typically involve greater volumes of scrap and risks to execution such as higher costs due to inefficiencies and delays in production, all of which can have a material adverse effect on the Group's results of operations and profitability.

The Group may not be able to continue its success in R&D.

The Group invests significant resources on R&D to build broad sustainable technology roadmaps and IP portfolios. For the years ended 31 December 2018, 2019 and 2020, the Group's R&D expenses were RMB1,512.2 million, RMB1,717.3 million and RMB1,920.3 million, respectively. However, R&D activities are inherently uncertain and the Group might encounter practical difficulties in commercialising the results of its R&D activities and launching new products as originally intended. In addition, the Group's R&D expenditures may not reap corresponding benefits and other companies may develop technologies and processes to manufacture products that prove to be more cost-effective and have better performance than that of the Group. Therefore, the Group's R&D efforts may be rendered obsolete by the technological advances of others. Any failure by the Group to further refine its technology and develop and introduce new products or improved processes could render the Group's products uncompetitive or obsolete and negatively impact the Group's results of operations.

Changes in the Group's product mix could affect the Group's results of operations.

The Group began with a single-product line of acoustics components and developed into a solutions provider covering dynamic components, electromagnetic drives and precision mechanics, MEMS components and optics products. The Group will continue to increase its product development efforts and expand the range of its products to meet the needs of its customers and enhance its competitiveness. For example, the Group has been developing the optics business and has made significant investment on the production and R&D of optics products, such as WLG hybrid lens. Such change and any other change in the Group's product mix expose it to a number of risks and challenges, including but not limited to:

- insufficient experience or expertise in products where it historically did not have a strong presence;
- imitation of its new products by competitors;
- failure of the Group's new products to be accepted by its downstream customers or meet their expectations for profitability;
- inability to hire additional qualified personnel on commercially reasonable terms;
- insufficient financial, operational, management and other human resources to support the Group's expanded range of products and business activities; and
- unsuccessful attempts to enhance the Group's risk management and internal control capabilities and information technology systems to support a broader range of products and business activities.

For the year ended 31 December 2020, the gross profit margins for the Group's dynamic components, electromagnetic drives and precision mechanics, optics products and MEMS components segments were 27.9 per cent., 23.8 per cent., 18.8 per cent. and 17.5 per cent., respectively. The diverse products that make up the Group's product mix have different profit margins, which may change based on changes in price and customer demand. Overall gross profit margin for the year ended 31 December 2020 decreased by 3.9 percentage points from the same period of the previous year to 24.7 per cent. due to the impact of COVID-19 business disruption, lower average selling prices on legacy products and unfavourable product mix resulting from a slowdown in innovation and specification upgrades. If the Group is unable to successfully change its product mix as planned due to these risks or to achieve the intended results, its business, financial condition and results of operations may be adversely affected.

The Group may be unable to manage its anticipated growth and expansion of its operations effectively.

The Group has significantly expanded its production in recent years and, in conjunction with the execution of its strategy, expects to continue to expand its production in terms of products portfolio and scale. To manage its growth, the Group must continue to improve its managerial, technical, operational and other resources, and continue to implement effective management information systems. In order to fund the Group's ongoing operations and its future growth, the Group needs to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, the Group will be required to manage relationships with a greater number of customers, suppliers, equipment vendors and other third parties. There can be no assurance that the Group will not experience issues such as shortages of raw materials and components, capacity constraints, construction delays, difficulties in ramping up production at new facilities or upgrading or expanding existing facilities and training an increasing number of personnel to manage and operate those facilities. In particular, failure of the Group to implement its expansion plans in a timely manner could adversely affect its ability to maintain, expand and diversify its customer base and to maintain the quality of its production. There can be no assurance that such expansion plans will not adversely affect the Group's existing operations, which could have a material adverse effect on the Group's business, financial condition, results of operations and future prospects.

The Group's financial condition and results of operations may be affected by material fluctuations of interest rates.

The Group is exposed to interest rate risks on its bank loans for working capital and capital expenditures that are associated with the expansion of the Group. Some of the Group's bank loans bear interest that accrues at rates linked to the benchmark lending rates published by PBOC or linked to the Hong Kong Interbank Offered Rate or the London Interbank Offered rate. Fluctuation in the benchmark lending rates may materially impact the Group's interest expenses and payables under its bank loans and in turn negatively affect the Group's financing costs and results of operations. As at 31 December 2018, 2019 and 2020, the Group's variable rate bank loans carried interest rate per annum ranged from 3.19 per cent. to 3.74 per cent., 3.61 per cent. to 4.21 per cent. and 0.89 per cent. to 3.90 per cent., respectively. For the year ended 31 December 2020, the Group's finance costs increased by 42.0 per cent. as compared to the year ended 31 December 2019 due to the additional interest on unsecured notes and the U.S.$388,000,000 3.00 per cent. notes due 2024. The Group's U.S. dollar deposits serve as a natural hedge to the risk of interest rate volatilities to some extent. The Group also maintains an appropriate mix of fixed and floating rate debt. The Group implements interest rate hedging from time to time via interest rate swap contracts to mitigate certain interest rate risk. Any increase in the benchmark lending rate by the central banks in the future will increase the Group's finance costs and adversely affect its profitability, financial condition and results of operations.

The Group is vulnerable to exchange rate fluctuations.

The Group has an international presence and operations, such as in China, Singapore, Japan, the United States, Finland, Denmark, South Korea and the United Kingdom. The Group faces foreign exchange exposure including transaction and translation exposure and is exposed to exchange rate risks that could impact financial reporting results. The Group's reporting currency is Renminbi and sales to overseas customers are predominantly denominated in U.S. dollar.

It is the Group's consistent policy to centralise 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 Renminbi and U.S. dollar are mostly, over time, in balanced proportions. In addition, various bank facilities have been arranged in these two currencies to meet daily operating expenses and capital investment requirements. As far as possible, the Group aims to achieve natural hedging. Where a natural hedge is not possible, the Group will mitigate foreign exchange risks via appropriate foreign exchange or cross currency swap contracts.

The impact of future exchange rate fluctuations among these currencies on the Group's results of operations and financial condition cannot be accurately predicted, and there can be no assurance that the Group's attempt to mitigate the adverse effects of exchange rate fluctuations will be successful or that such exchange rate fluctuations will not in the future have a material adverse effect on the Group's financial performance.

Any failure to obtain sufficient capital resources on acceptable terms or in a timely manner may adversely affect the Group's business and prospects.

The Group's business requires substantial capital resources. Maintaining the Group's competitiveness and implementing its growth strategies require the Group to obtain sufficient funds to capture new market opportunities and support its long-term business strategies. For the years ended 31 December 2018, 2019 and 2020, the Group incurred capital expenditures of RMB3,903.3 million, RMB3,032.9 million and RMB5,088.0 million, respectively. Although it is expected that capital expenditure for the year 2021 will decrease as compared to 2020, AAC Technologies believes that it will continue to require substantial capital resources to acquire land use rights, additional production plants and properties, the latest automation machinery and equipment for modifications and upgrades as well as capacity expansion.

The Group's capital expenditures are funded by internal resources, bond financing and bank loans. The Group focuses on mitigating the liquidity risk by means of an appropriate mix of Renminbi/U.S dollar/HK dollar borrowings that are constantly reviewed and adjusted and maintain a good relationship with various lending banks both in PRC and outside PRC. As at 31 December 2020, the Group had available credit facilities of RMB18,884 million. The Group's ability to access debt funding sources on acceptable commercial terms is dependent on a variety of factors, including a number of factors outside of its control, such as general market conditions, laws and regulations that affect bank borrowings and interest rates and credit availability from banks and other lenders. If the Group cannot obtain sufficient capital resources on acceptable terms or in a timely manner, it may not be able to implement its growth strategy through expansions, which may adversely affect the Group's business and prospects.

The Group may fail to collect its trade receivables which may harm its liquidity and its business activities.

As at 31 December 2018, 2019 and 2020, the Group's trade receivables (including bank acceptance and commercial bills) amounted to RMB3,369.0 million, RMB4,345.3 million and RMB3,519.6 million respectively, representing 28.1 per cent., 29.3 per cent. and 20.9 per cent. of its total current assets, respectively. For the years ended 31 December 2018, 2019 and 2020, the Group's average trade receivables turnover days (calculated by dividing the average of the beginning and ending trade receivable balances and multiplying by 365 days) were 91 days, 79 days and 84 days, respectively. The Group's trade receivables represent credit provided to the Group's customers. The Group's customers are generally given a credit term between 30 days to 120 days of issuance of invoices. The Group actively manages its receivables aging to identify customer payment behaviour. It makes provisions for significant overdue receivables on its balance sheet as a reserve against the future recognition of bad debt. There are inherent risks associated with the ability of its customers to make timely payments and their failure to make timely payments could materially and adversely affect the recovery of the Group's trade receivables which in turn could affect its business, financial condition or results of operations.

Restrictive covenants contained in credit facilities may limit the Group's ability to incur additional indebtedness and restrict its future operations, and failure to comply with these restrictive covenants may adversely affect its liquidity, financial condition and results of operations.

Certain financing contracts entered into by the Group's members contain operational and financial restrictions that prohibit the borrowers from incurring additional indebtedness unless they are able to satisfy certain financial ratios, restrict the borrowers from creating security or granting guarantees or prohibit the borrowers from changing their business and corporate structure and declaring or paying dividends, without the lenders' prior consent. For instance, some of the loan agreements and security agreements executed by certain members of the Group, including AAC Microtech (Changzhou) Co., Ltd.（瑞聲光電科技（常州）有限公司）, AAC Kaitai (Shenzhen) Sci-Tech Development Co., Ltd.（瑞聲開泰精密科技（常州）有限公司）and Shuyang Ruitai Technology Co., Ltd.（沭陽瑞泰科技有限公司）with certain commercial banks require such members to issue notice when such members or their related parties make decisions or execute agreements which may have material effects on such entities. Some of the loan agreements and security agreements executed by certain members of the Group, including AAC Microtech (Changzhou) Co., Ltd.（瑞聲光電科技（常州）有限公司）and Chengrui Optics (Changzhou) Co., Ltd.（誠瑞光學（常州）股份有限公司）with certain commercial banks restrict such members from paying dividends to their shareholders. Such restrictions may negatively affect the relevant companies' ability to respond to changes in market conditions, pursue the business opportunities AAC Technologies believes to be desirable, obtain future financing, fund capital expenditures, or withstand a continuing or future downturn in the Group's business. Any of these factors could materially and adversely affect the Group's ability to satisfy its obligations under outstanding financial obligations, such as the Notes after issuance.

If the Group or any of its member companies is unable to comply with the restrictions (including restrictions on future investments) and covenants in current or future debt obligations and other financing agreements, a default under the terms of such agreements may occur. For instance, some of the loan agreements executed by key operating subsidiaries of the Group with certain commercial banks contain cross-acceleration and cross-default provisions. In the event of a default under such agreements, the creditors may be entitled to terminate their commitments granted to the Group or its members, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, depending on the provisions of the relevant agreements. If any of these events occur, there can be no assurance that the Group will be able to obtain the lenders' waiver in a timely manner or that the assets and cash flow of the Group or its members would be sufficient to repay in full all of the respective debts as they become due, or that the Group or its members would be able to find alternative financing. Even if the Group or its members could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Group or its members.

As at 31 December 2020, the Group had bank deposits in the amount of RMB92.0 million that were pledged to banks mainly in relation to materials purchase and construction work. Third-party security rights may limit the Group's use of those assets and may adversely affect the efficiency of its operation. If the Group is unable to service and repay its debts under such loan facilities on a timely basis, the assets mortgaged or charged to secure the Group's bank loans may be foreclosed, which may adversely affect its business, financial condition, results of operations and prospects.

If the Group fails to manage its inventory level effectively, it could incur more inventory carrying costs or lose sales, either of which could materially and adversely affect its business, financial condition and results of operations.

The nature of the Group's business requires the Group to maintain a reasonable inventory level of its products to support its existing sales and any future sales growth. If the Group does not have sufficient inventories, it may lose orders or may experience late performance and face potential claims of its customers, which may materially and adversely affect the Group's reputation and business performance.

As at 31 December 2018, 2019 and 2020, the Group had inventories of RMB3,319.5 million, RMB3,664.1 million and RMB3,995.1 million, respectively, representing 27.7 per cent., 24.7 per cent. and 23.7 per cent. of the Group's total current assets, respectively.

At the same time, the Group has to actively manage the level of inventories and inventory aging to minimise its exposure to the risks of inventory obsolescence. The Group's management reviews the inventories aging listing, and makes allowance for obsolete and/or slow-moving inventory items identified that are no longer suitable for use in operation. As at 31 December 2018, 2019 and 2020, an allowance of RMB60.6 million, RMB41.5 million and RMB93.0 million, respectively, for inventories were recognised.

It is difficult for the Group to estimate the market demands for its products and to manage its inventories accordingly. Changing demands of consumers, inaccurate demand forecasts and mismanagement of the timetable of procurement, production and sales could increase the Group's inventories and escalate its inventory risks. The Group may not be able to manage its inventories effectively, and any failure to do so could materially and adversely affect its business, financial condition and results of operations.

The Group may face product liability claims if its products contain defects or are unfit for their intended use.

As with all products designed for consumer use, the Group is exposed to product liability claims in the event that any products installed with the Group's components and solutions results in personal injury or property damage. Therefore, the Group has developed and relies heavily on its quality control system to ensure the safety and quality of its products. All products are subject to thorough and comprehensive testing to meet customers' requirements and international standards. However, the Group's quality control system may not be effective in preventing product defects. In the event that any of the Group's products proves to be defective, the Group may be required to recall or redesign such products. If the Group is found to be liable for a product liability claim, the Group could be required to pay substantial monetary damages. Furthermore, even if the Group successfully defends itself against a claim, the Group could be forced to spend a substantial amount of money and time in defending such a claim and its reputation could suffer. A successful claim or product recall that results in significant adverse publicity against the Group may also have a material adverse effect on its reputation and its prospects.

The Group's failure to adequately protect its IP rights or any infringement claims against the Group may have a material and adverse effect on its business, financial condition and results of operations.

The Group owns certain registered patents, trademarks and copyrights in China and overseas. However, infringement of IP rights by other enterprises, typically through the production of counterfeit products, occurs frequently in the PRC. Although the Group relies upon a combination of trade secrets, confidentiality policies, non-disclosure and other contract arrangements, and patent, copyright and trademark laws to protect its IP rights, however, there can be no assurance that the Group can adequately prevent or deter infringement or other misappropriation of its IP, and the Group may not be able to detect the unauthorised use of, or take appropriate and timely steps to enforce its IP rights.

In addition, the Group may be accused of infringing third-party IP rights and may need to defend its IP rights in legal proceedings. If the Group does not prevail in such proceedings, it could be required to pay damages, develop non-infringing products and technologies or obtain licenses to certain products and technology. In the event that the Group is required to obtain any additional licenses, these may not be available on commercially reasonable terms or at all. Moreover, defending claims may be expensive and would divert the efforts of the Group's management and technical personnel.

Failures or security breaches of the Group's information technology system may significantly impair the Group's business.

The Group depends on its information technology infrastructure to conduct its operations. The Group has established an information security management platform which implements a comprehensive range of measures to safeguard data assets from breaches' leaks and hacks. A significant disruption or failure of the Group's information technology systems caused by server breakdown, telecommunications failures, computer viruses or hacking could result in production interruptions, mismanagement of procurement, safety failures and inability to protect information and assets against intruders and other operational difficulties. If any of these events occur, the Group's business, financial condition and results of operations could be materially and adversely affected.

The Group relies on highly specialised suppliers for a variety of highly engineered or specialised material and equipment for which it may not be able to readily identify alternatives or substitutes in the event of a supply disruption or capacity constraint at or by any of these suppliers, which could have a material adverse impact on the Group's results of operations.

Certain of the Group's businesses rely on highly specialised suppliers or foundries for critical materials and equipment that are used in the manufacturing of its products. Should an event occur which affects the ability or willingness of any of such supplier or foundry to continue to deliver materials or equipment to the Group in a timely manner, it may not be able to identify or qualify an alternative supplier in a timely manner which, in any such period and future periods, could have a material adverse effect on the Group's results of operations. Potential events or occurrences which could cause business or supply disruptions or affect the ability or willingness of a supplier or foundry to continue to supply the Group include changes in market strategy, the acquisition of, sale or other change in control or ownership structure of a supplier or foundry, strategic divestiture, bankruptcy, insolvency or other financial difficulties, business disruptions, operational issues, or capacity constraints at a supplier or foundry.

The Group's manufacturing activities involve inherent risks which may adversely affect the Group.

The operation of manufacturing facilities involves many risks and hazards, including the breakdown, failure or substandard performance of equipment, delays in delivery of equipment or improper installation or operation of equipment, difficulties in upgrading or expanding existing facilities in changing manufacturing line technologies, capacity constraints, labour and civil disturbances, fire, natural disasters such as earthquakes or typhoons, environmental hazards and industrial accidents. The occurrence of any such or other problems could materially and adversely affect the Group's manufacturing plants and cause delivery delays and reduced output, which would have a material and adverse effect on the Group's business, financial condition and results of operations. The Group generally does not maintain any business interruption insurance.

The Group's manufacturing processes are becoming increasingly complex which increases the Group's risk to disruptions in its operations.

The Group focuses on the development of advanced methods to manufacture miniaturised components and create integrated solutions. The Group's manufacturing processes are becoming increasingly complex. Although the Group employs a quality management system to limit manufacturing process errors, however, there is no assurance that there will be no errors in the manufacturing process. Failure in any step of the manufacturing processes may result in interruption of production, thereby limiting the Group's production capacity and causing a reduction or delay in sales, which would result in a materially adverse effect on the Group's business.

The Group is subject to increases in prices of, and shortages and delays in, the supply of raw materials and components.

The Group purchases certain of its raw materials and components from qualified suppliers, which the Group currently believes it is able to obtain at a reasonable cost, at the volume required and in a timely manner, while satisfying the Group's quality standards. However, the price of raw materials and components may increase or there may be shortages in supply. As a result, the Group may be unable to obtain adequate supplies of raw materials and components in a timely manner and at a reasonable cost. In addition, from time to time, the Group may reject raw materials and components that fail to meet agreed specifications, resulting in potential production delays or decreased output. If the supply of raw materials and components is substantially interrupted or reduced or if there are significant increases in the prices for raw materials and components, the Group may incur additional costs to acquire sufficient quantities of these raw materials and components to maintain production schedules and commitments to customers. For example, due in part to a shortage of semiconductor chips and other upstream components, the global smartphone shipment volume declined as a result, contributing to a decrease in the Group's revenue and net profit for the year ended 31 December 2020 as compared to the previous year. Any significant increases in the prices of these raw materials and components, which cannot be passed on to customers, would have an adverse effect on the Group's financial condition and results of operations.

Underperformance of third-party service providers may affect the Group's business and results of operations.

The Group engages third-party service providers, such as agents and distributers, to sell its products at certain geographic locations. However, there is no assurance that the services rendered by any of these third-party service providers will always be satisfactory or meet the Group's performance standards. If the performance of any third-party service provider is not satisfactory, the Group may need to replace such third-party service provider or take other actions to remedy the situation, which could adversely affect sales and product shipments to the Group's customers. As such, the underperformance of third-party service providers may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's existing and future investments, acquisitions, partnerships and new business lines and strategies may not be successful.

The Group has in the past expanded its product offerings through acquisitions. The Group acquired I. Square Research Co., Ltd., a Japanese lens design consultancy company to enhance its optics capability in 2010 and acquired Kaleido Technologies ApS for its WLG moulding capability in 2011. These acquisitions formed the foundations of the Group's development of its optics business. The Group may in the future expand its business scale and product offerings to broaden product application scenarios and enhance technology leadership through existing and future investments, acquisitions, partnerships and new business lines and strategies. Strategic investments, acquisitions and partnerships involve inherent operational risks, including difficulties in the assimilation of operations, corporate culture and personnel of the acquired or partnered business, diversion of management's attention from other business concerns, risks of entering into new markets and the potential loss of key employees of the acquired or partnered business. The successful integration of an acquired or partnered business may be affected by the size and complexity of the acquired or partnered business and the execution of the integration plan by its management. The Group may face unexpected delays or encounter difficulties that require the allocation of additional resources to deal with such problems.

Further, synergies may not be realised among the Group's existing businesses and newly acquired or partnered businesses lines. In addition, the Group's ability to grow by acquisitions and partnerships depends on, and may be limited by, the availability of suitable acquisition and partnership candidates, its ability to negotiate acceptable acquisition or partnership terms and its assessment of the characteristics of potential acquisition or partnership targets. There can be no assurance that the Group will be successful in identifying, developing or investing in targets or businesses that will complement its existing operations or that will otherwise be successful. Moreover, any strategic investments, acquisitions and partnerships could involve the incurrence of substantial additional indebtedness. There is no assurance that any such transactions undertaken by the Group will yield the benefits and advantages as expected. Each of these factors could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group may be involved in legal and other disputes arising out of its operations and may face significant liabilities as a result.

The Group may from time to time be involved in disputes with governmental entities, suppliers, distributors, consumers, employees and other third-party service providers during the course of the Group's daily operations. Claims may be brought against the Group based on a number of causes such as personal injuries, property damage, defective goods, breach of warranty or delays in product delivery. In addition, the Group may bring up claims against suppliers or distributors for additional costs incurred as a result of their under-performance or non-performance, defects or default. If the disputes or claims are not resolved or settled through negotiation or mediation, the Group may be involved in lengthy and costly litigation or arbitration proceedings, which may result in damage to the Group's reputation, substantial costs and diversion of the Group's financial and managerial resources. In the event that the Group prevails in those legal proceedings, there can be no assurance that the judgment or awards will be effectively enforced. If a judgment or award is rendered against the Group, the amounts payable by it may not be fully covered by its insurance, and the amounts could differ from the provisions made by it based on its estimates. Any material charges associated with claims brought against the Group and material write-downs associated with its claims could have a material adverse impact on the Group's financial condition, results of operations and cash flow. In addition, the Group may have compliance issues with regulatory bodies in the course of its operations, which may subject the Group to administrative proceedings and unfavourable decrees that result in liabilities and cause disruptions to the Group's businesses. The Group may be involved in other proceedings or disputes in the future that may have an adverse effect on its business, financial condition, results of operations and prospects.

Economic and political policies favouring national interest, including policies relating to global trade and tariffs, economic sanctions and export control, in jurisdictions including the United States and China, could adversely affect the Group's business, financial condition and results of operations.

In the past few years, several major systemic political, economic and financial crises negatively affected global business, banking and financial sectors, including the consumer electronics industry and markets. Since 2018, there have been political and trade tensions among a number of the world's major economies. These tensions have resulted in the implementation of tariff, non-tariff trade barriers and sanctions, including the use of export control restrictions and sanctions against certain countries and individual companies.

In particular, there have been escalations in the trade tensions between the United States and the PRC. These have continued to put pressures on manufacturers and supply chains in light of the potential tariffs imposed both by the United States and PRC. Since July 2018, the imposition of tariffs by the United States on products from the PRC from July 2018 and retaliation by the PRC have caused even greater volatility in the global markets. Although the United States and the PRC entered into a "phase one" of an economic and trade agreement in January 2020 as an initial step towards resolving the trade disputes between them, there is no assurance that a more comprehensive trade deal will be agreed or that tariffs will not be imposed even if such an agreement is reached. Prolonged and intensified trade frictions may lead to a slowdown of the global consumer electronic market and a decline of the orders by the key customers of the Group, which could have a material adverse effect on the Group's business, results of operations and financial conditions.

Furthermore, export controls and similar regulations may include restrictions and prohibitions on the sale or supply of certain products and on the transfer of parts, components, and related technical information and know-how to certain countries, regions, governments, persons and entities. For example, they prohibit the export of products with the knowledge that a violation of U.S. export regulations has or will occur in connection with the item. The Group believes that it is in compliance with applicable export control regulations, and as at the date of this Offering Circular, the Group's results of operations have not been materially affected by expansion of export control regulations or the novel rules or measures adopted to counteract them. Nevertheless, depending on future developments in the global trade tensions, there is no assurance that such regulations, rules, or measures will not have an adverse impact on the Group's business and operations. In addition, suppliers may restrict the Group's rights to use their components in products destined for end-users or end-uses that present heightened regulatory or reputational risks, and some customers may decline to purchase the Group's products that contain parts or components from, or that were manufactured by, suppliers and service providers that present heightened regulatory or reputational risks. The loss of suppliers or customers as a result of such regulatory or supply chain limitations could materially harm the Group's business, financial condition, results of operations and prospects. Furthermore, the Group's association with such customers or suppliers could subject it to actual or perceived reputational harm among current or prospective investors, suppliers or customers, other parties doing business with the Group, or the general public. Any such reputational harm could result in the loss of suppliers or customers, which could harm the Group's business, financial condition, results of operations or prospects and negatively affect the price of the Notes.

Failure of the Group to obtain or renew the necessary approvals, licenses and permits for its businesses could materially and adversely affect its business, financial condition, results of operations and prospects.

The Group's operating subsidiaries are incorporated and have operating activities in various countries. According to the applicable laws of the jurisdictions where each subsidiary operates, the subsidiary may be required to obtain a business license and carry out activities within the stated business scope of such business license. Governmental approvals, licenses, registrations or filings may also be required for any expansion of the stated business scope. If in the course of the Group's expansion, the Issuer or its subsidiary is required to expand its operation beyond the stated business scope on the respective business license, such entity may need to obtain additional governmental approvals and licenses or amend its registration or filings. The Group may fail to obtain these permissions or register or file in a timely manner, or at all, which could subject the Group to fines and penalties and substantially inhibit the Group's ability to operate its business.

Some of the Group's members are required, under applicable laws and regulations, to obtain additional governmental licenses, permits, authorisations, qualifications, concessions and other approvals in connection with the particular type of their business activities. Obtaining the necessary governmental permits can be a particularly complex, time-consuming and costly process. The duration and success of permit applications are contingent on many factors, including those outside the Group's control. The Group may not able to obtain all required approvals, licenses and permits within the timetable as expected, or at all, or to renew them before expiration.

Further, amendments to existing laws, rules or regulations may result in the requirement for additional approvals, licenses or permits, or imposition of stricter conditions of granting and renewal. There is no assurance that the Group is able to adapt itself to the new regulatory environment as a result of any such amendment, or that compliance costs associated with such amendment will not have an adverse impact to the Group's business, financial condition, results of operations or prospects.

The Group operates globally and is exposed to legal, regulatory, political, economic, commercial and other risks beyond its control in each jurisdiction where it operates.

The Group has 19 R&D centres in countries such as China, Singapore, Japan, the United States, Finland, Denmark, South Korea and the United Kingdom. For the years ended 31 December 2018, 2019 and 2020, the Group derived 68.3 per cent., 54.7 per cent. and 52.9 per cent. of its revenues, respectively, outside of Greater China, respectively. The Group's international operations are exposed to risks arising from changes in the global legal, political and economic environment as well as those specific to the jurisdictions that the Group operates in, including:

- volatility in gross domestic product, civil disturbance, or economic or political instability which may result in a decrease of disposable consumer income;

- impositions of exchange controls which may limit funds transfer between the Group and its overseas trading partners as well as intra-Group transfer;

- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties or other trade restrictions which may limit trading activities or increase the costs of trading; and

- nationalisation of private assets which may result in the loss of the Group's asset overseas.

In addition, there might be difficulty and increased costs in connection with compliance with different and changing regulatory requirements and government policies relating to bribery and corruption, taxation, antitrust, financial markets regulation, environmental protection, management and use of hazardous substances and explosives, labour and occupational health and safety standards, and historical and cultural preservation, including obtaining and maintaining the necessary certificates and permits. Changes in the relevant laws and regulations or in their interpretation or enforcement may also make it difficult for it to comply with the laws and regulations and may increase the Group's compliance expenses. The costs and resources associated with compliance with local laws and regulations can be substantial. Any changes to the laws and regulations that the Group is subject to or more stringent enforcement or restrictive interpretation of current laws and regulations by governmental authorities or rulings or clearances obtained from such governmental authorities could cause (i) additional expenditure to be incurred, (ii) the imposition of restrictions on or suspensions of the Group's operations and (iii) delays in the development of the Group's expansion plans. If the Group fails to comply with such laws or regulations, the relevant regulatory authorities may impose fines and penalties, confiscate the Group's income, revoke business licenses and order suspension or discontinuation of the Group's business. In addition, in case of non-compliance by the Group, these laws and regulations may allow governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from the environmental, health and safety and other impacts of the Group's operations, and could lead to the imposition of substantial fines, penalties, other civil or criminal sanctions, the curtailment or cessation of operations, orders to pay compensation, orders to remedy the effects of violations and/or orders to take preventative steps against possible future violations.

The Group may not be able to develop and implement policies and strategies that will be effective in the relevant jurisdictions to deal with the foregoing risks and, as a result, the Group's business, financial condition, results of operations and prospects could be materially and adversely affected.

The Group may incur significant costs in relation to compliance with environmental regulations.

Some of the Group's manufacturing processes employ or create various hazardous substances and emit exhaust gas pollution, such as wastewater, low-concentration organic pollutants, pickling exhaust gas and welding exhaust gas. For the years ended 31 December 2018, 2019 and 2020, the Group's expenditure on environmental protection was RMB52.7 million, RMB95.5 million and RMB216.0 million, respectively. The Group is subject to a variety of regulations in the relevant jurisdictions relating to the use, storage, discharge and disposal of chemicals, waste and emissions used and emitted in its manufacturing processes. The Group may in certain instances fail to comply with these environmental regulations. Any failure to comply with present and future regulations or obtain the necessary certificates and permits could subject the Group to future fines and liabilities or other government sanctions. In addition, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. Any failure to control the use of or to restrict adequately the discharge of hazardous substances or pollution could subject the Group to monetary fines and liabilities or other government sanctions. If the Group is held liable for damages in the event of contamination or injury, it could have a material and adverse effect on the Group's business, financial condition and results of operations.

In accordance with applicable environmental regulations, the Group is required to obtain certain licenses and permits. The Group's ability to obtain, maintain, or renew such licenses and permits on acceptable terms is subject to change, as, among other things, the regulations and policies of applicable governmental authorities may change. It cannot be assured that the Group will be successful and timely in obtaining the required approvals, licenses and permits. Failure to do so may subject the Group to monetary fines and liabilities or government sanctions.

The Group may not be able to obtain valid titles or rights to use certain lands or properties and certain of its production facilities are located on leased properties.

The Group is required to obtain various permits, licenses, certificates and other approvals from the relevant PRC government authorities for use of the lands and properties it currently holds. There can be no assurance that the Group will be able to obtain the valid titles or rights in a timely manner, or at all. If the Group fails to do so, it may not be able to acquire new replacement land or properties on terms acceptable to it, or at all, which could have a material adverse effect on its business, prospects, financial condition and results of operations.

Certain production and R&D facilities of the Group are located on leased properties. There is no assurance that these leases will be renewed upon expiry or on terms acceptable to the Group. If these leases cannot be renewed, the Group will have to find new properties for its facilities, which may not be as suitable for its business. Any failure to renew the Group's existing leases on favourable terms or locate suitable new properties could adversely affect its business, prospects, financial condition and results of operations.

The Group's future performance is dependent on its ability to attract and retain key personnel.

The Group's future performance depends to a significant extent upon the Group's ability to continue to attract, retain and motivate key personnel, including members of the senior management team and skilled technical and engineering personnel. If the Group loses the services of any of these key personnel, without adequate replacement, such loss may limit the Group's competitiveness, interrupt production processes, reduce manufacturing quality or cause customer dissatisfaction, any of which would adversely affect the Group's financial conditions, results of operations and prospects. Moreover, the Group does not maintain insurance for the loss of any key personnel.

In addition, the Group must replace skilled and experienced personnel in its management and manufacturing operations on a regular basis as industry turnover for such personnel is high. In addition, AAC Technologies expects demand for skilled and experienced personnel in the PRC to increase as more high-technology businesses are established. The Group will require an increasing number of experienced executives, engineers and other skilled employees to implement its growth plans. If the Group is unable to retain or replace existing personnel or attract, retain and motivate experienced personnel in the future, the Group's operations may be disrupted and the growth of its business may be delayed or restricted.

The Group may not be able to detect or prevent fraud, money laundering or other misconduct committed by its employees, representatives, agents, customers or other third parties in its business operations.

The Group may be exposed to fraud, money laundering or other misconduct committed by its employees, representatives, agents, customers or other third parties that could subject it to financial losses and sanctions imposed by governmental authorities, which in turn would affect its reputation. Such misconduct could include:

- hiding unauthorised or unsuccessful activities, resulting in unknown and unmanaged risks or losses;
- intentionally concealing material facts, or failing to perform necessary due diligence procedures designed to identify potential risks, which are material to the Group in deciding whether to make investments or dispose of assets;
- improperly using or disclosing confidential information;
- recommending products, services or transactions that are not suitable for the Group's customers;
- misappropriation of funds;
- conducting transactions that exceed authorised limits;
- engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities when marketing or selling products;
- engaging in unauthorised or excessive transactions to the detriment of the Group's customers;
- participating in any bribery activities;
- conducting any inside dealing; or
- otherwise not complying with applicable laws or the Group's internal policies and procedures.

The Group is required to comply with applicable anti-money laundering, anti-terrorism and other regulations in China and other relevant jurisdictions. The Group's internal control procedures are designed to monitor its operations and ensure overall compliance with applicable laws and regulations. However, such internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner if at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions the Group takes to prevent and detect such activities may not be effective. There can be no assurance that fraud or other misconduct will not occur in the future. If such fraud or other misconduct does occur, it could cause negative publicity, which in turn could materially affect the Group's business, financial condition and results of operations.

The Group's insurance coverage may not be sufficient to cover the risks related to its operations and losses.

The Group currently faces various operational risks, including:

- production disruptions caused by operational errors, electricity outages, raw material shortages, equipment failure and other production risks;
- operating limitations imposed by environmental or other regulatory requirements;
- product liability;
- on-site production accidents;
- unexpected business interruptions;
- environmental or industrial accidents; and
- catastrophic events such as fires, earthquakes, explosions, floods, collapse of mine or other natural disasters.

Although AAC Technologies believes that its coverage from insurance policies for production facilities is in line with industry norms, however, the Group's insurance policies may not be adequate to cover the extent of the losses suffered as a result of any of the foregoing events. In line with market practice, the Group is not insured for losses incurred as a result of interruptions to its operations in China. The Group's operations are therefore vulnerable to the risks described above and any occurrence of such events would adversely affect its business and results of operations. In addition, as a result of market conditions, premiums and deductibles for the Group's existing insurance policies may increase substantially and, in some instances, its existing insurance may become unavailable or available only for reduced amounts of coverage. Any losses or liabilities which are not covered by its current insurance policies may have a material adverse effect on the Group's results of operations.

The Group's co-founders, Mr. Pan Benjamin Zhengmin and Ms. Wu Ingrid Chun Yuan, have a significant influence in determining the outcome of major corporate transactions that require shareholder approvals and may take actions that conflict with the interest of the holders of the Notes.

As at the date of this Offering Circular, Mr. Pan Benjamin Zhengmin and Ms. Wu Ingrid Chun Yuan hold 41.0 per cent. of the Issuer's ordinary shares and are the controlling shareholders of the Issuer under listing rules of the HKSE, where the Group's shares are listed. Mr. Pan and Ms. Wu each are "Permitted Holders" as provided in Condition 5 *(Redemptions and Purchase)* of the Terms and Conditions of the Notes. Mr. Pan and Ms. Wu have and will continue to have the ability to exercise a significant influence in the Group's business, and may cause the Group to take actions that are not in, or may conflict with, the interests of the holders of the Notes. Mr. Pan and Ms. Wu are able to influence the major policy decisions of the Group through the election of board members and, in turn, indirectly influencing the selection of the Group's senior management, the timing and amount of any dividend payments, annual budgets, increases or decreases in the Issuer's registered capital, the Issuer's issuance of new securities, mergers, acquisitions and disposals of the Group's assets or businesses, and amendments to the Issuer's articles of association. These actions may be taken even if they are not aligned with the interests of the holders of the Notes.

The Group's reputation, business and financial condition may be affected by negative publicity.

From time to time there may be negative publicity in the international media about the Group and its business practices. There are no effective measures that can be taken by the Group to prevent allegations, even if based on inaccurate facts, from being made against the Group. The Group will continue to implement various measures to ensure compliance with all relevant laws and regulations in the relevant jurisdictions where the Group operates.

AAC Technologies is a constituent of the Hang Seng Index. The list of constituents on the index is subject to a periodic review. Selection of the constituents is based on many factors that are beyond the Group's control. Should AAC Technologies be removed from the index, the public may draw negative inference on the financial condition and future prospects of AAC Technologies and may result in negative publicity. Negative publicity and media reports could have a negative adverse effect on the Group's reputation and demand for the Group's products, and may in turn have a material adverse effect on the Group's business if its customers decrease the amount of orders given to the Group. In addition, negative publicity may inhibit the Group's ability to secure new orders from customers, which would have a material adverse effect on its results of operations and business prospects.

Fluctuations in the Group's effective tax rate may impact its future financial results.

The Group's effective tax rate may be adversely impacted by, among other things, changes in the mix of its earnings among countries having differing statutory tax rates, changes in the valuation of deferred tax assets, or changes in tax laws in the jurisdictions where the Group operates. There can be no assurance as to the stability or predictability of the Group's effective tax rate in the future because of, among other things, uncertainty regarding the tax laws and policies of the countries where it operates.

Further, the Group's tax liabilities are subject to periodic reviews or audits by domestic and international authorities, and these audits may result in adjustments to the Group's provision for taxes or allocations of income or deductions that result in tax assessments different from amounts that it has estimated. The Group regularly assesses the likelihood of an adverse outcome resulting from these audits to determine the adequacy of its provision for taxes. There can be no assurance as to the outcome of these audits or that the Group's tax provisions will not change materially or be adequate to satisfy any associated tax liability. If the Group's effective tax rates were to increase or if its tax liabilities exceed its estimates and provisions for such taxes, the Group's financial results could be adversely affected.

The Group's effective overall tax rate is favourably impacted by tax concessions and holidays granted to it by certain jurisdictions where certain members of the Group are operating. The lower applicable tax rates that such members of the Group are subject to as compared to the countries' statutory tax rates are conditional and have different applicability periods. Currently, the Group enjoys such preferential tax treatments in China, Singapore and Vietnam. Certain PRC subsidiaries have been officially endorsed in China as High-New Technology Enterprises ("**HNTE**") and are entitled to a preferential tax rate of 15 per cent., as opposed to the general 25 per cent., until dates ranging from 28 November 2021 to 11 December 2023. Further, a member of the Group in Singapore is entitled to a concessionary tax rate under relevant local laws and regulations for a 10-year term commencing from 1 January 2019, subject to the fulfilment of certain operating commitments by such member of the Group. Another member of the Group in Vietnam is also entitled to a tax holiday until 2027. There can be no assurance that such preferential tax treatment will not be amended or revoked, including without limitation, the Group not being able to meet the required conditions or any change in the relevant policy, laws and regulations in the local jurisdiction. As a result, the Group may not be able to realise the benefit of such preferential tax treatment as it currently expected, or at all. Moreover, once the preferential tax treatment expires or otherwise becomes unavailable to the Group for any reason, including any termination or cancellation by the relevant government authority, and it fails to obtain alternative preferential tax treatment, the Group's profitability may be adversely affected.

The Group will follow the applicable corporate disclosure standards for debt securities listed on the HKSE, which standards may be different from those applicable to debt securities listed in certain other countries.

For so long as the Notes are listed on the HKSE, the Group will be subject to continuing listing obligations in respect of the Notes. The disclosure standards imposed by the HKSE may be different from those imposed by securities exchanges in other countries or regions such as the United States or Singapore. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

The Issuer has published and may continue to publish periodical financial information on the HKSE. Investors should be cautious and not place any reliance on the financial information other than that disclosed in this Offering Circular.

The Issuer publishes its quarterly results on the HKSE. The quarterly results, including the Unaudited Quarterly Results, published by the Issuer is derived from the Group's management accounts which have not been audited or reviewed by independent auditors. As such, this financial information published on the HKSE should not be referred to or relied upon by potential purchasers of the Notes to provide the same quality of information associated with any reviewed or audited information, as the case may be, made available to holders of the Notes semi-annually or annually, as the case may be, pursuant to the terms and conditions of the Notes. The Issuer is not responsible to holders of the Notes for the unaudited and unreviewed financial information from time to time published on the HKSE and therefore investors should not place any reliance on any such financial information.

There can be no assurance of the accuracy and completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources.

This Offering Circular, particularly in "*Industry Overview*", contains information and statistics relating to optics, acoustics, MEMS microphones haptic motors components for the consumer electronics market. Such information, forecasts, indicators and statistics have been derived from various official government publications, market data providers and third-party reports that are publicly accessible and other publicly available sources. AAC Technologies believes that the sources of the information are appropriate sources for such information. However, it cannot guarantee the quality or reliability of such information. Such facts, forecasts, indicators and other statistics quoted from these source materials have not been prepared or independently verified by the Issuer, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates or advisors and, therefore, none of the Issuer, the Joint Lead Managers, the Trustee or the Agents make any representation as to the accuracy, completeness, quality or reliability of such facts, forecasts, indicators and other statistics, which may not be consistent with information compiled elsewhere.

The Issuer has taken reasonable care in the reproduction or extraction of the official government publications and reports of market data providers and third-party sources for the purpose of disclosure in this Offering Circular. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts, forecasts, indicators and other statistics in this Offering Circular may be inaccurate or may not be comparable to other facts, forecasts, indicators and statistics compiled by others. In addition, there can be no assurance that the market data providers or third party sources have used data and information with authorisations of the original source and no representation has been made by any of them as to the appropriateness, accuracy, completeness or reliability of any such information or for publication in this Offering Circular. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. Such publications, reports and source speak as at their original publication date and not as of the date of this Offering Circular and the opinions expressed therein are not representations of fact and may be subject to change without notice. In all cases, prospective investors should give careful consideration as to how much weight or importance they should attach to or place on such facts, forecasts, indicators and other statistics relating to the economy and the industries. For the aforesaid reasons, prospective investors should not place undue reliance on such information as a basis for making an assessment in the Issuer, the Group or the Notes.

RISKS RELATING TO THE PRC

Changes in the economic, political and social conditions in China and government policies adopted by Chinese government could affect the Group's business and prospects.

The economy of China differs from the economies of most developed countries in many respects, including with respect to government involvement, level of development, economic growth rate, control of foreign exchange and allocation of resources. The economy of China has been transitioning from a planned economy to a more market-oriented economy. In recent years, the Chinese government has implemented a series of measures emphasising market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises.

However, a large portion of productive assets in China remain owned by the Chinese government. The Chinese government continues to play a significant role in regulating industrial development, the allocation of resources, production, pricing and management, and there can be no assurance that the Chinese government will continue to pursue the economic reforms or that any such reforms will not have an adverse effect on the Group's business.

The Group's operations and financial results could also be affected by changes in political, economic and social conditions or the relevant policies of the Chinese government, such as changes in laws and regulations (or the interpretation thereof). In addition, the growth of development in the economic and technology development zones and infrastructure construction demand in China depends heavily on economic growth. If the economic growth in China slows down or if the economy of China experiences a recession, there may be material negative impact on the industries in which the Group operates and their prospects. The Group's business, financial condition and results of operations may be materially and adversely affected.

Uncertainty with respect to the PRC legal system may affect the Group.

The Group conducts a material part of its operations under PRC laws. The PRC legal system is based on written statutes while prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation, foreign exchange and trade, with a view to develop a comprehensive system of commercial law. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based, in part, on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, the Group may not be aware of its violation of these policies and rules until sometime after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management's attention and it may be difficult to obtain a swift and equitable enforcement of laws in China, or the enforcement of judgements by a court of another jurisdiction. These uncertainties relating to the interpretation and implementation of Chinese laws and regulations may adversely affect the legal protections and remedies that are available to the Group in its operations and to the holders of the Notes.

Investors may experience difficulties in effecting service of legal process and enforcing judgments against the Group and the Group's management.

Some of the Issuer's directors and executive officers reside within China and a significant part of the assets of the Group is located within China. As a result, it may not be possible to effect service of process outside of China upon some of the Group's directors and senior management, including for matters arising under applicable securities law. A judgment of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with China or if judgments of Chinese courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. However, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with many countries, including Japan, the United States and the United Kingdom. Therefore, it may be difficult for investors to enforce any judgments obtained from foreign courts against the Group, any of their respective directors, supervisors or senior management in China.

Any change in the tax laws in China may have a material adverse impact on the Group's results of operations.

The Issuer's substantial operations are conducted through its operating subsidiaries in China. Under the current EIT Law and its Implementing Rules, PRC-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its overseas parent, is generally subject to a 10 per cent. withholding tax. Under the EIT Law, the Notice of the State Administration of Taxation on Delivering the Table of Negotiated Reduction of Dividends and Interest Rates, or Notice 112, which was issued on 29 January 2008 and an Arrangement between PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Tax Evasion, or the Double Taxation Arrangement (Hong Kong), which became effective on 8 December 2006, and the Announcement of the State Administration of Taxation on the Interpretation and Determination of "Beneficial Owners" in Tax

Treaties, which became effective on 27 October 2009 and was later replaced by the Announcement of the State Administration of Taxation on Issues Concerning the "Beneficial Owners" in Tax Treaties on 3 February 2018, dividends from the Issuer's PRC subsidiaries paid to its direct shareholder may be subject to a withholding tax at a rate of 10 per cent., or at a rate of 5 per cent. if its direct shareholder, who is a resident of Hong Kong, holding at least 25 per cent. equity interests of its PRC subsidiaries is considered as a "beneficial owners" and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). Furthermore, the ultimate tax rate will be determined by treaty between the PRC and the tax residence of the holder of the PRC subsidiary.

The Group's labour costs may increase for reasons such as the implementation of Chinese employment regulation.

The Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》)(the "**Chinese Labour Contract Law**") became effective on 1 January 2008 in China and was amended on 28 December 2012. It imposes more stringent requirements on employers in relation to entry into fixed-term employment contracts and dismissal of employees. Pursuant to the Chinese Labour Contract Law, the employer is required to make compensation payment to a fixed-term contract employee when the term of their employment contract expires, unless the employee does not agree to renew the contract even though the conditions offered by the employer for renewal are the same as or better than those stipulated in the current employment contract. In general, the amount of compensation payment is equal to the monthly wage (which means the average wage of a worker over 12 months before the rescission or termination) of the employee multiplied by the number of full years that the employee has worked for the employer. A minimum wage requirement has also been incorporated into the Chinese Labour Contract Law. In addition, unless otherwise prohibited by the Chinese Labour Contract Law or objected to by the employees themselves, the employer is also required to enter into non-fixed-term employment contracts with employees who have worked for the employer for a period of 10 years consecutively or previously entered into fixed-term employment contracts for two consecutive terms. Further, under the Chinese Labour Contract Law, when an employer terminates its China-based employees' employment, the employer may be required to compensate them for such amount which is determined based on their length of service with the employer, and the employer may not be able to efficiently terminate non-fixed-term employment contracts under the Chinese Labour Contract Law without cause. In the event the Group decides to significantly change or decrease its workforce, the Chinese Labour Contract Law could adversely affect its ability to effect these changes in a cost-effective manner or in the manner that the Group desires, which may result in an adverse impact on the Group's businesses, financial condition and results of operations.

In addition, under the Regulations on Paid Annual Leave for Employees (《職工帶薪年休假條例》), which became effective on 1 January 2008, employees who have worked continuously for more than one year or ten years or twenty years are entitled to paid annual leave ranging from five to 15 days, depending on the length of the employees' work time. Employees who consent to waive such vacation at the request of employers shall be compensated an amount equal to three times their normal daily salaries for each vacation day being waived. As a result of the Chinese Labour Contract Law, the Regulations on Paid Annual Leave for Employees and the National Leisure and Tourism Outline 2013-2020, the Group's labour costs may increase.

Further, in the event that there is a labour shortage or a significant increase to labour costs, the Group's business operation costs is likely to increase. In such circumstances, the profit margin may decrease and the financial results may be adversely affected. In addition, inflation in China has increased in recent years. Inflation in China increases the costs of raw materials required by the Group for conducting its businesses and the costs of labour as well. Rising labour costs may increase the Group's operating costs and partially erode the cost advantage of the Group's operations and therefore negatively impact the Group's profitability.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent the Issuer from making loans or additional capital contributions to the Issuer's PRC subsidiaries.

As an offshore holding company of its PRC subsidiaries, the Issuer may make loans to its PRC subsidiaries, or it may make additional capital contributions to its PRC subsidiaries. Any loans to the Issuer's PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by the Issuer to its PRC subsidiaries in China, each of which is a foreign-invested enterprise, to finance their activities cannot exceed statutory limits. The Issuer may also decide to finance its PRC subsidiaries through capital contributions. These capital contributions must be reported to the PRC Ministry of Commerce or its local counterpart via the enterprise registration system. There is no assurance that the Issuer will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans by it to its subsidiaries or any of their respective subsidiaries. If the Issuer fails to receive such registrations or approvals or if such procedure requirements should be changed in the future, its ability to capitalize its PRC operations may be negatively affected, which could adversely and materially affect its liquidity and its ability to fund and expand its business.

Government control of currency conversion may adversely affect the value of investors' investments.

The Group's reporting currency is Renminbi and its sales to overseas customers are predominantly denominated in U.S. dollars. A portion of the Group's cash may also be required to be converted into other currencies in order to meet the Group's foreign currency needs, including payment to suppliers and cash payments on declared dividends, if any, on the Notes.

Currently, Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to Chinese foreign exchange laws and regulations which would affect exchange rates and the Group's foreign exchange transactions. Although transactions conducted through the Group's current account are not subject to prior approval by the State Administration of Foreign Exchange of China ("**SAFE**") under the current foreign control system in China, the Chinese government may restrict future access to foreign currencies for current account transactions at its discretion. If this were to occur, the Group might not be able to settle payments owed to overseas suppliers or pay dividends to the holders of the Notes in foreign currencies. On the other hand, foreign exchange transactions under capital account in China continue to be not freely convertible and require the SAFE's prior approval. These limitations could affect the Group's ability to obtain foreign currencies through equity financing, or to obtain foreign currencies for capital expenditures.

There can be no assurance that China's policies regarding foreign exchange transactions under the current account and the capital account will continue in the future. These foreign exchange policies may restrict the Group's ability to obtain sufficient foreign exchange, which could have an effect on the Group's foreign exchange transactions and the fulfilment of the Group's other foreign exchange requirements. If the Group fails to obtain approval from the SAFE to convert Renminbi into any foreign exchange where such needs arise, its business, financial condition and results of operations could be adversely affected.

RISKS RELATING TO THE NOTES

Any failure to complete the relevant filings under the NDRC Circular within the prescribed time frame following the completion of the issue of the Notes may have adverse consequences for the Issuer and/or the investors in the Notes.

The NDRC issued the NDRC Circular on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issued outside the PRC with the NDRC prior to the issue of the securities and notify the particulars of the relevant issues within 10 working days after the completion of the issue of the securities. The Issuer has obtained the NDRC pre-issuance registration certificate on 27 April 2021. Failure to comply with the post issue notification requirement may result in the relevant entities being put on the credit blacklist in the PRC and subject them to credit related sanctions. However, there is no clarity on the actual legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular. In the worst-case scenario, such non-compliance with the post-issue notification requirement under the NDRC Circular may result in it being unlawful for the Issuer to perform or comply with any of its obligations under the Notes and the Notes might be subject to enforcement as provided in Condition 8 (*Events of Default*) of the Terms and Conditions of the Notes. Potential investors in the Notes are advised to exercise due caution when making their investment decisions. The Issuer has undertaken to notify the NDRC of the particulars of the issue of the Notes within the prescribed time period after the Issue Date.

The Notes are unsecured obligations.

As the Notes are unsecured obligations, their repayment may be compromised if:

- the Issuer enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's indebtedness.

If any of these events were to occur, the Issuer's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

Notes may not be a suitable investment for all investors.

The Notes are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with a measured and appropriate addition of risk to the investor's overall portfolios. A potential investor should not invest in the Notes unless they have the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Notes are legal investments for it, (b) Notes can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible economic scenarios, such as interest rate and other factors which may affect its investment and the ability to bear the applicable risks.

An active trading market for the Notes may not develop.

The Notes are a new issue of securities for which there is currently no trading market. Although application has been made to the HKSE for the Notes to be admitted for trading on the HKSE, no assurance can be given as to the ability of holders to sell their Notes or the price at which holders will be able to sell their Notes or that a liquid market will develop. The liquidity of the Notes will be adversely affected if the Notes are held or allocated to limited investors. None of the Joint Lead Managers is obligated to make a market in the Notes, and if the Joint Lead Managers do so, they may discontinue such market making activity at any time at their sole discretion. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, holders will only be able to resell their Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

The Notes may be redeemed at the Issuer's option.

The Issuer has the right to redeem the Notes of a Series, (x) in whole, but not in part, at their Make Whole Amount (as defined in the Terms and Conditions of the Notes at any time before 2 May 2026 in respect of the 2026 Notes and at any time before 2 March 2031 in respect of the 2031 Notes), or (y) in whole, but not in part, at 100 per cent. of the principal amount of the Notes to be redeemed at any time on or after 2 May 2026 in respect of the 2026 Notes and at any time on or after 2 March 2031 in respect of the 2031 Notes, in each case together with interest accrued to such call settlement date specified in the relevant Optional Redemption Notice. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption at the Option of the Issue*" in this Offering Circular. The date and amount that the Issuer elects to redeem the Notes may not accord with the preference of individual holders, which may be disadvantageous to holders in light of market conditions or the individual circumstances of the holder of the Notes. Additionally, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective yield at the same level as that of the Notes.

Investors in the Notes may be subject to foreign exchange risks.

The Notes are denominated and payable in U.S. dollars. An investor who measures investment returns by reference to a currency other than U.S. dollars would be subject to foreign exchange risks by virtue of an investment in the Notes, due to, among other things, economic, political and other factors over which the Issuer has no control. Depreciation of U.S. dollars against such currency could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss when the return on the Notes is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Notes.

The Issuer may be unable to redeem the Notes upon the due date for redemption thereof.

On the Maturity Date (as defined in the Terms and Conditions of the Notes), the Notes will be redeemed at their principal amount, or following the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes), the Issuer may, at the option of any Noteholder, be required to redeem all, but not some only, of such holder's Notes on the Put Settlement Date at 101 per cent. of their principal amount, together with accrued interest up to but excluding such Put Settlement Date. On the Maturity Date or if such Change of Control were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes on the Maturity Date or in such event may also be limited by the terms of other debt instruments. The Issuer's failure to repay, repurchase or redeem tendered Notes could constitute an event of default under the Notes, which may also constitute a default under the terms of the Issuer's other indebtedness.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from those of another jurisdiction with which the Noteholders are familiar.

As the Issuer is incorporated under the laws of the Cayman Islands, any insolvency proceeding relating to the Issuer, even if brought in other jurisdictions, would likely involve the Cayman Islands insolvency laws. The procedural and substantive provisions of the laws of the Cayman Islands may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Noteholders are familiar.

A change in English law which governs the Notes may adversely affect the Noteholders.

The Terms and Conditions of the Notes are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the Notes.

Modifications and waivers may be made in respect of the Terms and Conditions of the Notes and the Trust Deed by the Trustee or less than all of the holders of the Notes, and decisions may be made on behalf of all holders of the Notes that may be adverse to the interests of the individual holders of the Notes.

The Terms and Conditions of the Notes contain provisions for calling meetings of the holders of the Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including those Noteholders who did not attend and vote at the relevant meeting and those Noteholders who voted in a manner contrary to the majority. There is a risk that the decision of the majority of holders of the Notes may be adverse to the interests of individual holders of the Notes.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of the holders of the Notes, agree (i) to any modification of the Trust Deed, the Terms and Conditions of the Notes and/or the Agency Agreement (other than in respect of a Reserved Matter) which in the opinion of the Trustee will not be materially prejudicial to the interests of the holders of the Notes and (ii) to any modification of the Notes, the Trust Deed or the Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the holders of the Notes, authorise or waive any proposed breach or breach of the Notes, the Trust Deed or the Agency Agreement (other than a proposed breach, or a breach relating to the subject of certain Reserved Matters) if, in the opinion of the Trustee, the interests of the holders of the Notes will not be materially prejudiced thereby.

The Trustee may request Noteholders to provide an indemnity and/or security and/or pre-funding to its satisfaction.

In certain circumstances (including without limitation the giving of notice pursuant to Condition 8 (*Events of Default*) of the Terms and Conditions of the Notes and the taking of any actions and/or steps and/or the instituting of any proceedings pursuant to Condition 13 (*Enforcement*) of the Terms and Conditions of the Notes), the Trustee may (in its sole discretion) request the Noteholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes any action on behalf of Noteholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to any indemnity and/or security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or pre-funding to it, in breach of the terms of the Trust Deed (as defined in the Terms and Conditions of the Notes) and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders to take such actions directly.

Each Series of the Notes will be represented by a Global Note Certificate and holders of a beneficial interest in a Global Note Certificate must rely on the procedures of the Clearing Systems.

Each Series of the Notes will be represented by beneficial interests in a Global Note Certificate. Such Global Note Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear and Clearstream (the "**Clearing Systems**"). Except in the circumstances described in the Global Note Certificate of each Series of the Notes, investors will not be entitled to receive Individual Note Certificates. The Clearing System will maintain records of the beneficial interests in the Global Note Certificate of each Series of the Notes. While the Notes are represented by the Global Note Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by the Global Note Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their account Noteholders.

A holder of a beneficial interest in a Global Note Certificate must rely on the procedures of the relevant Clearing System to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in a Global Note Certificate.

Holders of beneficial interests in the Global Note Certificates will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies.

Noteholders should be aware that an Individual Note Certificate which has a principal amount that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

In relation to any Note which has a principal amount consisting of a minimum specified denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of the minimum specified denomination that are not integral multiples of such minimum specified denomination. In addition, after partial redemption by the Issuer, holders may cease to hold the Notes in specified denomination. In such a case a Noteholder who, as a result of trading such amounts or partial redemption by the Issuer, holds a principal amount of less than the minimum specified denomination will not receive a Individual Note Certificate in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more specified denominations. If definitive Notes are issued, holders should be aware that an Individual Note Certificate which has a principal amount that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

The Notes may be redeemed by the Issuer prior to maturity.

The Issuer may redeem the Notes of a Series at its option, in whole but not in part, at a redemption price equal to their principal amount, together with interest accrued to but excluding the date fixed for redemption if, subject to certain conditions, as a result of a change in tax law, the Issuer has or will become obliged to pay additional amounts, as further described in Condition 5(b) (*Redemption for tax reasons*) of the Terms and Conditions of the Notes of the relevant Series. See also the Issuer's call option under "*Risk Factors – Risks Relating to the Notes – The Notes may be redeemed at the Issuer's option*".

If the Issuer redeems the Notes prior to their maturity date, investors may not receive the same economic benefits they would have received had they held the Notes to maturity, and they may not be able to reinvest the proceeds they receive in a redemption in similar securities. In addition, the Issuer's ability to redeem the Notes may reduce the market price of the Notes.

Changes in market interest rates may adversely affect the value of the Notes.

The Notes will carry a fixed rate of interest. Consequently, investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes. Generally, a rise in interest rates may cause a fall in the prices of the Notes, resulting in a capital loss for the Noteholders. However, the Noteholders may re-invest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Notes may rise. The Noteholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

As the Notes will carry a fixed rate of interest, the trading price of the Notes will consequently vary with the fluctuations in interest rates. If Noteholders sell the Notes they hold before the maturity of such Notes, they may receive an offer less than their investment.

The ratings of the Notes may be downgraded or withdrawn.

The Notes are expected to be rated "Baa2" by Moody's.

The rating represents only the current opinion of the rating agency and their current assessment of the ability of the Issuer to perform its obligations under the Notes and the Trust Deed and credit risks in determining the likelihood that payments will be made when due under the Notes. Ratings are not recommendations to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawn at any time. The Issuer is not obligated to inform Noteholders if the ratings are lowered or withdrawn. Each rating should be evaluated independently of the other rating. A downgrade or withdrawal of the ratings may materially and adversely affect the market price of the Notes and the Issuer's ability to access the debt capital markets.

The Notes will be structurally subordinated to the existing and future indebtedness and other liabilities of the Issuer's existing and future subsidiaries, and effectively subordinated to the Issuer's secured debt to the extent of the value of the collateral securing such indebtedness.

The Notes will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's existing and future subsidiaries, whether or not secured. The Notes will not be guaranteed by any of the Issuer's subsidiaries, and the Issuer may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer is subject to various restrictions under applicable law. The Issuer's subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Notes or make any funds available therefore, whether by dividends, loans or other payments.

The Issuer's right to receive assets of any of the Issuer's subsidiaries upon that subsidiary's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer is creditors of that subsidiary). Consequently, the Notes will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's subsidiaries and any subsidiaries that the Issuer may in the future acquire or establish.

The Notes are the Issuer's unsecured obligations and will (i) rank equally in right of payment with all the Issuer's other present and future unsecured indebtedness; (ii) be effectively subordinated to all of the Issuer's present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Notes, these assets will be available to pay obligations on the Notes only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Noteholders rateably with all of the Issuer's other unsecured creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Notes then outstanding would remain unpaid.

If the Issuer is unable to comply with the restrictions and covenants in its debt agreements, there could be a default under the terms of these agreements, which could cause repayment of its debt to be accelerated.

If the Issuer is unable to comply with its current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of the Issuer's debt agreements contain cross-acceleration or cross-default provisions. As a result, the Issuer's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under the Issuer's other debt agreements. If any of these events occur, the Issuer cannot assure holders that its assets and cash flows would be sufficient to repay in full all of its indebtedness, or that the Issuer would be able to find alternative financing. Even if it could obtain alternative financing, it cannot assure holders that it would be on terms that are favourable or acceptable to it.

The Issuer's subsidiaries, jointly controlled entities and associated companies are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to the Issuer, its jointly controlled entities and associated companies.

As a holding company, the Issuer depends on the receipt of dividends and the interest and principal payments on intercompany loans or advances from its subsidiaries, jointly controlled entities and associated companies to satisfy its obligations, including its obligations under the Notes. The ability of the Issuer's subsidiaries, jointly controlled entities and associated companies to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of these companies, applicable laws and restrictions contained in the debt instruments of such companies.

The Issuer cannot assure that its subsidiaries, jointly controlled entities and associated companies will have distributable earnings or will be permitted to distribute their distributable earnings to it as it anticipates, or at all. In addition, dividends payable to it by these companies are limited by the percentage of its equity ownership in these companies. Some portfolio companies may conclude that it is in the best interest of their shareholders to retain earnings, if any, for use in the operation and expansion of their businesses. The shareholders or the board of directors of a portfolio company (as the case may be) have the power to determine whether to pay dividends based on conditions then existing, including the company's earnings, financial condition and capital requirements, as well as economic and other conditions the shareholders or the board may deem relevant. Further, if any of these companies raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to the Issuer to make payments on the Notes. These factors could reduce the payments that the Issuer receives from its subsidiaries, jointly controlled entities and associated companies, which would restrict its ability to meet its payment obligations under the Notes.

The Group may issue additional Notes in the future.

The Group may, from time to time, and without prior consultation of the Noteholders, create and issue further Notes (see "*Terms and Conditions of the Notes – Further Issues*") or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Notes.

Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts and the Noteholders would need to be subject to the exclusive jurisdiction of the Hong Kong courts. There is also no assurance that courts in China will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes.

The Terms and Conditions of the Notes and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), judgments of Hong Kong courts are likely to be recognised and enforced by courts in China where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts.

However, recognition and enforcement of a Hong Kong court judgment could be refused if courts in China consider that the enforcement of such judgment is contrary to the social and public interest of China. While it is expected that courts in China will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the courts in China will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Noteholders' ability to initiate a claim outside of Hong Kong will be limited.

TERMS AND CONDITIONS OF THE 2026 NOTES

The following is the text of the Terms and Conditions of the 2026 Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Note Certificates (as defined below) issued in respect of the 2026 Notes.

The U.S.$300,000,000 2.625 per cent. Notes due 2026 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of AAC Technologies Holdings Inc. (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 2 June 2021 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and DB Trustees (Hong Kong) Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 2 June 2021 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Deutsche Bank AG, Hong Kong Branch as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Deutsche Bank AG, Hong Kong Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours upon prior written request and satisfactory proof of holding at the registered office for the time being of the Trustee, being at the date hereof Level 60, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong and at the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent, the initial Specified Office of which is set out below.

1. **Form, Denomination and Status**

   (a) *Form and denomination*: The Notes are in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

   (b) *Status of the Notes*: The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

2. **Register, Title and Transfers**

   (a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Note shall (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such payment or indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers to be registered (i) during the period of 15 days ending on (and including) the due date for any payment of principal or interest in respect of the Notes and (ii) after a Put Exercise Notice (as defined in Condition 5(d) (*Redemption for a Change of Control*)) has been delivered in respect of the relevant Note(s) in accordance with Condition 5(d) (*Redemption for a Change of Control*).

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available for inspection by the Registrar to any Noteholder upon prior written request and satisfactory proof of holding.

3. **Covenants**

(a) *Negative Pledge*: So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall not, and the Issuer shall procure that none of its Principal Subsidiaries (other than any Listed Subsidiary and any Subsidiary of such Listed Subsidiary) will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or guarantee or indemnity of Relevant Indebtedness without at the same time or prior thereto (i) securing the Notes equally and rateably therewith or (ii) providing such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders.

(b) *Financial Statements etc.*: So long as any Note remains outstanding, the Issuer shall provide to the Trustee:

(i) (A) a copy of the Audited Financial Reports within 120 days of the end of each Relevant Period, prepared in accordance with International Financial Reporting Standards (audited by an internationally recognised firm of independent accountants); and (B) a copy of the Interim Financial Reports within 90 days of the end of each Relevant Period, prepared on a basis consistent with the Audited Financial Reports, *provided that*, if at any time any shares of the Issuer are listed for trading on a recognised stock exchange, the Issuer may make available to the Trustee, as soon as they are available but in any event not more than 14 days after any financial or other reports of the Issuer are filed with the exchange on which the Issuer's shares are at such time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in Condition 3(b) above; and

(ii) a Compliance Certificate (on which the Trustee may rely as to such compliance) within 14 days of a written request by the Trustee and at the time of provision of the Audited Financial Reports.

(c) *Rating Maintenance*: So long as any Note remains outstanding, the Issuer shall, save with the approval of an Extraordinary Resolution of the Noteholders, use its best endeavours to maintain a rating on the Notes by at least one Rating Agency.

(d) *Notification to NDRC*: The Issuer undertakes to:

(i) file or cause to be filed with the NDRC the requisite information and documents within the prescribed time period after the issue date of the Notes in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations(國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules, reports, certificates, approvals or guidelines as issued by the NDRC from time to time (the "**NDRC Post-issue Filing**");

(ii) comply with all applicable PRC laws and regulations in connection with the issuance of the Notes; and

(iii) within 10 PRC Business Days after the submission of the NDRC Post-issue Filing, (i) provide the Trustee with a certificate (substantially in the form scheduled to the Trust Deed) signed by an Authorised Signatory of the Issuer confirming the submission of the NDRC Post-issue Filing (together with the copies of document(s) (x) filed with the

NDRC and (y) issued by NDRC evidencing the completion of the submission, if any) and (ii) give notice to the Noteholders in accordance with Condition 15 (*Notices*) of the same.

The Trustee shall have no obligation or duty to monitor or ensure the submission of (or to otherwise assist with) the NDRC Post-issue Filing within the prescribed time period or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing, and shall not be liable to Noteholders or any other person for not doing so.

In these Conditions:

"**Audited Financial Reports**" means the annual audited consolidated statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows of the Issuer together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

"**Compliance Certificate**" means a certificate of the Issuer signed by an Authorised Signatory of the Issuer certifying that, having made all enquiries, to the best of the knowledge, information and belief of the Issuer as at a date (the "Certification Date") not more than five days before the date of the certificate:

(a) no Event of Default, or an event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default*), become an Event of Default ("**Potential Event of Default**"), or a Change of Control (as defined below) had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and

(b) the Issuer has complied with all its obligations under the Trust Deed, the Agency Agreement and the Notes or, if the Issuer has not complied with all such obligations, giving details of that non-compliance;

"**Group**" means the Issuer and its Subsidiaries;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Interim Financial Reports**" means the semi-annual unaudited consolidated statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows of the Issuer together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them, if any;

"Listed Subsidiary" means a Subsidiary of any Person whose ordinary shares are listed or dealt in or traded on any internationally recognised stock exchange;

"**NDRC**" means the National Development and Reform Commission of the PRC or its local counterparts;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" means the People's Republic of China, which, for the purposes of these Conditions, shall not include Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan;

"**PRC Business Day**" means a day on which commercial banks are open for general business in the PRC;

"**Rating Agency**" means (i) Fitch Ratings Ltd. and its successors ("**Fitch**"); (ii) S&P Global Ratings and its successors ("**S&P**"); (iii) Moody's Investors Service, Inc. and its successors ("**Moody's**") or (iv) if one or more of S&P, Moody's or Fitch shall not make a rating of the Notes publicly available, any internationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer;

"**Relevant Indebtedness**" means any present or future indebtedness incurred outside the PRC which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"**Relevant Period**" means (i) in relation to the Audited Financial Reports, each period of twelve months ending on the last day of the Issuer's financial year (being, as at the Issue Date, 31 December of that financial year) and (ii) in relation to the Interim Financial Reports, each period of six months ending on the last day of the Issuer's first-half financial year (being, as at the Issue Date, 30 June of that financial year);

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) of which 50 per cent. or more of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of the second Person are directly or indirectly held by the first Person; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

4. **Interest**

The Notes bear interest from 2 June 2021 (the "**Issue Date**") at the rate of 2.625 per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear in equal installments of U.S.$13.125 per Calculation Amount (as defined below) on 2 June and 2 December in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*) commencing on 2 December 2021.

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal or premium (if any) is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable in respect of any Note shall be calculated per U.S.$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the Rate of Interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

The relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

5. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 2 June 2026, subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 25 May 2021; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee:

(A) a certificate signed by an Authorised Signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion in form and substance satisfactory to the Trustee of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and rely upon such certificate and opinion (without further investigation or enquiry) as sufficient evidence of the satisfaction of the circumstances set out in (i) and (ii) above, in which event they shall be conclusive and binding on the Noteholders and the Trustee shall be protected and shall have no liability to any Noteholder or any other person for so accepting and relying on such certificate.

Upon the expiry of any such notice period as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b).

(c) *Redemption at the Option of the Issuer*: The Notes may be redeemed at the option of the Issuer (x) in whole, but not in part, at any time before 2 May 2026, or (y) in whole, but not in part, on or after 2 May 2026, on giving not less than 21 nor more than 60 days' notice to the Noteholders (each an "**Optional Redemption Notice**") (which notice shall be irrevocable):

(i) (in the case of a Call Settlement Date falling before 2 May 2026) at their Make Whole Amount, together with interest accrued to such Call Settlement Date specified in the relevant Optional Redemption Notice; and

(ii) (in the case of a Call Settlement Date falling on or after 2 May 2026) at 100 per cent. of the principal amount of the Notes to be redeemed, together with interest accrued to such Call Settlement Date specified in the relevant Optional Redemption Notice.

For the purposes of this Condition 5(c):

"**Call Settlement Date**" means the date on which the Notes shall be redeemed at the option of the Issuer as specified in the relevant Optional Redemption Notice;

"**Comparable Treasury Issue**" means the U.S. Treasury security selected by the Independent Investment Bank as having a maturity comparable to the remaining term of the Notes from the Call Settlement Date to the Maturity Date, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to the Maturity Date;

"**Comparable Treasury Price**" means the average of three, or such lesser number as is obtained by the Independent Investment Bank, Reference Treasury Dealer Quotations;

"**Independent Investment Bank**" means an independent investment bank of international repute, appointed by the Issuer (and notice thereof is given in writing to the Trustee and to Noteholders by the Issuer in accordance with Condition 15 (*Notices*)) for the purposes of performing any of the functions expressed to be performed by it under these Conditions;

"**Make Whole Amount**" means, with respect to each Note at the Call Settlement Date, (i) the principal amount of such Note or, if this is higher (ii) the amount equal to the sum of the present value of the principal amount of such Note, together with the present values of the interest payable in the relevant Interest Periods from the Call Settlement Date to the Maturity Date, in each case, discounted to the Call Settlement Date on a semi-annual compounded basis at the U.S. Treasury Rate plus 0.30 per cent., all as determined by the Independent Investment Bank;

"**Make Whole Determination Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in Hong Kong and New York City;

"**Reference Treasury Dealer**" means each of the three nationally recognised investment banking firms that is a primary U.S. Government securities dealer;

"**Reference Treasury Dealer Quotations**" means, with respect to each Reference Treasury Dealer, the average, as determined by the Independent Investment Bank, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Bank by such Reference Treasury Dealer at 5:00 p.m. (New York time) on the third Make Whole Determination Business Day immediately preceding the issue of the Make Whole Redemption Notice; and

"**U.S. Treasury Rate**" means either (i) the rate per annum equal to the yield, under the heading that represents the average for the week immediately preceding the third Make Whole Determination Business Day prior to the issue of the Make Whole Redemption Notice, appearing in the most recently published statistical release designated "H.15" or if such release is not published any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities" for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Maturity Date, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the U.S. Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the third Make Whole Determination Business Day prior to the issue of the Make Whole Redemption Notice or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price, in each case calculated on the third Make Whole Determination Business Day immediately preceding the issue of the Make Whole Redemption Notice.

(d) *Redemption for a Change of Control*: At any time following the occurrence of a Change of Control, the Holder of any Note will have the right, at such Holder's option, to require the Issuer to redeem all but not some only of that Holder's Notes on the Put Settlement Date at 101 per cent. of their principal amount together with accrued interest to (but not including) such Put Settlement Date. To exercise such right, the Holder of the relevant Note must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Note Certificates evidencing the Notes to be redeemed by not later than 30 days following a Change of Control, or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 15 (Notices). The "Put Settlement Date" shall be the 14th day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes subject to the Put Exercise Notices delivered as aforesaid.

The Issuer shall give notice to Noteholders in accordance with Condition 15 (*Notices*) and to the Trustee and the Principal Paying Agent in writing by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by Holders of their rights to require redemption of the Notes pursuant to this Condition 5(c).

For the purposes of this Condition 5(d):

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Issue Date or issued thereafter, including, without limitation, all Common Stock and preference shares but excluding debt securities convertible into such equity;

a "**Change of Control**" occurs when:

(a) the Permitted Holders and their respective Related Persons, acting together cease to, directly or indirectly, Control the Issuer; or

(b) the Permitted Holders and their respective Related Persons, acting together, cease to be the largest holder of the Capital Stock or the Voting Stock (whether through direct or indirect shareholding (including beneficial ownerships)) of the Issuer; or

(c) the Issuer consolidates with or merges into or sells or transfers all or substantially all of its assets to any Person (other than any Permitted Holder or any of his/her Related Persons), unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Issuer or the successor entity;

"**Common Stock**" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the Issue Date, and include, without limitation, all series and classes of such common stock or ordinary shares;

"**Control**" or used as a verb "**Control(s)**" means, with respect to any Person, (a) the acquisition or holding of legal or beneficial ownership or control of more than the Relevant Percentage of the Voting Rights of the issued share capital of such Person, or (b) the right to appoint and/or remove all or the majority of the members of such Person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise;

"**Permitted Holders**" means Mr. Pan Benjamin Zhengmin and Ms. Wu Ingrid Chun Yuan and each a "**Permitted Holder**";

a "**Person**", as used in this Condition 5(d), includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Issuer's board of directors or any other governing board;

"**Related Person**", with respect to any Permitted Holder, means:

(a) the estate and any spouse or immediate family member of such Permitted Holder or the legal representatives of any of the foregoing, including any trust for which such Permitted Holder, his/her spouse or immediate family member is a settlor or a beneficiary;

(b) any Person directly or indirectly Controlled by such Permitted Holder; and

(c) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned at least 75 per cent. by such Permitted Holder or the Persons specified in paragraphs (a) and (b) of this definition;

"**Relevant Percentage**" means (a) in the case of Control over the Issuer, 30 per cent. and (b) in any other case, 50 per cent.;

"**Voting Rights**" means the right generally to vote at a general meeting of shareholders of the Issuer (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency); and

"**Voting Stock**" means, with respect to any Person, Capital Stock or any class or kind ordinarily having the power to vote for the election of directions, managers or other voting members of the governing body of such Person.

(e) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 5(c) (*Redemption at the Option of the Issuer*), each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Call Settlement Date bears to the aggregate principal amount of outstanding Notes on such date.

(f) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (d) (*Redemption for a Change of Control*) above.

(g) *Notice of redemption*: If there is more than one notice of redemption given in respect of any Note (which shall include any notice given by the Issuer pursuant to Condition 5(b) (*Redemption for tax reasons*) and 5(c) (*Redemption at the Option of the Issuer*) and any notice given by a Noteholder pursuant to Condition 5(d) (*Redemption for a Change of Control*)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given.

(h) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(i) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries shall be cancelled and may not be reissued or resold.

(j) *No duty to monitor*: The Trustee and the Agent shall not be obliged to take any steps to ascertain whether a Change of Control, Potential Event of Default or Event of Default has occurred or to monitor or enquire the occurrence of any Change of Control, Potential Event of Default or Event of Default, and shall not be liable to the Noteholders or any other person for not doing so.

(k) *Calculations*: Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Noteholders or any other person for not doing so.

6. **Payments**

(a) *Principal*: Payments of principal and premium (if any) shall be made by transfer to a U.S. dollar account maintained by the payee (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by transfer to a U.S. dollar account maintained by the payee and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal, premium (if any) and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in Hong Kong, New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**").

7. **Taxation**

All payments of principal, premium (if any) and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Cayman Islands or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts (the "**Additional Tax Amount**") as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in respect of any Note:

(a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Cayman Islands other than the mere holding of the Note; or

(b) where (in the case of a payment of principal, premium (if any) or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such Additional Tax Amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 or any undertaking given in addition to or in substitution of this Condition 7 pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Cayman Islands, references in these Conditions to the Cayman Islands shall be construed as references to the Cayman Islands and/or such other jurisdiction.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Noteholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

8. Events of Default

If any of the following events occurs (each, an "**Event of Default**"), then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment*: the Issuer (i) fails to pay any amount of principal or premium (if any) in respect of the Notes on the due date for payment thereof or (ii) fails to pay any amount of interest in respect of the Notes on the due date for payment thereof and such failure to pay interest continues for a period of 14 days after the due date for such payment; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Trust Deed and such default (i) is incapable of remedy or (ii) being a default which is capable of remedy remains unremedied for 45 days after the Trustee has given written notice thereof to the Issuer; or

(c) *Cross-acceleration of the Issuer or Subsidiary*:

(i) any indebtedness of the Issuer or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such indebtedness becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described); or

(iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any guarantee or indemnity in respect of any indebtedness;

provided that the amount of indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.$50,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of any amount is rendered against the whole or any material part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries and continue(s) unsatisfied and unstayed for a period of 45 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any material part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries, in each case undischarged or un-stayed for a period of 45 days after date(s) thereof; or

(f) *Insolvency, etc.*: (i) the Issuer or any of its Principal Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Issuer or any of its Principal Subsidiaries or the whole or any material part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries, except in the case of a voluntary solvent winding up, liquidation or dissolution in which the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or any of its Subsidiaries or (iii) the Issuer or any of its Principal Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of its indebtedness or the guarantee or indemnity of its indebtedness given by it; or

(g) *Winding up, etc.*: (i) an order by a court of competent jurisdiction is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Principal Subsidiaries (otherwise than, in the case of a Principal Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent) or (ii) the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business and, in the case of a Principal Subsidiary of the Issuer, except (x) for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent, or (y) any winding up, liquidation or dissolution whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or any of its Subsidiaries or (z) any disposal or sale of a Principal Subsidiary to any other person on arm's length terms for business considerations where the considerations (whether in cash or otherwise) resulting from such disposal are transferred to or otherwise vested in the Issuer or any of its Subsidiaries; or

(h) *Analogous event*: any event occurs which under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding up, etc.*) above; or

(i) *Failure to take action, etc.*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes or the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Note Certificates and the Trust Deed admissible in evidence in the courts of the Cayman Islands and Hong Kong is not taken, fulfilled or done; or

(j) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed; or

(k) *Government intervention*: (i) all or substantially all of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer or any of its Principal Subsidiaries is prevented by any such person from exercising normal control over all or substantially all of its undertaking, assets and revenues.

In this Condition 8, "**Principal Subsidiary**" means any Subsidiary of the Issuer:

(i) whose revenue (consolidated in the case of a Subsidiary which itself has Subsidiaries), as shown by its latest audited income statement, is (after intercompany elimination) at least eight per cent. of the total revenue as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries;

(ii) whose net profit (consolidated in the case of a Subsidiary which itself has Subsidiaries), as shown by its latest audited income statement, is (after intercompany elimination) at least eight per cent. of the total consolidated net profit as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries;

(iii) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries), as shown by its latest audited balance sheet, are (after intercompany elimination) at least eight per cent. of the total assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries,

provided that, in relation to paragraphs (i), (ii) and (iii) above of this definition;

(a) in the case of a corporation or other business entity becoming a Subsidiary of the Issuer after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary of the Issuer are published, be deemed to be a reference to the then latest consolidated audited accounts of the Issuer adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary of the Issuer which itself has Subsidiaries) of such Subsidiary in such accounts;

(b) if the accounts of any Subsidiary of the Issuer (not being a Subsidiary of the Issuer referred to in proviso (a) above of this definition) are not consolidated with those of the Issuer, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a *pro forma* consolidation of its accounts (consolidated, if available) with the *pro forma* consolidated accounts (determined on the basis of the foregoing) of the Issuer; and

(c) in relation to any Subsidiary of the Issuer, each reference in proviso (a) or (b) above to all or any of the accounts (consolidated or otherwise) of such Subsidiary shall be deemed to be a reference to the relevant audited accounts of such Subsidiary if it customarily prepares accounts which are audited and, if not, to the relevant unaudited accounts of such Subsidiary which shall be certified by any director of such Subsidiary as having been properly prepared in accordance with generally accepted accounting principles applicable to such Subsidiary; or

(iv) to which is transferred the whole or substantially the whole of the assets of a Subsidiary of the Issuer which immediately prior to such transfer was a Principal Subsidiary, *provided that* (xx) the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall forthwith become a Principal Subsidiary and (yy) on or after the date on which the first published audited accounts (consolidated, if appropriate) of the Issuer prepared as of a date later than such transfer are issued, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Principal Subsidiary shall be determined on the basis of such accounts by virtue of the provisions of paragraphs (i), (ii) or (iii) above of this definition.

A certificate signed by an Authorised Signatory stating that a Subsidiary is or is not or was or was not at any particular time or during any particular period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Trustee, the Agents and the Noteholders.

9. Prescription

Claims for principal, premium (if any) and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar or the relevant Transfer Agent may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and/or provided with security and/or pre-funded to its satisfaction and relieved from responsibility in certain circumstances and to be paid its fees, costs and expenses and indemnity payments in priority to the claims of the Noteholders. In addition, the Trustee and Agents are entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its functions, rights, powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of any circumstances particular to individual Holders of Notes, including but not limited to, such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer shall at all times maintain a principal paying agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders.

12. **Meetings of Noteholders; Modification and Waiver**

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions, the Trust Deed or the Agency Agreement. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal, premium (if any) or interest in respect of the Notes, to reduce the amount of principal, premium (if any) or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to effect the exchange, conversion or substitution of the Notes for other obligations or securities, to amend Condition 3 (*Covenants*) to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than two-thirds or, at any adjourned meeting, one third of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders, who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed, holding not less than 75 per cent. in nominal amount of the Notes outstanding, will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

So long as the Notes are evidenced by the Global Note Certificate (as defined in the Trust Deed), Extraordinary Resolution includes a consent given by way of electronic consents through the relevant clearing system(s) by or on behalf of all the Noteholders of not less than 75 per cent. in aggregate principal amount of the Notes for the time being outstanding.

(b) *Modification and waiver*: The Trustee may, without the consent of the Noteholders, agree (i) to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make or if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and (ii) to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such authorisation, waiver or modification shall be binding on the Noteholders and, unless the Trustee otherwise agrees, shall be notified to the Noteholders as soon as practicable thereafter.

(c) *Directions from Noteholders*: Notwithstanding anything to the contrary in the Notes, the Trust Deed and/or the Agency Agreement, whenever the Trustee is required or entitled by the terms or conditions in the Notes, the Trust Deed and/or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders by way of an Extraordinary Resolution and seek clarification of any such directions and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions or clarifications.

(d) *Certificates and Reports*: The Trustee may rely without liability to Noteholders or any other person on a report, advice, opinion, confirmation or certificate or any advice of any lawyers, valuers, accountants (including auditors and surveyors), financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, opinion or certificate or advice and such report, opinion, confirmation or certificate or advice shall be binding on the Issuer, if delivered by or on behalf of the Issuer pursuant to these Conditions, the Trust Deed or the Agency Agreement, and the Noteholders.

13. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such actions, steps or proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and the timing to perform and complete the NDRC Post-issue Filing) so as to form a single series with the Notes. The Issuer may from time to time create and issue other series of notes having the benefit of the Trust Deed.

15. **Notices**

Notices to the Noteholders will be sent to them by mail or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

16. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify the Trustee and each Noteholder, on the written demand of the Trustee or such Noteholder addressed to the Issuer and delivered to the Issuer, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Trustee or such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. **Governing Law and Jurisdiction**

(a) *Governing law*: The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by English law.

(b) *Jurisdiction*: The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) consented to the enforcement of any judgment; and (iv) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction.

TERMS AND CONDITIONS OF THE 2031 NOTES

The following is the text of the Terms and Conditions of the 2031 Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Note Certificates (as defined below) issued in respect of the 2031 Notes.

The U.S.$350,000,000 3.750 per cent. Notes due 2031 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of AAC Technologies Holdings Inc. (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 2 June 2021 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and DB Trustees (Hong Kong) Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 2 June 2021 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Deutsche Bank AG, Hong Kong Branch as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Deutsche Bank AG, Hong Kong Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours upon prior written request and satisfactory proof of holding at the registered office for the time being of the Trustee, being at the date hereof Level 60, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong and at the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent, the initial Specified Office of which is set out below.

1. Form, Denomination and Status

(a) *Form and denomination*: The Notes are in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) *Status of the Notes*: The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

2. Register, Title and Transfers

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Note shall (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such payment or indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers to be registered (i) during the period of 15 days ending on (and including) the due date for any payment of principal or interest in respect of the Notes and (ii) after a Put Exercise Notice (as defined in Condition 5(d) (*Redemption for a Change of Control*)) has been delivered in respect of the relevant Note(s) in accordance with Condition 5(d) (*Redemption for a Change of Control*).

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available for inspection by the Registrar to any Noteholder upon prior written request and satisfactory proof of holding.

3. **Covenants**

(a) *Negative Pledge*: So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall not, and the Issuer shall procure that none of its Principal Subsidiaries (other than any Listed Subsidiary and any Subsidiary of such Listed Subsidiary) will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or guarantee or indemnity of Relevant Indebtedness without at the same time or prior thereto (i) securing the Notes equally and rateably therewith or (ii) providing such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders.

(b) *Financial Statements etc.*: So long as any Note remains outstanding, the Issuer shall provide to the Trustee:

(i) (A) a copy of the Audited Financial Reports within 120 days of the end of each Relevant Period, prepared in accordance with International Financial Reporting Standards (audited by an internationally recognised firm of independent accountants); and (B) a copy of the Interim Financial Reports within 90 days of the end of each Relevant Period, prepared on a basis consistent with the Audited Financial Reports, *provided that*, if at any time any shares of the Issuer are listed for trading on a recognised stock exchange, the Issuer may make available to the Trustee, as soon as they are available but in any event not more than 14 days after any financial or other reports of the Issuer are filed with the exchange on which the Issuer's shares are at such time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in Condition 3(b) above; and

(ii) a Compliance Certificate (on which the Trustee may rely as to such compliance) within 14 days of a written request by the Trustee and at the time of provision of the Audited Financial Reports.

(c) *Rating Maintenance*: So long as any Note remains outstanding, the Issuer shall, save with the approval of an Extraordinary Resolution of the Noteholders, use its best endeavours to maintain a rating on the Notes by at least one Rating Agency.

(d) *Notification to NDRC*: The Issuer undertakes to:

(i) file or cause to be filed with the NDRC the requisite information and documents within the prescribed time period after the issue date of the Notes in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules, reports, certificates, approvals or guidelines as issued by the NDRC from time to time (the "**NDRC Post-issue Filing**");

(ii) comply with all applicable PRC laws and regulations in connection with the issuance of the Notes; and

(iii) within 10 PRC Business Days after the submission of the NDRC Post-issue Filing, (i) provide the Trustee with a certificate (substantially in the form scheduled to the Trust Deed) signed by an Authorised Signatory of the Issuer confirming the submission of the NDRC Post-issue Filing (together with the copies of document(s) (x) filed with the

NDRC and (y) issued by NDRC evidencing the completion of the submission, if any) and (ii) give notice to the Noteholders in accordance with Condition 15 (*Notices*) of the same.

The Trustee shall have no obligation or duty to monitor or ensure the submission of (or to otherwise assist with) the NDRC Post-issue Filing within the prescribed time period or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing, and shall not be liable to Noteholders or any other person for not doing so.

In these Conditions:

"**Audited Financial Reports**" means the annual audited consolidated statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows of the Issuer together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

"**Compliance Certificate**" means a certificate of the Issuer signed by an Authorised Signatory of the Issuer certifying that, having made all enquiries, to the best of the knowledge, information and belief of the Issuer as at a date (the "Certification Date") not more than five days before the date of the certificate:

(a) no Event of Default, or an event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default*), become an Event of Default ("**Potential Event of Default**"), or a Change of Control (as defined below) had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and

(b) the Issuer has complied with all its obligations under the Trust Deed, the Agency Agreement and the Notes or, if the Issuer has not complied with all such obligations, giving details of that non-compliance;

"**Group**" means the Issuer and its Subsidiaries;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Interim Financial Reports**" means the semi-annual unaudited consolidated statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows of the Issuer together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them, if any;

"Listed Subsidiary" means a Subsidiary of any Person whose ordinary shares are listed or dealt in or traded on any internationally recognised stock exchange;

"**NDRC**" means the National Development and Reform Commission of the PRC or its local counterparts;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" means the People's Republic of China, which, for the purposes of these Conditions, shall not include Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan;

"**PRC Business Day**" means a day on which commercial banks are open for general business in the PRC;

"**Rating Agency**" means (i) Fitch Ratings Ltd. and its successors ("**Fitch**"); (ii) S&P Global Ratings and its successors ("**S&P**"); (iii) Moody's Investors Service, Inc. and its successors ("**Moody's**") or (iv) if one or more of S&P, Moody's or Fitch shall not make a rating of the Notes publicly available, any internationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer;

"**Relevant Indebtedness**" means any present or future indebtedness incurred outside the PRC which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"**Relevant Period**" means (i) in relation to the Audited Financial Reports, each period of twelve months ending on the last day of the Issuer's financial year (being, as at the Issue Date, 31 December of that financial year) and (ii) in relation to the Interim Financial Reports, each period of six months ending on the last day of the Issuer's first-half financial year (being, as at the Issue Date, 30 June of that financial year);

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) of which 50 per cent. or more of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of the second Person are directly or indirectly held by the first Person; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

4. **Interest**

The Notes bear interest from 2 June 2021 (the "**Issue Date**") at the rate of 3.750 per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear in equal installments of U.S.$18.75 per Calculation Amount (as defined below) on 2 June and 2 December in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*) commencing on 2 December 2021.

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal or premium (if any) is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable in respect of any Note shall be calculated per U.S.$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the Rate of Interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

The relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

5. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 2 June 2031, subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) the Issuer has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 25 May 2021; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee:

(A) a certificate signed by an Authorised Signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion in form and substance satisfactory to the Trustee of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and rely upon such certificate and opinion (without further investigation or enquiry) as sufficient evidence of the satisfaction of the circumstances set out in (i) and (ii) above, in which event they shall be conclusive and binding on the Noteholders and the Trustee shall be protected and shall have no liability to any Noteholder or any other person for so accepting and relying on such certificate.

Upon the expiry of any such notice period as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b).

(c) *Redemption at the Option of the Issuer*: The Notes may be redeemed at the option of the Issuer (x) in whole, but not in part, at any time before 2 March 2031, or (y) in whole, but not in part, on or after 2 March 2031, on giving not less than 21 nor more than 60 days' notice to the Noteholders (each an "**Optional Redemption Notice**") (which notice shall be irrevocable):

(i) (in the case of a Call Settlement Date falling before 2 March 2031) at their Make Whole Amount, together with interest accrued to such Call Settlement Date specified in the relevant Optional Redemption Notice; and

(ii) (in the case of a Call Settlement Date falling on or after 2 March 2031) at 100 per cent. of the principal amount of the Notes to be redeemed, together with interest accrued to such Call Settlement Date specified in the relevant Optional Redemption Notice.

For the purposes of this Condition 5(c):

"**Call Settlement Date**" means the date on which the Notes shall be redeemed at the option of the Issuer as specified in the relevant Optional Redemption Notice;

"**Comparable Treasury Issue**" means the U.S. Treasury security selected by the Independent Investment Bank as having a maturity comparable to the remaining term of the Notes from the Call Settlement Date to the Maturity Date, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to the Maturity Date;

"**Comparable Treasury Price**" means the average of three, or such lesser number as is obtained by the Independent Investment Bank, Reference Treasury Dealer Quotations;

"**Independent Investment Bank**" means an independent investment bank of international repute, appointed by the Issuer (and notice thereof is given in writing to the Trustee and to Noteholders by the Issuer in accordance with Condition 15 (*Notices*)) for the purposes of performing any of the functions expressed to be performed by it under these Conditions;

"**Make Whole Amount**" means, with respect to each Note at the Call Settlement Date, (i) the principal amount of such Note or, if this is higher (ii) the amount equal to the sum of the present value of the principal amount of such Note, together with the present values of the interest payable in the relevant Interest Periods from the Call Settlement Date to the Maturity Date, in each case, discounted to the Call Settlement Date on a semi-annual compounded basis at the U.S. Treasury Rate plus 0.35 per cent., all as determined by the Independent Investment Bank;

"**Make Whole Determination Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in Hong Kong and New York City;

"**Reference Treasury Dealer**" means each of the three nationally recognised investment banking firms that is a primary U.S. Government securities dealer;

"**Reference Treasury Dealer Quotations**" means, with respect to each Reference Treasury Dealer, the average, as determined by the Independent Investment Bank, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Bank by such Reference Treasury Dealer at 5:00 p.m. (New York time) on the third Make Whole Determination Business Day immediately preceding the issue of the Make Whole Redemption Notice; and

"**U.S. Treasury Rate**" means either (i) the rate per annum equal to the yield, under the heading that represents the average for the week immediately preceding the third Make Whole Determination Business Day prior to the issue of the Make Whole Redemption Notice, appearing in the most recently published statistical release designated "H.15" or if such release is not published any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities" for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Maturity Date, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the U.S. Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the third Make Whole Determination Business Day prior to the issue of the Make Whole Redemption Notice or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price, in each case calculated on the third Make Whole Determination Business Day immediately preceding the issue of the Make Whole Redemption Notice.

(d) *Redemption for a Change of Control*: At any time following the occurrence of a Change of Control, the Holder of any Note will have the right, at such Holder's option, to require the Issuer to redeem all but not some only of that Holder's Notes on the Put Settlement Date at 101 per cent. of their principal amount together with accrued interest to (but not including) such Put Settlement Date. To exercise such right, the Holder of the relevant Note must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Note Certificates evidencing the Notes to be redeemed by not later than 30 days following a Change of Control, or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 15 (Notices). The "Put Settlement Date" shall be the 14th day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes subject to the Put Exercise Notices delivered as aforesaid.

The Issuer shall give notice to Noteholders in accordance with Condition 15 (*Notices*) and to the Trustee and the Principal Paying Agent in writing by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by Holders of their rights to require redemption of the Notes pursuant to this Condition 5(c).

For the purposes of this Condition 5(d):

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Issue Date or issued thereafter, including, without limitation, all Common Stock and preference shares but excluding debt securities convertible into such equity;

a "**Change of Control**" occurs when:

(a) the Permitted Holders and their respective Related Persons, acting together cease to, directly or indirectly, Control the Issuer; or

(b) the Permitted Holders and their respective Related Persons, acting together, cease to be the largest holder of the Capital Stock or the Voting Stock (whether through direct or indirect shareholding (including beneficial ownerships)) of the Issuer; or

(c) the Issuer consolidates with or merges into or sells or transfers all or substantially all of its assets to any Person (other than any Permitted Holder or any of his/her Related Persons), unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Issuer or the successor entity;

"**Common Stock**" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the Issue Date, and include, without limitation, all series and classes of such common stock or ordinary shares;

"**Control**" or used as a verb "**Control(s)**" means, with respect to any Person, (a) the acquisition or holding of legal or beneficial ownership or control of more than the Relevant Percentage of the Voting Rights of the issued share capital of such Person, or (b) the right to appoint and/or remove all or the majority of the members of such Person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise;

"**Permitted Holders**" means Mr. Pan Benjamin Zhengmin and Ms. Wu Ingrid Chun Yuan and each a "**Permitted Holder**";

a "**Person**", as used in this Condition 5(d), includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Issuer's board of directors or any other governing board;

"**Related Person**", with respect to any Permitted Holder, means:

(a) the estate and any spouse or immediate family member of such Permitted Holder or the legal representatives of any of the foregoing, including any trust for which such Permitted Holder, his/her spouse or immediate family member is a settlor or a beneficiary;

(b) any Person directly or indirectly Controlled by such Permitted Holder; and

(c) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned at least 75 per cent. by such Permitted Holder or the Persons specified in paragraphs (a) and (b) of this definition;

"**Relevant Percentage**" means (a) in the case of Control over the Issuer, 30 per cent. and (b) in any other case, 50 per cent.;

"**Voting Rights**" means the right generally to vote at a general meeting of shareholders of the Issuer (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency); and

"**Voting Stock**" means, with respect to any Person, Capital Stock or any class or kind ordinarily having the power to vote for the election of directions, managers or other voting members of the governing body of such Person.

(e) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 5(c) (*Redemption at the Option of the Issuer*), each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Call Settlement Date bears to the aggregate principal amount of outstanding Notes on such date.

(f) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (d) (*Redemption for a Change of Control*) above.

(g) *Notice of redemption*: If there is more than one notice of redemption given in respect of any Note (which shall include any notice given by the Issuer pursuant to Condition 5(b) (*Redemption for tax reasons*) and 5(c) (*Redemption at the Option of the Issuer*) and any notice given by a Noteholder pursuant to Condition 5(d) (*Redemption for a Change of Control*)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given.

(h) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(i) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries shall be cancelled and may not be reissued or resold.

(j) *No duty to monitor*: The Trustee and the Agent shall not be obliged to take any steps to ascertain whether a Change of Control, Potential Event of Default or Event of Default has occurred or to monitor or enquire the occurrence of any Change of Control, Potential Event of Default or Event of Default, and shall not be liable to the Noteholders or any other person for not doing so.

(k) *Calculations*: Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Noteholders or any other person for not doing so.

6. **Payments**

(a) *Principal*: Payments of principal and premium (if any) shall be made by transfer to a U.S. dollar account maintained by the payee (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by transfer to a U.S. dollar account maintained by the payee and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal, premium (if any) and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in Hong Kong, New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**").

7. **Taxation**

All payments of principal, premium (if any) and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Cayman Islands or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts (the "**Additional Tax Amount**") as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in respect of any Note:

(a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Cayman Islands other than the mere holding of the Note; or

(b) where (in the case of a payment of principal, premium (if any) or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such Additional Tax Amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 or any undertaking given in addition to or in substitution of this Condition 7 pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Cayman Islands, references in these Conditions to the Cayman Islands shall be construed as references to the Cayman Islands and/or such other jurisdiction.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Noteholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

8. **Events of Default**

If any of the following events occurs (each, an "**Event of Default**"), then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment*: the Issuer (i) fails to pay any amount of principal or premium (if any) in respect of the Notes on the due date for payment thereof or (ii) fails to pay any amount of interest in respect of the Notes on the due date for payment thereof and such failure to pay interest continues for a period of 14 days after the due date for such payment; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Trust Deed and such default (i) is incapable of remedy or (ii) being a default which is capable of remedy remains unremedied for 45 days after the Trustee has given written notice thereof to the Issuer; or

(c) *Cross-acceleration of the Issuer or Subsidiary*:

(i) any indebtedness of the Issuer or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such indebtedness becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described); or

(iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any guarantee or indemnity in respect of any indebtedness;

provided that the amount of indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.$50,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of any amount is rendered against the whole or any material part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries and continue(s) unsatisfied and unstayed for a period of 45 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any material part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries, in each case undischarged or un-stayed for a period of 45 days after date(s) thereof; or

(f) *Insolvency, etc.*: (i) the Issuer or any of its Principal Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Issuer or any of its Principal Subsidiaries or the whole or any material part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries, except in the case of a voluntary solvent winding up, liquidation or dissolution in which the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or any of its Subsidiaries or (iii) the Issuer or any of its Principal Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of its indebtedness or the guarantee or indemnity of its indebtedness given by it; or

(g) *Winding up, etc.*: (i) an order by a court of competent jurisdiction is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Principal Subsidiaries (otherwise than, in the case of a Principal Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent) or (ii) the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business and, in the case of a Principal Subsidiary of the Issuer, except (x) for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent, or (y) any winding up, liquidation or dissolution whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or any of its Subsidiaries or (z) any disposal or sale of a Principal Subsidiary to any other person on arm's length terms for business considerations where the considerations (whether in cash or otherwise) resulting from such disposal are transferred to or otherwise vested in the Issuer or any of its Subsidiaries; or

(h) *Analogous event*: any event occurs which under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding up, etc.*) above; or

(i) *Failure to take action, etc.*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes or the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Note Certificates and the Trust Deed admissible in evidence in the courts of the Cayman Islands and Hong Kong is not taken, fulfilled or done; or

(j) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed; or

(k) *Government intervention*: (i) all or substantially all of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer or any of its Principal Subsidiaries is prevented by any such person from exercising normal control over all or substantially all of its undertaking, assets and revenues.

In this Condition 8, "**Principal Subsidiary**" means any Subsidiary of the Issuer:

(i) whose revenue (consolidated in the case of a Subsidiary which itself has Subsidiaries), as shown by its latest audited income statement, is (after intercompany elimination) at least eight per cent. of the total revenue as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries;

(ii) whose net profit (consolidated in the case of a Subsidiary which itself has Subsidiaries), as shown by its latest audited income statement, is (after intercompany elimination) at least eight per cent. of the total consolidated net profit as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries;

(iii) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries), as shown by its latest audited balance sheet, are (after intercompany elimination) at least eight per cent. of the total assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries,

provided that, in relation to paragraphs (i), (ii) and (iii) above of this definition;

(a) in the case of a corporation or other business entity becoming a Subsidiary of the Issuer after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary of the Issuer are published, be deemed to be a reference to the then latest consolidated audited accounts of the Issuer adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary of the Issuer which itself has Subsidiaries) of such Subsidiary in such accounts;

(b) if the accounts of any Subsidiary of the Issuer (not being a Subsidiary of the Issuer referred to in proviso (a) above of this definition) are not consolidated with those of the Issuer, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a *pro forma* consolidation of its accounts (consolidated, if available) with the *pro forma* consolidated accounts (determined on the basis of the foregoing) of the Issuer; and

(c) in relation to any Subsidiary of the Issuer, each reference in proviso (a) or (b) above to all or any of the accounts (consolidated or otherwise) of such Subsidiary shall be deemed to be a reference to the relevant audited accounts of such Subsidiary if it customarily prepares accounts which are audited and, if not, to the relevant unaudited accounts of such Subsidiary which shall be certified by any director of such Subsidiary as having been properly prepared in accordance with generally accepted accounting principles applicable to such Subsidiary; or

(iv) to which is transferred the whole or substantially the whole of the assets of a Subsidiary of the Issuer which immediately prior to such transfer was a Principal Subsidiary, *provided that* (xx) the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall forthwith become a Principal Subsidiary and (yy) on or after the date on which the first published audited accounts (consolidated, if appropriate) of the Issuer prepared as of a date later than such transfer are issued, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Principal Subsidiary shall be determined on the basis of such accounts by virtue of the provisions of paragraphs (i), (ii) or (iii) above of this definition.

A certificate signed by an Authorised Signatory stating that a Subsidiary is or is not or was or was not at any particular time or during any particular period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Trustee, the Agents and the Noteholders.

9. **Prescription**

Claims for principal, premium (if any) and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

10. **Replacement of Note Certificates**

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar or the relevant Transfer Agent may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. **Trustee and Agents**

Under the Trust Deed, the Trustee is entitled to be indemnified and/or provided with security and/or pre-funded to its satisfaction and relieved from responsibility in certain circumstances and to be paid its fees, costs and expenses and indemnity payments in priority to the claims of the Noteholders. In addition, the Trustee and Agents are entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its functions, rights, powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of any circumstances particular to individual Holders of Notes, including but not limited to, such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer shall at all times maintain a principal paying agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders.

12. **Meetings of Noteholders; Modification and Waiver**

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions, the Trust Deed or the Agency Agreement. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal, premium (if any) or interest in respect of the Notes, to reduce the amount of principal, premium (if any) or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to effect the exchange, conversion or substitution of the Notes for other obligations or securities, to amend Condition 3 (*Covenants*) to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than two-thirds or, at any adjourned meeting, one third of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders, who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed, holding not less than 75 per cent. in nominal amount of the Notes outstanding, will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

So long as the Notes are evidenced by the Global Note Certificate (as defined in the Trust Deed), Extraordinary Resolution includes a consent given by way of electronic consents through the relevant clearing system(s) by or on behalf of all the Noteholders of not less than 75 per cent. in aggregate principal amount of the Notes for the time being outstanding.

(b) *Modification and waiver*: The Trustee may, without the consent of the Noteholders, agree (i) to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make or if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and (ii) to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such authorisation, waiver or modification shall be binding on the Noteholders and, unless the Trustee otherwise agrees, shall be notified to the Noteholders as soon as practicable thereafter.

(c) *Directions from Noteholders*: Notwithstanding anything to the contrary in the Notes, the Trust Deed and/or the Agency Agreement, whenever the Trustee is required or entitled by the terms or conditions in the Notes, the Trust Deed and/or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders by way of an Extraordinary Resolution and seek clarification of any such directions and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions or clarifications.

(d) *Certificates and Reports*: The Trustee may rely without liability to Noteholders or any other person on a report, advice, opinion, confirmation or certificate or any advice of any lawyers, valuers, accountants (including auditors and surveyors), financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, opinion or certificate or advice and such report, opinion, confirmation or certificate or advice shall be binding on the Issuer, if delivered by or on behalf of the Issuer pursuant to these Conditions, the Trust Deed or the Agency Agreement, and the Noteholders.

13. **Enforcement**

The Trustee may at any time, at its discretion and without notice, institute such actions, steps or proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and the timing to perform and complete the NDRC Post-issue Filing) so as to form a single series with the Notes. The Issuer may from time to time create and issue other series of notes having the benefit of the Trust Deed.

15. **Notices**

Notices to the Noteholders will be sent to them by mail or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

16. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify the Trustee and each Noteholder, on the written demand of the Trustee or such Noteholder addressed to the Issuer and delivered to the Issuer, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Trustee or such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. **Governing Law and Jurisdiction**

(a) *Governing law*: The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by English law.

(b) *Jurisdiction*: The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) consented to the enforcement of any judgment; and (iv) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Note Certificate of the Notes of each Series contains provisions which apply to the Notes of such Series while they are in global form, some of which modify the effect of the Terms and Conditions of the Notes of such Series set out in this Offering Circular. The following is a summary of certain of those provisions.

Terms defined in the Terms and Conditions of the Notes set out in this Offering Circular have the same meanings in the paragraphs below.

Each Series of the Notes will be represented by a Global Note Certificate which will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream.

Under the Global Note Certificate of each Series, the Issuer, for value received, will promise to pay the amount payable upon redemption under the Terms and Conditions of the Notes of such Series in respect of the Notes of such Series represented by the Global Note Certificate to the Noteholder in such circumstances as the same may become payable in accordance with the Terms and Conditions of the Notes of such Series .

The Global Note Certificate of each Series will become exchangeable in whole, but not in part, for duly authenticated and completed individual Note certificates of each Series ("**Individual Note Certificates**") if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) of the Terms and Conditions of the Notes of such Series occurs.

Whenever the Global Note Certificate of each Series is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of such Global Note Certificate within five business days of the delivery, by or on behalf of the registered Noteholder of such Global Note Certificate, Euroclear and/or Clearstream to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of such Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes of such Series scheduled thereto and, in particular, shall be effected without charge to any Noteholder of such Series or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

In addition, the Global Note Certificates will contain provisions that modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificates. The following is a summary of certain of those provisions:

Payments on business days: In the case of all payments made in respect of the Global Note Certificate, "business day" means any day on which banks are open for general business (including dealings in foreign currencies) Hong Kong and New York City.

Payment Record Date: Each payment made in respect of a Global Note Certificate will be made to the person shown as the Noteholder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

Exercise of Put Option: In order to exercise the option contained in Condition 5(d) (*Redemption and Purchase – Redemption for a Change of Control*) (the "**Put Option**"), the Noteholder must, within the period specified in the Terms and Conditions of the Notes for the deposit of the relevant Global Note Certificate and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which the Put Option is being exercised. Any such notice shall be irrevocable and may not be withdrawn.

Exercise of Call Option: In connection with an exercise of the option contained in Condition 5(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Notes represented by the relevant Global Note Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions.

Notices: Notwithstanding Condition 15 (*Notices*) of the Terms and Conditions of the Notes of each Series, so long as the relevant Global Note Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**"), notices to Noteholders represented by such Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System.

Meetings: For the purposes of any meeting of Noteholders, the Noteholders represented by a Global Note Certificate shall be treated as two persons for the purposes of any quorum requirements of a meeting of Noteholders and as being entitled to one vote in respect of each integral currency unit of the currency of the Notes.

USE OF PROCEEDS

The net proceeds from this offering, after deducting commissions and other estimated expenses payable in connection with the offering, will be approximately U.S.$643,390,000. The Issuer intends to use such proceeds for refinancing and general corporate purposes.

EXCHANGE RATE

PRC

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets.

On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On 18 May 2007, PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. The floating band was further widened to 1.0 per cent. on 16 April 2012 and to 2.0 per cent. on 14 March 2014.

On 11 August 2015, PBOC announced to improve the central parity quotations of Renminbi against the U.S. dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Since 2016, the exchange rate of Renminbi against the U.S. dollar experienced further fluctuation. Following the gradual appreciation against U.S. dollar in 2017, Renminbi experienced a recent depreciation in value against U.S. dollar followed by a fluctuation in 2018 and early 2019. On 5 August 2019, the PBOC set the Renminbi's daily reference rate at above 7 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate.

The following table sets forth the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board for the periods indicated:

	Noon buying rate(1)			
Period	**Period end**	**Average(2)**	**High**	**Low**
	(RMB per U.S.$1.00)			
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020	6.5250	6.9042	7.1681	6.5208
November	6.5760	6.6029	6.6899	6.5556
December	6.5250	6.5393	6.5705	6.5208
2021				
January	6.4282	6.4672	6.4822	6.4282
February	6.4730	6.4601	6.4869	6.4344
March	6.5518	6.5109	6.5716	6.4648
April	6,4749	6.5186	6.5649	6.4710
May (through 14 May)	6.4367	6.4507	6.4749	6.4156

Notes:

(1) Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual averages have been calculated from month-end rates. Monthly averages have been calculated using the average of the daily rates during the relevant month.

HONG KONG

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since 17 October 1983, the Hong Kong dollar has been pegged to the U.S. dollar at the rate of HK$7.80 to U.S.$1.00. The central element in the arrangements which gave effect to the peg is that, by agreement between the Hong Kong Special Administrative Region government and the three Hong Kong banknote issuing banks (namely, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and the Bank of China Limited), certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issues, are issued and redeemed only against payment in U.S. dollars at the fixed exchange rate of HK$7.80 to U.S.$1.00. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent U.S. dollars at the fixed rate.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate which applies to the issue of the Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated materially from the level of HK$7.80 to U.S.$1.00 since the peg was first established. However, in May 2005, the Hong Kong Monetary Authority broadened the 22-year old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong Special Administrative Region government has stated its intention to maintain the link at that rate and it, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong Special Administrative Region government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong Special Administrative Region government will maintain the link at HK$7.75 to HK$7.85 per U.S. dollar, or at all.

The following table sets forth the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board for the periods indicated:

	Noon buying rate(1)			
Period	**Period end**	**Average(2)**	**High**	**Low**
		(RMB per U.S.$1.00)		
2016	7.7534	7.7926	7.8267	7.7540
2017	7.8128	7.8376	7.8499	7.8043
2018	7.8316	7.7519	7.7686	7.7495
2019	7.7894	7.8333	7.8499	7.7850
2020	7.7534	7.7562	7.7951	7.7498
2021				
January	7.7531	7.7533	7.7555	7.7517
February	7.7567	7.7529	7.7567	7.7515
March	7.7746	7.7651	7.7746	7.7562
April	7.7664	7.7691	7.7849	7.7596
May (through 14 May)	7.7663	7.7673	7.7697	7.7651

Notes:

(1) Exchange rates between Hong Kong dollar and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual averages have been calculated from month-end rates. Monthly averages have been calculated using the average of the daily rates during the relevant month.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Issuer's capitalisation and indebtedness as at 31 December 2020 on an actual basis and on an adjusted basis after giving effect to the issuance of the Notes prior to deducting the commissions and other estimated expenses payable by the Issuer in connection with this offering. The following table should be read in conjunction with the Issuer's Audited Financial Statements and related notes included in this Offering Circular.

	As at 31 December 2020			
	Actual		As Adjusted	
	(RMB'000)	(US$'000)[1]	(RMB'000)	(US$'000)
Current indebtedness				
Bank borrowings	3,348,546	513,187	3,348,546	513,187
Total current indebtedness	**3,348,546**	**513,187**	**3,348,546**	**513,187**
Non-current indebtedness				
Bank borrowings	2,542,950	389,724	2,542,950	389,724
Unsecured notes	2,511,748	384,942	2,511,748	384,942
2026 Notes to be issued	–	–	1,957,500	300,000
2031 Notes to be issued	–	–	2,283,750	350,000
Total non-current indebtedness	**5,054,698**	**774,666**	**9,295,946**	**1,424,666**
Total indebtedness[2]	**8,403,244**	**1,287,853**	**12,644,491**	**1,937,853**
Equity				
Share capital	98,135	15,040	98,135	15,040
Reserves	21,060,606	3,227,679	21,060,606	3,227,679
Total equity	**21,820,835**	**3,344,189**	**21,820,835**	**3,344,189**
Total capitalisation[3]	**30,224,079**	**4,632,042**	**34,465,324**	**5,282,042**

Notes:

(1) These amounts have been translated into U.S. dollar for convenience purposes at a rate of RMB6.5250 to U.S.$1.00, which is the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 December 2020.

(2) Total indebtedness represents the sum of "Total current indebtedness" and "Total non-current indebtedness".

(3) Total capitalisation represents the sum of "Total indebtedness" and "Total equity"

Except as otherwise disclosed above, there has been no material change in the Issuer's capitalisation and indebtedness since 31 December 2020. After the completion of this offering, the Issuer may incur additional debt or borrowings in the ordinary course of business.

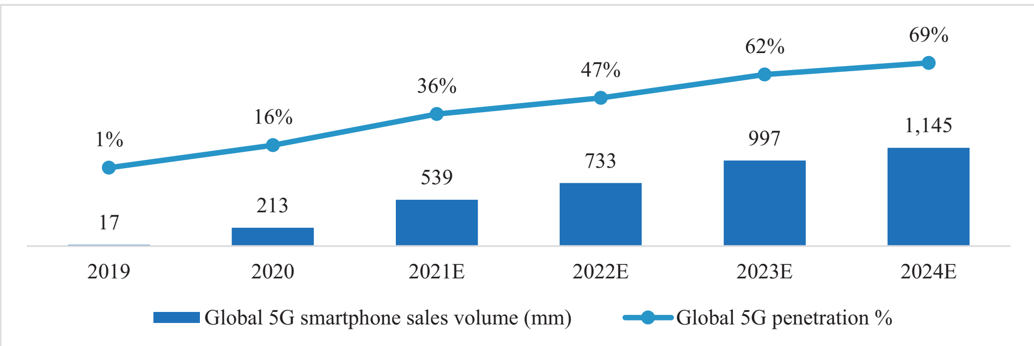
The following section contains information and statistics relating to optics, acoustics, MEMS microphones and haptic motors components for the consumer electronics market. Such information, forecasts, indicators and statistics have been derived from various official government publications, market data providers and third-party reports that are publicly accessible and other publicly available sources. AAC Technologies believes that the sources of the information are appropriate sources for such information. However, it cannot guarantee the quality or reliability of such information. Such facts, forecasts, indicators and other statistics quoted from these source materials have not been prepared or independently verified by the Issuer, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates or advisors and, therefore, none of the Issuer, the Joint Lead Managers, the Trustee or the Agents make any representation as to the accuracy, completeness, quality or reliability of such facts, forecasts, indicators and other statistics, which may not be consistent with information compiled elsewhere. See "*Risks relating to the Group and its business – There can be no assurance of the accuracy and completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources*".

The recovery of global smartphone market, and the development of 5G create new opportunities for the consumer electronics market

In 2020, global smartphone shipment growth slowed down temporarily due to the COVID-19 pandemic. Following the alleviation of the pandemic and the recovery of the world economy in 2021, the global smartphone market has demonstrated a strong recovery. In the first quarter of 2021, the global smartphone shipment has increased by 25.5 per cent. year-on-year ("**YoY**"), the fastest growth rate over the past three years, according to IDC.

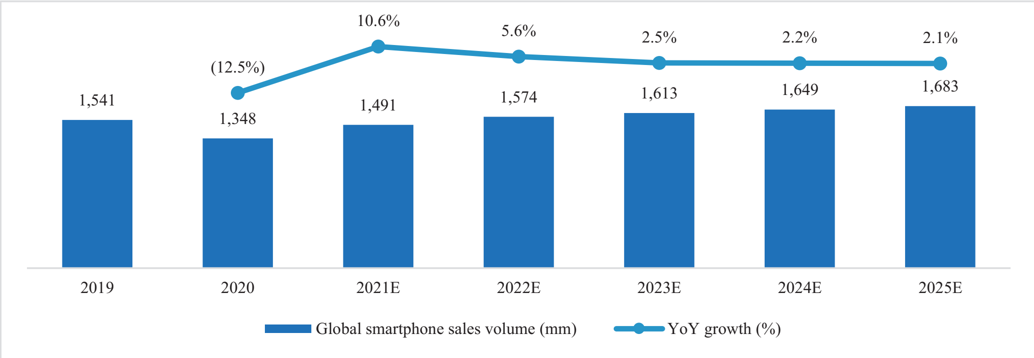
5G penetration rate is expected to increase rapidly in the next few years. According to Gartner, 5G penetration was 16 per cent. in 2020, and is estimated to reach 69 per cent. in 2024. Low latency and high transmission speed of 5G is expected to drive innovations in areas such as graphics, voice, system software and image technologies, and to enhance human-machine interactions under different application scenarios. As a result, it will lead to continuous specification upgrade across optics, acoustics, haptics and other precision components, and will drive the growth of the smartphone components market in terms of average selling price ("**ASP**") and total addressable market size.

The chart below sets forth the global 5G smartphone sales volume (in millions) and 5G penetration rate according to Gartner:



5G brings superior user experience and innovation of smartphone applications and is expected to bring a strong replacement cycle for smartphones. According to Gartner, global smartphone shipment is expected to increase by 10.6 per cent. YoY to 1.49 billion units in 2021, and to further reach 1.68 billion in 2025.

The chart below sets forth the global smartphone sales volume (in millions) according to Gartner:

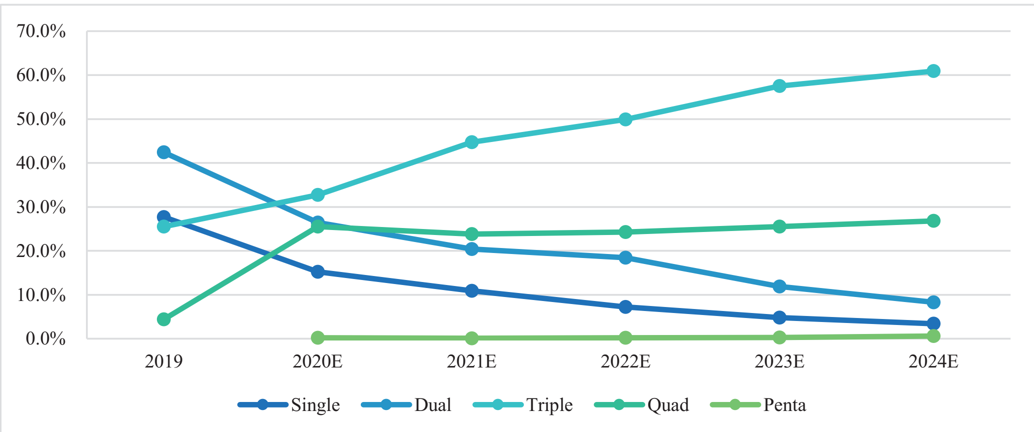


The integration of smartphone and AIoT use cases continues to accelerate and will drive the development of IoT ecosystem. The multiplier effect will lead to the emergence of smart home, wearables and automotive electronics and the sustainable growth of consumer electronics industry. As a result, it is expected that there will be a fast-growing demand for precision components in the coming years.

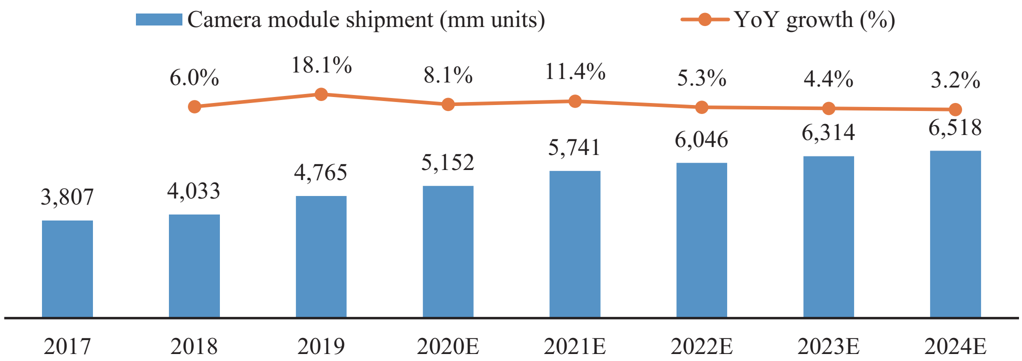
Optics

In the 5G era, all the major smartphone manufacturers are actively offering new performance features in order to create a differentiated competitive advantage. As the camera function upgrades and image quality improvement could deliver a visible and distinct user experience enhancement, innovations in camera technologies have become a key focus of smartphone manufacturers. While pursuing thinner and lighter phone designs, there is a continued focus on more advanced and complex photographic functions to achieve better imaging quality under extreme conditions. The smartphone camera evolved from a single camera to dual cameras, then to triple cameras, and the multi-camera smartphone has become a prominent trend. According to TSR, more than 70 per cent. of smartphones were equipped with multi-rear-cameras as of 2019, and the penetration of triple-and-above rear cameras is expected to reach approximately 88 per cent. in 2024. The adoption of multi-camera is expected to boost the overall market demand for optical lenses. According to TSR, the shipment of smartphone camera modules is expected to reach 6.5 billion units in 2024, up by 37 per cent. from 4.8 billion units in 2019.

The chart below sets forth the penetration of multi-camera design according to TSR:



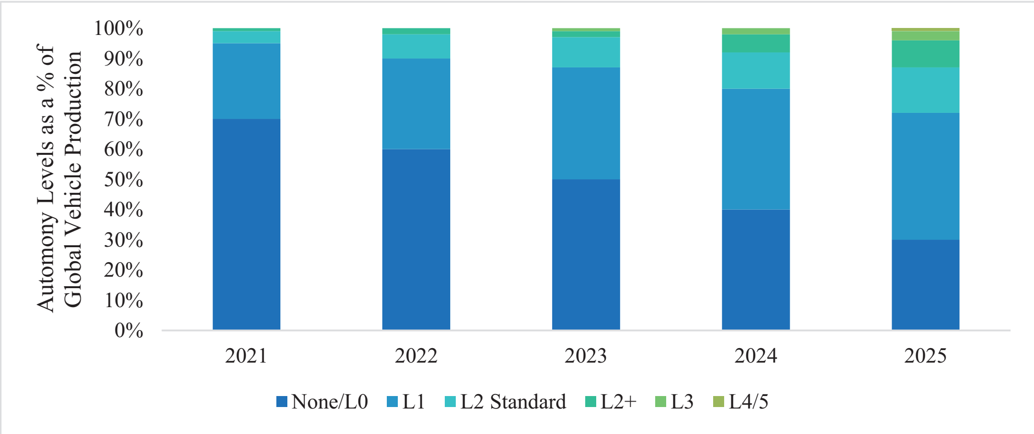
The chart below sets forth camera module shipment (in million) according TSR:



In addition to a greater number of cameras per smartphone, high image resolution has also become a key trend. High image resolution and larger image sensors require lenses with more complex structure and better optical performance. This is expected to continue to drive the increase in the number of lenses per camera. However, with thinner and lighter 5G smartphone designs, the height of a camera module is limited. The demand for better image resolution without increasing the number of plastic lenses has given rise to opportunities for glass-plastic hybrid lenses. Glass lenses enjoy the features of higher refractive index, better light transmittance, low chromatic dispersion and better thermal resistance. Thinner glass lenses are able to achieve the same imaging performance as plastic lenses. Therefore, replacing 1 to 2 plastic lenses with a glass lens could effectively lower the height of camera module, allow more light intake, improve the image resolution, and reduce ghosting and glare. As a result, glass-plastic hybrid lenses are expected to be widely adopted for upgrade of smartphone cameras in the 5G era going forward.

Besides smartphones, the automotive industry presents another key market for glass or glass-plastic hybrid lenses. Autonomous driving is expected to be the future of the automotive industry and ADAS is one of the core technologies for autonomous driving. According to an equity research report, based on the projections of leading automobile tier 1 suppliers, Autonomy Level 2 or higher technology could reach 25 per cent. adoption rate on light vehicles by 2025, up from about 5 per cent. currently. The penetration of ADAS in the overall automotive market, along with an increased number of camera lenses per vehicle as the industry migrates from Autonomy Level 2 towards a mix of Autonomy Level 2 to Level 5, will help drive the development of the vehicle camera market. It is estimated that the total addressable market for camera, radar, and LiDAR hardware in ADAS will grow at a 40 per cent. compound annual growth rate (“**CAGR**”) or higher from the current level of around $15 billion to more than $60 billion in 2025. The market for these types of sensors could reach around $130 billion in 2030, depending on the global vehicle production and the mix of Autonomy Level 2 to Level 5. Glass lens or hybrid lens suppliers with mass production and precision manufacturing capabilities to meet such high precision and stringent thermal stability requirement will be well positioned to capture such market opportunities.

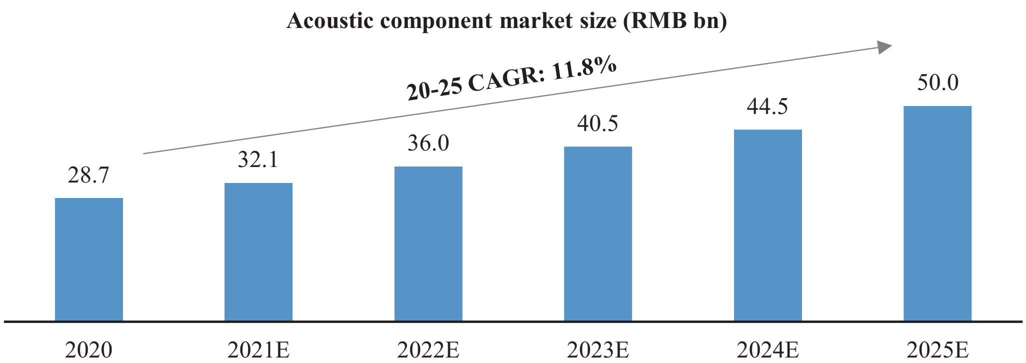
The chart below sets forth the Autonomy Levels as a percentage of global vehicle production according to an equity research report:



Acoustics

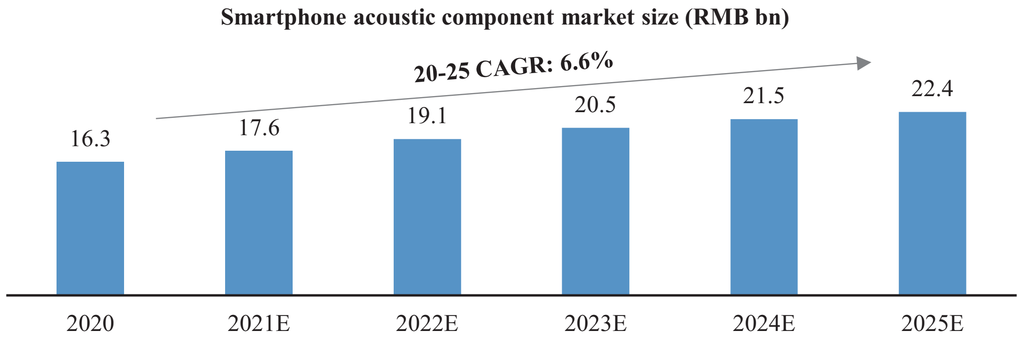
Sound is a major factor for consumers when making purchasing decisions of consumer electronics. The increasing focus of consumers on sound quality has motivated upstream manufacturers of consumer electronics to constantly improve acoustic performance such as volume, sound field and sound content. Meanwhile, the increase in the smartphone shipment and penetration of stereo sounds as well as the increasing penetration of emerging products like smart home, TWS headphones and smart watches will drive the robust growth of the acoustics market. According to McKinsey, the market size of the acoustics component is expected to expand at a CAGR of 12 per cent. from RMB29 billion in 2020 to RMB50 billion in 2025.

The chart below sets forth the acoustic component market size (in RMB billions) according to McKinsey:

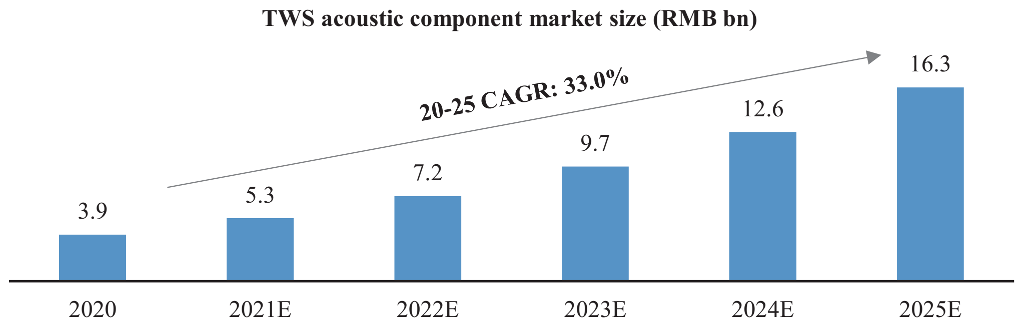


The market of smartphone acoustics is growing steadily, which is attributable to the stable growth of smartphone shipments, as well as consumers' focus on better acoustic experience. Many smartphone manufacturers have increased their investments in acoustics by adopting multi-track and stereo solutions based on SLS. This will lead to the adoption of a greater number of speaker modules per device and drive market growth. According to McKinsey, the market size of smartphone acoustic components will grow at a CAGR of 6.6 per cent. from RMB16.3 billion in 2020 to RMB22.4 billion in 2025.

The chart below sets forth the smartphone acoustic component market size (in RMB billions) according to McKinsey:



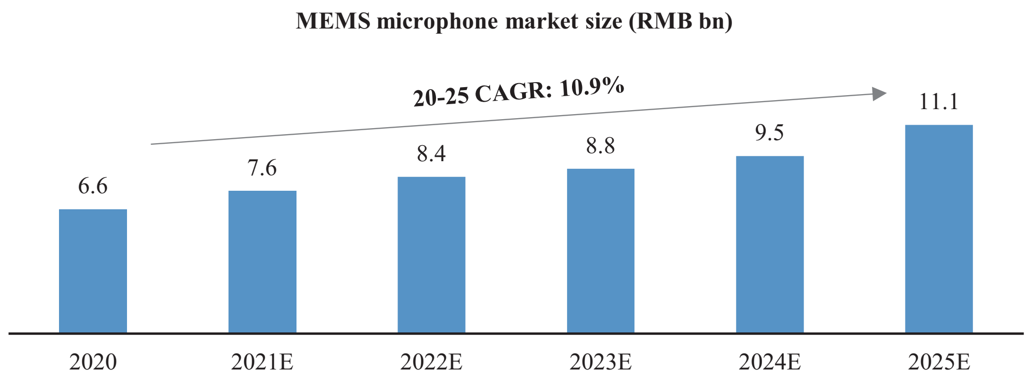
Except for smartphones and smart TVs, the shipment growth of emerging smart devices like smart watches and TWS headphones will further drive the demand for acoustic components. According to McKinsey, the market size of TWS acoustic component will grow at a CAGR of 33.0 per cent. from RMB3.9 billion in 2020 to RMB16.3 billion in 2025.



MEMS microphones

With miniature design, low cost and diverse features, MEMS sensors are widely adopted and growing fast in end markets including consumer electronics, auto electronics, industrial, medical and telecommunications. MEMS microphone is one of the fastest-growing sub-vertical in the MEMS market. In addition to the stable growth in smartphone applications, MEMS microphone is expected to grow faster in non-smartphone applications. According to McKinsey, the market size of MEMS microphone will grow at a CAGR of 11 per cent. from RMB6.6 billion in 2020 to RMB11 billion in 2025.

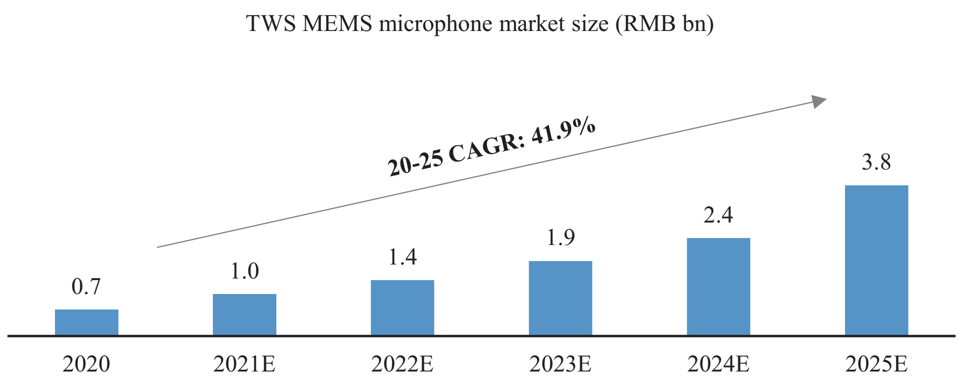
The chart below sets forth the MEMS microphone market size (in RMB billions) according to McKinsey:



With the growing smartphone shipments and the demand from use cases such as livestreaming, video conferencing and live translation, major smartphone manufacturers are expected to adopt MEMS microphones with a high signal-to-noise ratio, a high sound pressure simulation and digitalisation to solve the issue of picking up sound in the far-field as well as improve user experience. These factors will increase the values of MEMS microphones and drive the demand of MEMS microphones in the smartphone market. According to McKinsey, the market size of smartphone MEMS microphones is expected to reach RMB4 billion in 2025.

In non-smartphone markets, the market size of MEMS microphone has been expanding rapidly, which is largely attributed to the significant growth of headphone market. Meanwhile, as the low-frequency noise would affect user experience, TWS headphone manufacturers typically use microphones with active noise cancellation solutions to reduce the influence of environmental noise on sound quality. According to McKinsey, the market size of TWS MEMS microphone will increase at a CAGR of 41.9 per cent. from RMB0.7 billion in 2020 to RMB3.8 billion in 2025.

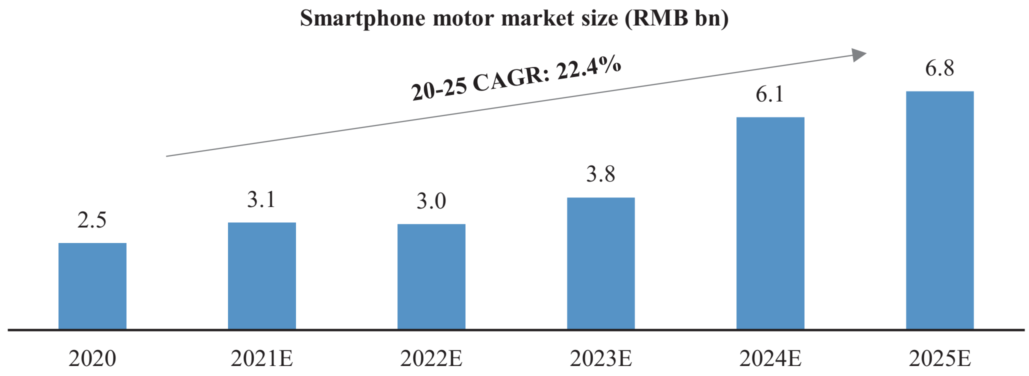
The chart below sets forth the TWS MEMS microphone market size (in RMB billions), according to McKinsey:



Haptic motors

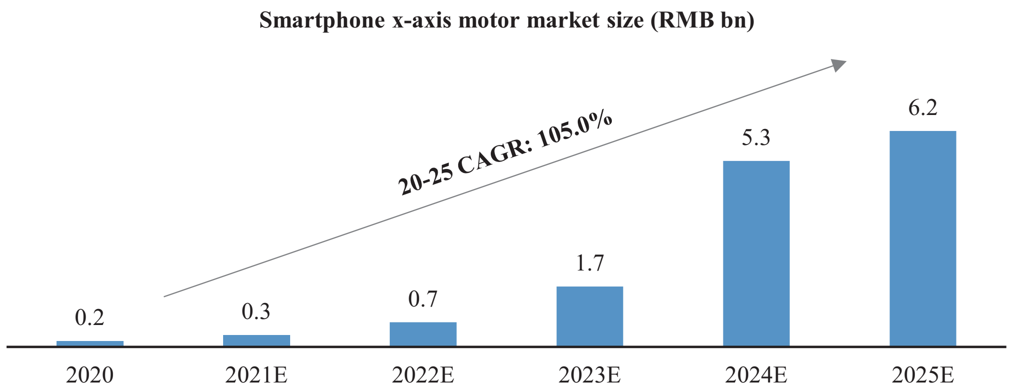
With the development of 5G, the demand for better gaming experience and the popularity of mechanical keyboards, haptic feedback will play a more significant role in human-computer interactions. Therefore, leading mobile game developers and gaming smartphone manufacturers work closely with haptic solution providers to offer "Algorithm + Advanced hardware" holistic haptics solution for smartphones at various price points and different application scenarios with the goal to improve user experience. This trend will bring significant opportunities for smartphone motor market. According to McKinsey, the market size of smartphone motors will grow at a CAGR of 22 per cent. from RMB2.5 billion in 2020 to RMB6.8 billion in 2025.

The chart below sets forth the smartphone motor market size (in RMB billions) according to McKinsey:



Comparing with z-axis or traditional rotor motors, x-axis horizontal linear motors feature low noise, fast start-up/shut-down capability and agile feedback, and thus could enable more diverse tactile feedback and create more engaging and entertaining user experience. X-axis motor has become a key selling point of high-end smartphones in recent years, and is expected to penetrate into mid- to low-end smartphones. According to McKinsey, the market size of smartphone x-axis motor will grow at a CAGR of 105 per cent. from RMB0.2 billion in 2020 to RMB6.2 billion in 2025.

The chart below sets forth the smartphone x-axis motor market size (in RMB billions) according to McKinsey:



In non-smartphone markets, driven by the demand for lower energy consumption and better experience in human-computer haptic interactions, wearable devices, laptops and automobile cockpit are expected to gradually adopt x-axis horizontal linear motors to deliver diverse haptic feedback and improve human-machine interaction. The increasing penetration in these smart devices is expected to further expand the market demand for haptic motors.

DESCRIPTION OF THE GROUP

OVERVIEW

The Group is one of the world's leading providers of advanced miniaturised and proprietary technology solutions for the global electronics industry in the consumer market. The Group enjoys cutting-edge technologies in materials research, simulation, algorithms, design, automation and process development which enables it to achieve an industry leading position. The Group has close to three decades of experience in designing and making miniaturised electronic components and integrated solutions through innovation driven by creating excellent user experience and high-precision manufacturing capabilities. Its diversified businesses include dynamic components, electromagnetic drives and precision mechanics, optics products and MEMS components. The Group's products and solutions have extensive end applications in smartphones, smart home appliances, IoT, wearables and automotive markets.

The Group's leading positions are evident from the market share of its key products. AAC Technologies believes it is one of the world's top suppliers of acoustics products and x-axis haptic motors and one of the world's top three suppliers of plastic lenses for smartphones. AAC Technologies was named as one of *Forbes'* "Asia's Fab 50 Companies" in 2018 for the third consecutive year, *Fortune's* "Fortune China 500" from 2017 to 2020 and China Electronic Components Association's "Top 100 China Electronic Components Enterprises" in terms of revenue since 2005.

The Group continuously invests in R&D on its core technologies to develop new products and enhance customer satisfaction to maintain its technology leadership. As at 31 December 2020, the Group had 19 R&D centres in countries such as China, Singapore, Japan, the United States, Finland, Denmark, South Korea and the United Kingdom. As at 31 December 2020, the Group had an IP portfolio of 6,034 patents and 6,287 patent applications pending worldwide. During the years ended 31 December 2018, 2019 and 2020, the Group's R&D expenses represented 8.3 per cent., 9.6 per cent. and 11.2 per cent. of its revenue, respectively.

The core competencies of the Group include simulations, innovative research and design as well as vertically integrated smart manufacturing, complemented by efficient management, proven operational systems and its efforts in nurturing talents. AAC Technologies believes that these competencies will help secure the Group's position in the unique class of companies which are able to compete over technological barriers and customer stickiness. As a testament of its products' high performance and superior quality, the Group has established and maintained long-term relationships with its customers which include some of China's and the world's leading smartphone makers. The Group's core strategic focus, and where it invests the majority of its resources, is to drive growth through innovation and enhance its R&D as well as high-precision manufacturing capabilities, so as to provide the best products and solutions meeting future market demands. The Group aims to achieve sustainable development capability through focusing on high-tech entry barrier and high value-added precision manufacturing business and establishing a leading edge in each business segment of the Group.

The table below sets forth the Group's revenue by reportable segments for the periods indicated:

	Year ended 31 December					
	2018		2019		2020	
	(RMB'000)	(per cent.)	(RMB'000)	(per cent.)	(RMB'000)	(per cent.)
Dynamic components	8,674,642	47.9	8,167,276	45.7	7,559,954	44.1
Electromagnetic drives and precision mechanics	8,073,135	44.5	7,694,198	43.0	6,847,410	40.0
Optics products[1]	–	–	1,070,152	6.0	1,634,423	9.5
MEMS components	814,438	4.5	928,524	5.2	1,082,582	6.3
Other products[2]	568,938	3.1	23,607	0.1	15,850	0.1
Total	**18,131,153**	**100.0**	**17,883,757**	**100.0**	**17,140,219**	**100.0**

Notes:

(1) Revenue of optics products was first recorded under a standalone segment in the Issuer's audited financial statements ended 31 December 2020. Revenue of optics products for the year ended 31 December 2019 was derived from the Issuer's audited financial statements ended 31 December 2020.

(2) Revenue of optics products for the year ended 31 December 2018 was combined into "other products".

AAC Technologies was listed on the main board of the HKSE on 9 August 2005. As at 31 December 2020, AAC Technologies had a market capitalization of approximately HK$52.4 billion or US$6.8 billion based on the total number of 1,208,500,000 issued shares and the closing price of HK$43.40 per share. It has been a constituent of the Hang Seng Index since 2016 and a constituent of the Hang Seng TECH Index effective from July 2020. In 2020, the Group received a rating of "AA" from the Hang Seng Corporate Sustainability Index, a rating of "A" from MSCI ESG Ratings, "Low Risk 17.8" from Sustainalytics ESG risks ratings and "3.3" from FTSE4Good. The Institutional Investor awarded AAC Technologies with titles including "Best IR Company", "Most Honoured Company Awards" and "Best Corporate Governance" in 2018. The Group was granted the "Grand Awards in Best ESG Report – Large Cap Best GRI Report Excellence in ESG Governance" by the Hong Kong ESG Reporting Awards (HERA) in 2020. It also received a special mention and a citation for ESG disclosure by HKICPA Best Corporate Governance Awards and HKMA Best Annual Reports Awards, respectively, in 2020.

COMPETITIVE STRENGTHS

A diversified portfolio of advanced products for the smart devices industry

The Group is one of the world's leading providers for smart devices, offering advanced solutions enabled by its cutting-edge and proprietary technologies to the global electronics industry in the consumer market. AAC Technologies believes it is one of the world's top suppliers of acoustics products and x-axis haptic motors and one of the world's top three suppliers of plastic lenses for the smartphone market.

The Group's leading positions in these markets are driven by the Group's "two-pronged" development approach in advanced R&D and precision manufacturing that focuses on investment in the innovations of (i) technology platforms and (ii) precision manufacturing technologies and knowhow. Under this approach, it has built a versatile technology and equipment operation that equips it with the abilities to design and manufacture total solutions that support critical features of smartphones, such as camera, audio inputs and outputs, haptic feedback, touch screen and connectivity. AAC Technologies is able to take advantage of this integration of core and miniaturised technologies, universal production equipment, smart and digitised manufacturing, intellectual property protection and advanced materials, tools and algorithms to explore the synergies among its diversified businesses.

With 28 years of established track record, the Group has accumulated in-depth knowledge and extensive experience in a wide range of precision technologies and hardware which enable it to design and manufacture comprehensive solutions that integrate different components with innovative features and customised specifications. By streamlining the product development process of its customers, the Group is able to timely launch products and integrated solutions that allow its customers to lead innovations and meet the demands of end consumers for compact, efficient and "smarter" devices. Under the objective to lead innovation, enhance user experience and deliver value to its customers, AAC Technologies believes its ability to provide total solutions encompassing optics, acoustics, electromagnetic drives, precision mechanics and MEMS puts it in a strong position to capitalise the growth in the demand for smartphones, smart home appliances, IoT and wearables and in the automotive markets.

Strong R&D capability and relentless product innovation

The Group is acclaimed for its strong R&D capability. AAC Technologies was named among the "Forbes Digital 100" by *Forbes* in 2018. AAC Optoelectronics Technology (Changzhou) Co., Ltd., a member of the Group, was awarded "The 21st of Chinese Patent Excellence Award" by the National Intellectual Property Administration of the PRC. As at 31 December 2020, the Group had 19 R&D centres supported by 4,335 R&D engineers and technicians in China, Singapore, Japan, the United States, Finland, Denmark, South Korea and the United Kingdom. For the years ended 31 December 2018, 2019 and 2020, the Group's R&D expenses were RMB1,512.2 million, RMB1,717.3 million and RMB1,920.3 million, respectively, representing 8.3 per cent., 9.6 per cent. and 11.2 per cent. of the Group's revenue in the respective periods. As at 31 December 2020, the Group held 6,034 patents worldwide.

The Group's strong R&D capability is evidenced by the numerous achievements it has made, ranging from discovery of new materials to innovation of new simulation, algorithm, automation technologies and production process, such as the following:

- the Group achieved a major breakthrough by developing the Super Linear Structure ("**SLS**"), which significantly improves the sound quality and user listening experience compared with traditional design.

- the Group in 2021 continues to build on SLS technology to launch small cavity speaker modules with a substantial reduction in size to cater for thinner and lighter phone designs;

- the Group pioneered the development of the x-axis haptic motor which has low latency, high-acceleration tactile interaction, strong vibration, low noise, long life and low power consumption and is a critical component for smart devices with virtual button design;

- the Group developed advanced solutions of MEMS design using in-house dies and digital ASIC chips; and

- the Group developed the WLG technology, which is AAC Technologies' first revolutionary glass lens design and manufacturing solution, enabling glass materials with better optical performance to be applied on a large scale in the smartphone market.

AAC Technologies also plays an important role in establishing some key industry standards used in miniaturised components, such as the formulation of ISO's technology standard on miniaturised acoustic components.

Established supplier to market leaders in the smartphone market

The Group has been providing evolving technological solutions for global smartphone makers over two decades. This is largely attributable to the Group's ability to consistently meet the expectations of market leaders on product quality and user experience, which has played a critical part in achieving its business growth and financial stability over the past decades. It has allowed the Group to capture the growth in the smartphone market despite significant changes in the downstream competitive landscape and introduction of disruptive technologies.

The Group's customer base includes flagship smartphone makers. It has maintained a business relationship of more than seven years with all of its five largest customers by revenue contribution for the year ended 31 December 2020 as at the date of this Offering Circular. AAC Technologies believes that this customer stickiness results from the Group's ability to offer products with differentiated and value-adding functionalities and its commitment to further enhance user experience. For example, the Group successfully promoted its x-axis haptic motor to the Android market, which now covers all major Android high-end flagship models; and the first smartphone model with its proprietary WLG hybrid lens product launched in April 2020 by a leading Android customer.

The Group positions itself as a business partner of its customers in the development and manufacture of their devices' components. It interacts with its customers throughout entire process from initial R&D to aftermarket service through presenting and fostering design roadmaps and offering real-time technical support with the backing of its globally located R&D centres, manufacturing facilities and sales offices. It has seamless collaborations with its customers' engineers at the early stages of product development to gain valuable insights on product requirements and timelines to better design and manufacture miniaturised components that can rapidly reach sufficient production volumes to meet its customers' time-to-market requirements. The Group benefits from a friendly and open ecosystem to integrate resources of business participants along the supply chain and across the industry. These collaborations and knowledge sharing facilitate a better understanding of market trends and the latest technology developments, which in turn help to strengthen the Group as an industry leader in technological innovation.

Vertically integrated and geographically diversified manufacturing capability

The Group has strategically located its production plants in China and Vietnam and is establishing additional production facilities in the Czech Republic and Malaysia. Through integration of R&D and manufacturing know-how, the Group has developed ultra-precision manufacturing capability and self-developed production equipment with continuous upgrade capabilities. The Group has developed strong industrial and process engineering expertise to develop and manage large-scale production of high-quality miniaturised components and integrated solutions. This expertise enhances the Group's ability to respond to customer requests promptly, improves production flexibility, increases manufacturing efficiency and enables the Group to meet its customers' time-to-market requirements. The Group has accumulated in-depth process engineering expertise in the overall process design and the design and manufacture of precision tooling and fixtures. The Group operates the entire production process in-house from sourcing raw materials to assembling and packaging, which permits the Group to protect and retain control over its key proprietary technology more effectively and creates a higher barrier to entry.

As an integral part of the Group's strategy to enhance yield and produce top quality products, its vertically integrated smart manufacturing system utilises precision technology, automation and big data management to enable early detection of issues, resulting in higher product quality stability, lower defect rates in each production stage and greater productivity. With assistance from big data management and automation, the Group has established a quality data management system and management approach to guide the investigation and review of automation equipment projects, contributing to its transformation from manual operations to smart production.

The Group has established a robust quality management system to maintain the highest standards of product quality. All of the Group's production plants are ISO9001 Quality Management Systems certified and QC080000 certified to ensure the Group's products meet high standards in terms of delivery rate, energy efficiency and customer satisfaction rate. It will continue to devote resources to the development of more advanced methods to manufacture miniaturised components and create integrated solutions of high quality.

Effective corporate governance

The Group has adopted a set of comprehensive policies and guidelines to ensure the prudent and sustainable expansion of its business and adapt to dynamic market conditions. The Group's comprehensive corporate governance system ensures its financial, investment and financing decisions are sound and well-managed. In 2020, the Group received a rating of "AA" from the Hang Seng Corporate Sustainability Index, a rating of "A" from MSCI ESG Ratings, "Low Risk 17.8" from Sustainalytics ESG risks ratings and "3.3" from FTSE4Good. The *Institutional Investor* awarded AAC Technologies with titles including "Best IR Company", "Most Honoured Company Awards" and "Best Corporate Governance" in 2018. The Group was granted the "Grand Awards in Best ESG Report – Large Cap Best GRI Report Excellence in ESG Governance" by the Hong Kong ESG Reporting Awards (HERA) in 2020. It also received a special mention and a citation for ESG disclosure by HKICPA Best Corporate Governance Awards and HKMA Best Annual Reports Awards, respectively, in 2020.

Prudent financial management with strong financial metrics

Through its prudent financial management, the Group is able to maintain a healthy balance sheet with low leverage and strong operating cash flows. As at 31 December 2018, 2019 and 2020, the Group had a gearing ratio of 19.8 per cent., 24.6 per cent. and 21.6 per cent., respectively, and a net gearing ratio of 6.2 per cent., 10.5 per cent. and 2.2 per cent., respectively. The Group had operating cash flow of RMB6,789.3 million, RMB3,843.5 million and RMB3,592.6 million during the years ended 31 December 2018, 2019 and 2020, respectively. The Group's bank balance and cash was RMB4,126.5 million, RMB5,512.0 million and RMB7,540.3 million as at 31 December 2018, 2019 and 2020, respectively.

The Group has a proven track record of raising funds and repaying debts and has also established and maintained a long-term relationship with a number of reputable international and domestic financial institutions including but not limited to Agricultural Bank of China, Bank of China, Bank of Communications, DBS Bank and The Hongkong and Shanghai Banking Corporation Limited. The Group tapped into the international debt capital market with the issuance of U.S.$388,000,000 3.00 per cent. notes due 2024 by AAC Technologies in November 2019. As at 31 December 2020, the Group had obtained committed domestic credit facilities and offshore credit facilities in aggregate of RMB13,865 million and RMB5,019 million, respectively, providing the Group with total credit facilities of RMB18,884 million, out of which a total of RMB7,444 million was drawn down, comprising RMB3,985 million from PRC credit facilities and RMB3,459 million from non-PRC credit facilities.

Committed management team with extensive industrial expertise

AAC Technologies has a seasoned management team with extensive experience relevant to its operations. Under the leadership of Mr. Pan Benjamin Zhengmin, the co-founder and chief executive officer of AAC Technologies, the Group has developed from a specialised miniaturised acoustic component manufacturer into a leading solutions provider of a broad range of miniaturised components for the global smartphone market. Mr. Mok Joe Kuen Richard has over 30 years of experience in the financial services industry and has played a significant role in delivering financial stability and growth to AAC Technologies. Mr. Pan Kaitai, AAC Technologies' chief innovation officer and EVP, has demonstrated an in-depth knowledge in adopting new technologies and best-in-class management tools to promote transformation of the Group in the seven years he has been with AAC Technologies. Ms. Guo Dan, AAC Technologies' chief financial officer, has over 13 years of experience in investment banking, and previously held an executive director position in Goldman Sachs (Asia) L.L.C. Other members of AAC Technologies' senior management team have significant experience with respect to R&D and sales and marketing in the technology sector. Mr. David Plekenpol, AAC Technologies' Chairman of European and American Regions, has over 25 years of experience in the telecommunications industry, with past executive positions in both Lucent Technologies Inc. and Alcatel. Dr. Kim Chul Ho, AAC Technologies' Chairman of Asia Pacific Region (ex-PRC), is experienced in the development of electronic device and related mass production technologies, and also did research and development management for over 15 years in Samsung Korea. Mr. Ho Siu Tak

Jonathan, AAC Technologies' Legal Director and Company Secretary, has over 20 years of legal and management experience. AAC Technologies' board of directors also contributes a wealth of industrial and financial experience. Under the direction of its experienced and committed management team and the support of its board of directors, AAC Technologies has demonstrated steady execution and forward-looking strategic nimbleness that earned its place in the "Fortune China 500" by Fortune from 2017 to 2020. In 2020, the Group received a rating of "AA" from the Hang Seng Corporate Sustainability Index, a rating of "A" from MSCI ESG Ratings, "Low Risk 17.8" from Sustainalytics ESG risks ratings and "3.3" from FTSE4Good. The Institutional Investor awarded AAC Technologies with titles including "Best IR Company", "Most Honoured Company Awards" and "Best Corporate Governance" in 2018. The Group was granted the "Grand Awards in Best ESG Report – Large Cap Best GRI Report Excellence in ESG Governance" by the Hong Kong ESG Reporting Awards (HERA) in 2020. It also received a special mention and a citation for ESG disclosure by HKICPA Best Corporate Governance Awards and HKMA Best Annual Reports Awards, respectively, in 2020.

STRATEGIES

AAC Technologies believes the following strategies will enable it to strengthen its position as one of the world's leading total solutions providers in miniaturised technologies with cutting-edge innovations to enhance user experience:

Development through innovation to enhance user experience and customers' traction

The Group will continue to innovate to further improve user experience. Riding on continual industry innovation and the trend of global smartphone shipment recovery following a market demand contraction in 2020 due to the COVID-19 pandemic, the Group focuses on market share expansion across various key business segments by developing innovative solutions to meet the customers' demand for superior quality and differentiated experience. The Group is committed to expand beyond hardware manufacturing and develop a value creation pathway incorporating software capabilities to become a world leading total solution provider for diversified user experience across acoustics, optics and haptics. Adopting a customer-oriented approach, the Group maintains a close dialogue with customers regarding their specification upgrades and future development trends of the industry. In order to provide quick feedback to the changing needs of customers in a dynamic market environment, the Group also implemented internal reorganisation to better align R&D with sales and manufacturing teams in each business unit and product segment. The Group offers "algorithm + hardware" solutions to customers, which helps to strengthen customers' stickiness and increase market penetration. For example, leveraging the advantages of the high-performance x-axis haptics motors, the Group launched its haptics solution which provides superior user experience for application connections in the ecosystem and enhances consumers' haptic perception. This helps to promote the customers' demand for continuous specification upgrades and product iteration. In addition, the Group leverages its algorithm capabilities in acoustics, which resulted in a smartphone model equipped with the Group's acoustics component as well as the Group's own tuning achieving No.1 ranking in DXOMARK, an independent smartphone ranking and review provider. The Group will continue to develop its capabilities across cutting-edge component design, precision manufacturing knowhow, algorithm and data simulation to provide total solutions and further enhance user experience.

Establishing advanced technology platforms to optimise production costs and improve competitiveness

The Group leverages its precision manufacturing capabilities with automation and data simulation to establish advanced technology platforms across various product lines, with a continued focus to lower unit production costs and improve competitiveness. Apart from implemented comprehensive cost control measures, the Group has been focused on establishing platform-based technologies to optimise production costs control and customisation requirement. For example, the Group launched the innovative acoustic platform, SLS, in 2018. SLS speakers revolutionised traditional diaphragm design to create sustainable enhancement in diaphragm vibration resulting in notable improvement in the sound quality and listening experience. Building on this proprietary SLS technology pathway, the Group further developed small cavity speaker module, which has a significant reduction in size and a standardised design. By significantly reducing number of customised designs across various Android phone models, AAC Technologies expects this technology platform to lower unit production cost and improve margin on the back of scale manufacturing. AAC Technologies intends to increase the percentage of such product over time in the mid-segment phones, while maintaining customised design to high-end flagship models. The smaller size of the product also helps to promote stereo and multi-track acoustic experience which requires more than one acoustics modules per phone, and further enhances total addressable market size.

Leadership position in each business area through development of differentiated and cutting-edge technology

The Group strives to become a leader in each business segment it operates in, via continued development of leading technologies. For example, the Group has developed its proprietary WLG hybrid lens technology, which helps to position the Group to potentially become a market leader in the optics industry. AAC Technologies considers the WLG hybrid lenses, which exhibit a superior optical performance in light intake and image resolution, to be one of the major future development trends in optics upgrade. WLG hybrid lens products have been shown to improve light intake by 10-15 per cent. and improve resolution by 5 per cent. compared to products with the same number of plastic lenses. WLG Hybrid lenses can further lower TTL by 5 per cent. to 10 per cent., which is well aligned with the thinner and lighter smartphone designs. With larger aperture and better light intake, WLG Hybrid lenses will also effectively enhance the imaging results under night condition, achieving better colour revivification, and reducing glare problems. The Group's first WLG hybrid lens project was mass-produced and shipped as scheduled in the first quarter of 2021. The first smartphone model with WLG hybrid lens products has also been launched in April 2021 and received positive feedback. With the unique advantages of WLG hybrid lens compared to traditional plastic lens products, AAC Technologies believes it has the potential to set new market standards and achieve a leadership position in the long run.

Expanded application scenarios to capture greater market opportunities in the 5G era

The performance of 5G connectivity, characterised by high speed, high frequency, large bandwidth and low latency, will be critical to user experience of the next generation of smart devices. The group believes 5G connectivity will continue to drive demand for replacement and upgrade of existing devices, particularly in smartphones, and further increase the demand for new application scenarios in devices including smart wearables, autonomous vehicles, robots, AR/VR products and IoT products, leading to an increase in total addressable market. The Group invested in R&D and intends to speed up its technology innovation and new product development to capture the expected market opportunities in the 5G era across various new application scenarios. For example, the Group's MEMS components' business has been adopted in TWS, IoT and new energy vehicles. The Group expects acoustics and optics solutions to have the potential to further expand beyond smartphones into automotive sector in the future.

Maintain healthy liquidity to provide strategic flexibility

The Group aims to continue to be prudent in financial management, and stringently manages capital expenditures and R&D expenses to conduct active liquidity management. It is committed to maintaining a corporate rating of investment grade and balancing the interests of both equity and debt investors. The Group aims to achieve positive free cash flow after taking into account capital expenditure for the period and to hold sufficient liquidity position to cover all short-term debt maturities. It endeavours to strike a proper balance between its shareholders' interests and prudent capital management when deciding any dividend payout and share repurchase. It has in place a risk management system to reduce operational and financial risks to achieve long-term sustainable growth. The Group will continue to implement and enhance its risk management system with well-defined policies and guidelines, among others:

- stringent financial reporting and control system that emphasises centralised management and administration, consistent controlling policies and full compliance with legal and regulatory requirements;

- fully leverage diversified financing channels (such as access to equity and debt capital markets, cross-border financing channels) under centralised management to optimise capital structure, secure sufficient working capital and periodic review of debt position and borrowing structure; and

- prudent policies to maintain a balance between cash, receivables and inventories to control liquidity risk, including periodic reviews of customer credit profit, and improve inventory turnover.

THE GROUP'S DEVELOPMENTS

History and Development

The Group's operating history dates to 1993 when AAC Technologies' predecessor, Shenzhen Yuanyu Industrial Development Co., Ltd.(深圳市遠宇實業發展有限公司)("**Shenzhen Yuanyu**"), began to manufacture basic miniature acoustic components. Through 28 years of continuous innovation and committed R&D, the Group has grown into an integrated solutions provider with cutting-edge advanced miniaturised technologies not only in acoustic components but also in optics, haptics, MEMS, electromagnetic drives and precision mechanics. The following table sets forth the key developments of the Group since its establishment:

Year	Event
1993	The Group commenced its business in Shenzhen with the establishment of Shenzhen Yuanyu, a predecessor company, to manufacture basic miniature acoustic components.
1996	American Audio Component Inc., a company incorporated in the State of California of the United States and a wholly-owned subsidiary of AAC Technologies, was established to handle direct sales of the Group's products to customers in the United States. Prior to 1996, the Group sold its products overseas primarily through distributors.
1998	Shenzhen Meiou Electronics Corporation(深圳市美歐電子股份有限公司)a predecessor company, was established to engage in the large-scale production of transducers for the mobile phone market.
2000	The Group began manufacturing miniature receivers.
2001	The Group established YEC Electronics Limited in Hong Kong to consolidate and manage overseas product sales.
2002	The Group began manufacturing multi-function devices, polyphonic speakers and ECM microphones. The Group established a R&D centre in Nanjing to perform research on acoustic structure design, magnetic structure design, testing technologies and acoustic simulation software development in collaboration with Nanjing University.
2005	AAC Technologies successfully completed an initial public offering of its shares on the HKSE.
2007	The Group began mass production of MEMS microphones.

Year	Event
2008	The Group became a certified supplier for the top five global mobile phone makers at the time. The Group began mass production of haptics and waterproof speakers.
2009	The Group set up a Singapore RF design laboratory.
2010	The Group acquired a 96.4 per cent. share capital in I. Square Research Co., Ltd. (currently known as AAC Technologies Japan R&D Center Co., Ltd.), a Japanese lens design consultancy company to enhance its optics capability for a total consideration of RMB12.3 million. The Group started the fully automated production of speakers and receivers.
2011	AAC Technologies' name was changed from "AAC Acoustic Technologies Holdings Inc." to "AAC Technologies Holdings Inc." to better reflect the Group's capabilities in developing and manufacturing miniaturised components of other technologies beyond acoustics. The Group completed the acquisition of 70.9 per cent. equity interest in aggregate in Kaleido Technologies ApS, a company incorporated in Denmark engaged in WLG moulding for a total consideration of RMB43.8 million. The Group acquired a 50.0 per cent. equity interest in Mems Technology Pte. Ltd., a company incorporated in Singapore, for its MEMS die design for a total consideration of RMB38.3 million. Mems Technology Pte. Ltd. is an established industry player that designed and manufactured MEMS products.
2012	The Group started to ship integrated LDS antennas on speaker boxes.
2013	The Group began mass production of RF mechanical solutions.
2014	Non-acoustic product segments contributed more than 20 per cent. of the Group's revenue of the year for the first time.
2015	The Group acquired the entire equity interest of WiSpry Inc., a company incorporated in State of Delaware of the United States, to strengthen the Group's position as a unique RF MEMS solutions provider for a total consideration of RMB102.8 million.
2016	AAC Technologies became a constituent of the Hang Seng Index. The Group launched its stereo sound solutions.
2017	The Group launched the SLS platform. The Group began mass production of plastic lenses.
2018	The Group began shipment of SLS acoustic products and WLG hybrid lenses.

Year	Event
2019	The Group became a top three global supplier of plastic lenses for smartphones.
2020	The Group began mass production of WLG hybrid lenses. First smartphone model with WLG hybrid lens products launched by a leading Android customer.

Recent Developments

Management of Impact of COVID-19

There has been a recent resurgence of reported infections, including in Europe, India and Vietnam, as well as the emergence and rapid spread of new variants of the COVID-19 virus. There are substantial uncertainties in the development of the pandemic and its potential impact on the Group. For details, please see "*Risk Factors – Risks relating to the Group and its Business – The Group's China and overseas businesses and results of operations may be materially and adversely affected by the COVID-19 pandemic and other pandemics*".

The outbreak of the COVID-19 pandemic brought unprecedented challenges globally. The Group's revenue and net profit for the year ended 31 December 2020 decreased as a result of a decline in global smartphone shipment volume brought on by the COVID-19 pandemic and shortage of chips and other components. Although, the global spread of the COVID-19 pandemic brought disruptions to manufacturing for some of the product lines, the Group took swift actions to protect the health and safety of its employees, and to strive for speedy recovery of daily operations.

The Group's business performance has improved after the first quarter of 2020. The Group's gross profit margin for the fourth quarter of 2020 improved considerably as compared to the first quarter of 2020. In particular, the Group's gross profit margin of optics products increased quarter to quarter throughout the year of 2020. In the fourth quarter of 2020, gross profit margins of dynamic components, electromagnetic drives and precision mechanics and MEMS components had all increased from the respective levels in the first quarter of 2020. See also "- *Unaudited Quarterly Results of the Group for the Three Months ended 31 March 2021*" for the discussion of the results of operations of the first quarter of 2021 of the Group.

The Group's effective anti-pandemic measures contributed to the Group's quick recovery. Following the principle of "early detection, early reporting, early isolation and early treatment", the Group set up a pandemic prevention taskforce to manage the anti-pandemic effort. In addition to stringent pandemic prevention and control measures, the Group made specific arrangements on human resources and manufacturing management to minimise the adverse impact of the COVID-19 pandemic on employee well-being, overall production capacity and product quality. The pandemic prevention taskforce and the environmental, health and safety department conducted checks to ensure all parts of operations have been well-equipped for pandemic prevention. The Group allocated sufficient supplies and implemented social distancing restrictions in product lines, dormitories and shuttle bus services. At the beginning of the outbreak, the Group provided free nucleic acid testing for all employees, and established and implemented guidelines and procedures for controlling visitors, on-boarding of new employees, arranging quarantine for employees who return to the workplace after public holidays, as well as handling suspected cases swiftly and safely. The Group also developed contingency plans to maintain productivity during the COVID-19 pandemic. Employees who were unable to return to the workplace adopted remote working. To reduce physical contact among employees, the Group allowed for staggered working hours and lunch breaks. The Group arranged temporary job transfers for affected employees in order to assure their income and to meet delivery requirements at the same time.

Unaudited Quarterly Results of the Group for the Three Months ended 31 March 2021

AAC Technologies published on the HKSE the unaudited condensed consolidated results of the Group ("**Unaudited Quarterly Results**") for the three months ended 31 March 2021 ("**Q1 2021**") together with the comparative figures for the corresponding period in 2020 ("**Q1 2020**"). The Unaudited Quarterly Results relate only to selected unaudited key performance indicators of the Group and are based on the Group's internal records and management accounts. The Unaudited Quarterly Results have not been reviewed or audited by independent auditors and should not be relied upon by investors to provide the same quality of information associated with financial results that have been subject to an audit or review. None of the Joint Lead Managers, the Trustee, the Agents, or any of their respective directors, affiliates, officers, advisers, employees or agents makes any representation, warranty or undertaking, express or implied of, or accepts any responsibility or liability with respect to the Unaudited Quarterly Results. The Unaudited Quarterly Results are historical in nature and past performance is not a guarantee of future performance. The Unaudited Quarterly Results are not included in and do not form a part of this Offering Circular. See also "*Risks relating to the Group and its Business – The Issuer has published and may continue to publish periodical financial information on the HKSE. Investors should be cautious and not place any reliance on the financial information other than that disclosed in this Offering Circular*".

In Q1 2021, the Group achieved a considerable increase in revenue as compared to Q1 2020. This was mainly due to the recovery of global smartphone market demand, a delay of a major overseas customer's peak season from the fourth quarter of 2020 to Q1 2021 and the increase of market share of the Group across various businesses in the Android market. Benefiting from operating efficiency, effective cost control measures and the continuous optimisation of product portfolios, gross profit margin of the Group for Q1 2021 increased notably and net profit increased substantially as compared to Q1 2020.

Dynamic Components

In Q1 2021, as a major overseas customer's peak season had partially delayed from the fourth quarter of 2020 to Q1 2021, and the Group's market share had increased in the Android acoustics market, revenue from the dynamic components segment rose significantly on a year-on-year basis. Android acoustic products' gross profit margin continued to improve further from the growth momentum in the fourth quarter of 2020. The overall gross profit margin of dynamic components increased notably.

Optics Products

In Q1 2021, along with an increasing shipment of plastic lenses and a steady growth of the camera module business, revenue from the optics products segment increased substantially as compared to Q1 2020. Leveraging the Group's high-precision and customized production equipment, as well as an automated manufacturing process, the production yield and production efficiency of the optics business improved steadily. The overall gross profit margin for Q1 2021 also increased substantially as compared to Q1 2020, with the gross profit margins of the plastic lens business and the camera module business both improving as compared to Q1 2020.

Based on the Group's core strategy of vertical integration to provide total optical solution to customers encompassing lenses, modules and VCM, the camera module business has shown a steady progress with gross profit margin turning positive in Q1 2021.

Electromagnetic Drives and Precision Mechanics

In Q1 2021, due to a decline in unit price for electromagnetic products from a major customer, and the decrease in shipment volume of the metal casing business, revenue for the electronic drives and precision mechanics segment decreased considerably as compared to Q1 2020. Due to an increased gross profit margin from the metal casing business, the gross profit margin for this business segment increased slightly in Q1 2021 as compared to Q1 2020.

The Group's precision mechanics business was affected by a customer's shipment decline. However, benefitting from the flexible adjustment of production capacity and effective cost control measures, the utilisation rate remained stable and gross profit margin increased slightly.

MEMS Components

In Q1 2021, revenue from the MEMS components segment grew significantly as compared to Q1 2020 as a result of an increase in market share. Gross profit margin of the MEMS components segment of Q1 2021 remained stable as compared to Q1 2020.

Proposed Spin-off and Separate Listing of AAC Optics Group

AAC Technologies is considering a proposed spin-off of AAC Optics (Changzhou) Co., Ltd.(誠瑞光學(常州)股份有限公司)("**AAC Optics**") and its subsidiaries (the "**Proposed Spin-off**"), by way of a separate listing of the shares of AAC Optics on a stock exchange in the PRC (the "**Separate Listing**"). AAC Optics and its subsidiaries ("**AAC Optics Group**") are principally engaged in the R&D, production and sale of optics products. AAC Optics Group is dedicated to becoming a leading optics solution provider with cutting edge technologies and superior products in order to capture the fast-growing market opportunities in the optics industry, and to deliver innovative user experience. The Proposed Spin-off and Separate Listing is expected to enhance AAC Optics Group's market positioning and integration of business resources, which would reinforce the competitiveness of AAC Optics Group in optics and establish a solid foundation for its long-term sustainable growth. At the same time, AAC Technologies and other members of the Group will be able to focus more on the development of the other business segments, thereby realising the maximum growth potential of AAC Technologies and AAC Optics Group.

As at the date of this Offering Circular, AAC Technologies had obtained the HKSE's approval to proceed with the Proposed Spin-off. The Proposed Spin-off and Separate Listing of AAC Optics Group are subject to, *inter alia*, approvals from relevant authorities, including the CSRC and the relevant stock exchange in the PRC, as well as the prevailing market conditions. The Proposed Spin-off and Separate Listing may or may not proceed and no assurance is given as to the timing thereof.

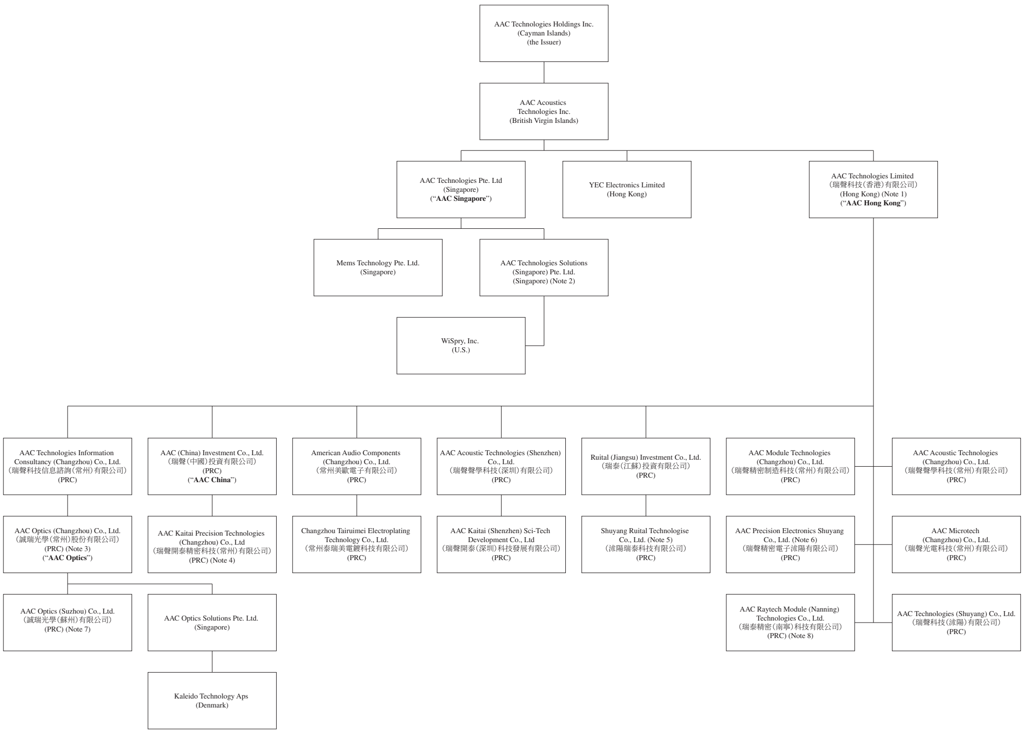
AWARDS AND RECOGNITIONS

AAC Technologies has received recognition and numerous awards over the years that are testament to its track record of overall competitive strengths and market dominance, including the following:

Award/Recognition	Awarding Authorities/Entities	Years Awarded
Top 100 China Electronics Components Enterprises	China Electronic Components Association	Every year from 2005 to 2019
Top 500 China Private Enterprises	All-China Federation of Industry and Commerce	2017, 2018 and 2019
Asia's Fab 50	*Forbes*	2016, 2017 and 2018
Fortune China 500.	*Fortune*	2017, 2018, 2019 and 2020
Fortune's The Future 50	BCG Henderson Institute and *Fortune*	2017 (inaugural year) and 2018

CORPORATE STRUCTURE

The following diagram sets forth the Group's simplified corporate structure as at 31 December 2020.



Notes:

Unless otherwise specified below, each underling entity is wholly-owned by its immediate holding entity.

(1) It was formerly trading as "AAC Acoustic Technologies Limited".

(2) It was formerly trading as "AAC MEMS Solutions Pte. Ltd.".

(3) It was formerly trading as "AAC Communications Technologies (Changzhou) Co., Ltd. (瑞聲通訊科技(常州)有限公司)". AAC Technology Information Consultancy (Changzhou) Co., Ltd. (瑞聲科技信息諮詢(常州)有限公司) held 60.28 per cent. equity interest in AAC Optics. The remaining 20.10 per cent. was held by AAC Hong Kong and another remaining 19.62 per cent. was held by other parties.

(4) It was formerly trading as "AAC Optics Technologies (Changzhou) Co., Ltd. (瑞聲光學科技(常州)有限公司)".

(5) Ruitai (Jiangsu) Investment Co., Ltd. held 82.88 per cent. equity interest in Shuyang Ruitai Technologies Co., Ltd. The remaining 17.12 per cent. was held by AAC China.

(6) AAC Hong Kong held 57.13 per cent. equity interest in AAC Precision Electronics Shuyang Co., Ltd. The remaining 42.87 per cent. was held by AAC China.

(7) It was formerly trading as "AAC Optonics Technologies (Suzhou) Co., Ltd. (瑞聲光電科技(蘇州)有限公司)".

(8) It was formerly trading as "AAC Module (Nanning) Technologies Co., Ltd. (瑞聲精密(南寧)科技有限公司)".

THE GROUP'S BUSINESS

Products and Solutions

The Group is one of the world's leading providers for smart devices, offering advanced solutions enabled by its cutting-edge and proprietary technologies to the global consumer electronics industry. AAC Technologies believes it is one of the world's top suppliers of miniaturised speakers and x-axis haptic motors and one of the world's top three suppliers of plastic lenses for the smartphone market. The Group leverages a combination of its material research, simulation, algorithms, design, automation and precision manufacturing capabilities to provide customers with differentiated solutions that service their increasingly complex product requirements.

The Group manages its business and reports its performance by five segments, namely dynamic components, electromagnetic drives and precision mechanics, optics products, MEMS components, and strives to provide total solutions to enhance user experience. The table below sets forth the Group's revenue by reportable segment for the periods indicated:

	Year ended 31 December					
	2018		2019		2020	
	(RMB'000)	(per cent.)	(RMB'000)	(per cent.)	(RMB'000)	(per cent.)
Dynamic components	8,674,642	47.9	8,167,276	45.7	7,559,954	44.1
Electromagnetic drives and precision mechanics	8,073,135	44.5	7,694,198	43.0	6,847,410	40.0
Optics products(1)	–	–	1,070,152	6.0	1,634,423	9.5
MEMS components	814,438	4.5	928,524	5.2	1,082,582	6.3
Other products(2)	568,938	3.1	23,607	0.1	15,850	0.1
Total	**18,131,153**	**100.0**	**17,883,757**	**100.0**	**17,140,219**	**100.0**

Notes:

(1) Revenue of optics products was first recorded under a standalone segment in the Issuer's audited financial statements ended 31 December 2020. Revenue of optics products for the year ended 31 December 2019 was derived from the Issuer's audited financial statements ended 31 December 2020.

(2) Revenue of optics products for the year ended 31 December 2018 was combined into "other products".

Dynamic Components

Dynamic components are components that actively produce sound, including speakers, receivers and acoustic box and modules. AAC Technologies believes it is one of the world's top suppliers of acoustic products for the smartphone market.

The Group has the ability to innovate and design increasingly miniaturised and advanced acoustic components. The Group offers its customers innovative, well-designed and high-quality advanced miniature acoustics components for greater miniaturisation of smart devices, particularly smartphones. The Group's R&D team has developed algorithm capabilities to further enhance acoustic performance and deliver better user experience. The Group carries an extensive portfolio of miniaturised acoustic components that can be customised to meet the design, performance and market requirements of its customers' products. In 2018, the Group launched the proprietary innovative acoustic platform with continuous upgrade capability, SLS. SLS speakers revolutionised traditional diaphragm design to create sustainable enhancement in diaphragm vibration resulting in marked improvement in the sound quality and listening experience. Advanced algorithms have also been integrated to balance better sound quality, louder volume and the small form factor of a miniaturised speaker's design.

Building on this proprietary SLS technology pathway, the Group has further developed small cavity speaker module, which has a significant reduction in size and a standardised design. By significantly reducing number of customised designs across various Android phone models, AAC Technologies expects this technology platform to lower unit production cost and improve margin on the back of scale manufacturing. AAC Technologies intends to increase the percentage of such product over time in the mid-segment phones, while maintaining customised design to high-end flagship models. The smaller size of the product also helps to promote stereo and multi-track acoustic experience which requires more than one acoustics modules per phone, and further enhances total addressable market size.

AAC Technologies expects to build upon the success of its acoustic technology platform through continuous improvement of its capabilities. It will explore new markets such as VR/AR devices and smart vehicles, in which the acoustic components have strong potential.

For the years ended 31 December 2018, 2019 and 2020, the Group's dynamic components segment reported revenues of RMB8,674.6 million, RMB8,167.3 million and RMB7,560.0 million, respectively, contributing 47.9 per cent., 45.7 per cent. and 44.1 per cent. of the Group's total revenue for the respective periods.

Electromagnetic Drives and Precision Mechanics

The Group offers electromagnetic drives and precision mechanics products and integrated solutions that enable cross-integration in acoustic, mechanical and radio frequency modules. The Group's electromagnetic drives products include mainly haptic motors, exciters, stepper motor modules and haptic feedback solutions. Precision mechanics products of the Group include metal casing, FPC/LDS antennas, cooling solution and 3D glass. AAC Technologies believes it is one of the world's top suppliers of x-axis haptic motors for smartphones.

AAC Technologies believes it was the first manufacturer in the world to produce x-axis haptic motors for use in smartphones. X-axis haptic motors have the characteristic of low latency, high acceleration tactile interaction with strong vibration, low noise, long life and lower power consumption. The Group offers a full solution of "algorithm + hardware" to customers, which helps to strengthen customers' stickiness and increase market penetration. Leveraging its advantages of the high-performance x-axis haptics motors, the Group has launched its haptics solution which provides superior user experience for application connections in the ecosystem and enhances consumers' haptic perception. This helps to promote the customers' demand for continuous specification upgrade and product iteration.

Relying on the advanced precision manufacturing capabilities, the Group's metal casing business has gained leading market shares in the flagship and high-end smartphones among major customers. In response to the uncertain external environment, the Group is proactively expanding into different products. Currently, the Group has expanded into multiple smartphone customers in the metal casing business and has entered into the notebook and tablet metal casing markets. Such diversification is expected to improve production capacity utilisation and mitigate business risks.

For the years ended 31 December 2018, 2019 and 2020, the Group's electromagnetic drives and precision mechanics segment reported revenues of RMB8,073.1 million, RMB7,694.2 million and RMB6,847.4 million, respectively, contributing 44.5 per cent., 43.0 per cent. and 40.0 per cent. of the Group's total revenue for the respective periods.

Optics Products

The Group began the mass production and sale of optics products in 2017. The Group's optics products include plastic lenses, WLG hybrid lenses, camera modules and VCM. AAC Technologies believes it is one of the world's top three suppliers of plastic lenses for smartphones.

Driven by advantages across high precision equipment, optical mold manufacturing, automation and data simulation capabilities, over the past few years, the Group has made significant progress in plastic lens production yield and output. With expanded production capacity of plastic lenses, the Group has been closing the gap with other top suppliers to become one of the leading plastic lens suppliers in the market for smartphones. With a focus on improving product mix by increasing high end product output, the

Group has increased 6 plastic lens product proportion while also working on 7 plastic lens and 8 plastic lens product capabilities. The Group has obtained the supplier qualifications for certain Android flagship smartphones, and is expected to steadily increase market share among overseas Android customers.

WLG hybrid lenses are products of the Group's advanced technologies that overcome manufacturing challenges in producing miniaturised glass lenses that yield better optics performance than traditional plastic lenses. The Group's unique WLG hybrid lenses are made of different combinations of WLG and plastic lenses, offer flexible optics design and upgrade roadmaps with greater aperture, lower total track length and better thermal stability to greatly improve image quality and zoom capability to meet consumers' demand for superior camera quality in their smartphones. When compared to plastic lenses with similar specifications, the Group's WLG hybrid lenses have a 10 per cent. to 15 per cent. higher light intake, a 5 per cent. higher resolution or between 5 per cent. to 10 per cent. less TTL. These proprietary WLG hybrid lenses have received significant interests from the optics industry. WLG hybrid lenses were first mass-produced and shipped as scheduled in the first quarter of 2021.

The first smartphone model equipped with WLG 1 Glass 5 Plastic hybrid lens products has also been launched in 2021 and received positive feedback from customers. The Group is in close discussions with leading global smartphone manufacturers in relation to 1 Glass 6 Plastic hybrid lens project. Hybrid lens products with two pieces of WLG glass lenses are steadily in progress. In terms of production capacity expansion, the Chongqing glass lens plant commenced operation in May 2021 and the Czech molding tool plant is expected to be completed by the end of the second quarter of 2021. The Group's hybrid lens manufacturing capacity is expected to be enhanced, which will boost the customers' confidence to adopt hybrid lens and speed up market penetration.

Based on the Group's core strategy of vertical integration, the camera module business has shown a steady progress as planned. The Group's camera module R&D and manufacturing capabilities have been well recognized by customers. The gross profit margin has turned positive in the first quarter of 2021. The higher-end 48M project is on track. Going forward, the Group aims to continue to improve high-end camera module manufacturing capabilities. Operation of the VCM production lines has begun, and certified shipments in small batches have been made to customers. The Group will further develop its capabilities in vertical integration, enhance added-value of the optics business, understand customers' need for product upgrade and improve user experiences.

For the years ended 31 December 2019 and 2020, the Group's optics products segment reported revenues of RMB1,070.2 million and RMB1,634.4 million, respectively, contributing 6.0 per cent. and 9.5 per cent. of the Group's total revenue for the respective periods.

MEMS Components

Sales of MEMS components comprise primarily the Group's MEMS microphones and multi-mode digital microphone solutions. A MEMS microphone encompasses MEMS design, ASIC chip and RF tuners and switches. The Group also offers multi-mode digital microphone solutions. MEMS microphone is a capacitive sensing device that operates like a high frequency pressure sensor to capture a wide spectrum of sound for calls or recording. It is key to the growing natural human-machine interface in voice-controlled smart devices.

While maintaining a high market share in the smartphone market, the Group intends to continue to expand into areas including IoT, smart home appliances, wearables devices and automotive markets. Currently, the Group has already entered the supply chain for MEMS microphones for a well-known new energy vehicle manufacturer. In addition, the TWS earphone and notebook markets have demand for product upgrade for microphones with a higher signal-to-noise ratio, smaller size and lower power consumption. Further market penetration in these markets is expected to help to improve the proportion of high-end MEMS products.

For the years ended 31 December 2018, 2019 and 2020, the Group's MEMS components segment reported revenues of RMB814.4 million, RMB928.5 million and RMB1,082.6 million, respectively, contributing 4.5 per cent., 5.2 per cent. and 6.3 per cent. of the Group's total revenue for the respective periods.

Production

Building upon its 28 years of experience in manufacturing, the Group possesses industrial and process engineering expertise to produce high-quality products for its customers. The quality of the Group's products depends primarily on the quality and precision of the tooling and fixtures used from the production of the Group's key components. The Group has focused on developing precision manufacturing capabilities which create a barrier to entry to potential competitors because significant capital and internal technical expertise are required to develop such capabilities. The Group's design and tooling expertise allow it to maintain high-quality product standards, and reduce the time and cost required to design, develop, manufacture and customise new products for its customers. To complement the Group's precision manufacturing, the Group operates automated production lines and versatile equipment platform to achieve integrated R&D and manufacturing. The Group has self-developed production equipment designed for continuous upgrade and further improvement. Therefore, the Group's production lines can be modified to flexibly support new requirements for its products. This provides the Group with the flexibility to adapt its production processes to changing technological trends and to reconfigure its production equipment to manufacture products satisfying changing customer demands.

Production Facilities

The Group has a production network in various locations in China and Vietnam and is developing an additional six production facilities in China, the Czech Republic, Malaysia and Vietnam. The following graphic details the geographic coverage of the Group's production network (including the facilities under development) as at 31 December 2020:

Supplier Management

Suppliers' responsible business practices are critical to the Group's success in the pursuit of product excellence. To ensure the suppliers' capabilities in providing qualified products, the Group's supply chain management system composes of both service levels and social responsibility. New suppliers are required to go through a stringent pre-qualification procedure which includes investigation, on-site audit and components certification. In case of non-conformity, suppliers are requested to make improvement measures and a second audit is conducted after three months. Suppliers who meet all the expected criteria in terms of technological capability, social responsibility, IP rights, quality and environmental management system ("**Environmental Management System**") are shortlisted and placed in the Group's approved vendors list.

As at 31 December 2020, the Group maintained a list of 339 suppliers in the PRC and other areas in Asia, with 320 suppliers based in mainland China, 6 in Hong Kong and 13 in other areas in Asia. For the years ended 31 December 2018, 2019 and 2020, the Group's average trade payables turnover days (calculated by dividing the average of the beginning and ending trade payables balances (including notes payables guaranteed) by cost of goods sold and multiplying by 365 days.) were 122 days, 103 day and 108 days, respectively. During the years ended 31 December 2018, 2019 and 2020, the aggregate purchases attributable to the Group's five largest suppliers were approximately 27.0 per cent., 20.0 per cent. and 23.3 per cent., respectively, of the Group's total purchases. The purchases attributable to the Group's largest supplier was approximately 10.5 per cent., 6.9 per cent. and 6.3 per cent. of the Group's total purchases for the years ended 31 December 2018, 2019 and 2020.

Approved suppliers undergo daily management (includes quarterly quality performance supervision and service monitoring), annual audit, comprehensive performance evaluation as well as risk assessment in accordance with the approved vendor list supplier management. Suppliers who are disqualified to supply certain materials are required to submit an improvement report within one month of notification of the disqualification. After passing the quality audit conducted by the Group's review panel, eligibility is restored. Suppliers who are disqualified to supply all materials will not be re-used for one year. Suppliers are required to be of good business reputations and have ISO 9001 certification for quality management. In addition, the Group is developing a supplier relationship management system, which provides raw data from suppliers for the Group's big data management, to enhance product quality and thus deliver higher customer satisfaction. In conjunction with the Group's automation and smart manufacturing, the Group also requires its suppliers to implement automation in key production processes to improve their product quality. To facilitate this, the Group has been providing technical support and training to assist its suppliers to achieve automation in their own production lines.

Quality Management

The Group has established a robust quality management system to maintain the highest standards of product quality. All of the Group's production plants are ISO 9001 Quality Management Systems certified and Electrotechnical Commission Quality Assessment System for Electronic Systems ("**IECQ**") QC080000 certified, ensuring product quality meets international standards as measured by performance indicators such as delivery rate, energy efficiency and customer satisfaction rate. The Group developed an IATF 16969 certification implementation plan for the Group's new business line of in-car products and will be working towards certification in the coming year. In addition, the Group's green product laboratory in Changzhou obtained China National Accreditation Service for Conformity Assessment ("**CNAS**") laboratory accreditation certification, exhibiting compliance with ISO/IEC 17025. In the case of unqualified products, the Group scrutinises records, identifies, isolates, reviews and notifies in accordance with the non-conforming product control procedure to prevent unintended use or installation of products.

To further strengthen the quality management system, the Group established an internal inspection management system in 2017. Internal inspectors are responsible for monitoring operation of the quality management system in their respective departments, carrying out specific inspections, organising relevant trainings and providing recommendations for improvement. The Group has organised a series of trainings, workshops and seminars to build their capabilities. The performance of internal inspectors is evaluated regularly with indicators such as capability, project collaboration skill and learning ability.

Sales and Marketing

The Group's sales and marketing operations are centralised at AAC Acoustic Technologies (Shenzhen) Co., Ltd.(瑞聲聲學科技(深圳)有限公司)("**AAC Shenzhen**") and AAC Technologies Pte. Ltd. ("**AAC Singapore**"). AAC Shenzhen oversees the domestic markets in mainland China while AAC Singapore oversees the offshore markets outside of mainland China. These sales offices coordinate the sales, marketing and distribution of the Group's products with the Group's other sales offices, third-party agents and third-party distributors.

The Group's sales and marketing team comprises both experienced professionals with an in-depth knowledge in selling and marketing miniaturised components as well as specialist engineers providing pre-sales technical services to the Group's customers and collaborating with them to understand their changing requirements for new products.

Sales Channel

The Group sells its products to customers primarily through direct sales. The Group generally extends to its customers credit terms varying from 30 to 120 days. For the years ended 31 December 2018, 2019 and 2020, the Group's average trade receivables turnover days (calculated by dividing the average of the beginning and ending trade receivables balances (including bank acceptance and commercial bills) by revenue and multiplying by 365 days) were 91 days, 79 days and 84 days, respectively. The Group adjusts its usual payment terms according to each customer's credit history as well as local market practice.

For certain products and geographic areas, the Group sells its products through third-party agents and distributors. Third-party agents perform a useful role in identifying business and market opportunities, business networking, organising logistics such as product shipments, thereby enabling the Group to deploy its resources to concentrate on product development, branding and cultivating its relationships with existing and potential customers. Third-party agents are paid on a commission basis, based on a percentage of the actual sales referred by them. Third-party distributors, on the other hand, are treated as the Group's customers for the purposes of product sales. The Group enters into distributorship arrangements with third-party distributors on a non-exclusive basis for specified territories.

The Group's sales and marketing efforts are customer-driven because knowledge of its customers' requirements and specifications is critical to its ability to offer products to meet their changing needs. The Group maintains a database of its existing and potential customers with information regarding product requirements and credit history. This database assists the Group to develop the most appropriate marketing approach. The sales and marketing team visits the Group's existing and potential customers on a regular basis with the Group's R&D specialists. AAC Technologies believes that this communication gives the Group first-hand information about the customers' requirements, which may help the Group to develop new technologies and applications and to optimise its product lines to effectively respond to its customers' objectives and needs. Its application and development engineers also work together with its sales and marketing team to support these initiatives.

Customers

The Group's customers primarily consist of various participants in the smart devices industry value chain (such as module suppliers, design houses, EMS providers, ODMs and OEMs), as well as small-scale OEMs in the consumer electronics and other industries. For each of the Group's major customers, the Group must qualify as a general qualified supplier for each component and for each new product offering before they place orders with the Group. Qualification is generally based on a customer's technical, performance and quality control standards for outsourced components and other customer specific requirements.

Developing strategic relationships with the Group's customers is critical to its success. The Group focuses on the leaders in the relevant industries to develop such relationships. The Group has maintained business relationships with the top six global smartphone companies in terms of smartphone sales in 2020. The Group concentrates its sales efforts on increasing its penetration of such customers, in terms of increasing the volume of orders from and the number of different products that it manufactures for, or the number of projects that the Group works on with, them at any given time. To develop and strengthen its relationships with customers, the Group has established an inter-departmental team for each customer consisting of sales and marketing and R&D personnel. Each such team works closely with the Group's customers from the design stage to the assembly of its components in their products. Through integrated relationships with the Group's customers, AAC Technologies believes it will be able to better anticipate its customers' future needs. Among the Group's top five customers by revenue contribution for the year ended 31 December 2020, all have had a business relationship with the Group for more than seven years as at the date of this Offering Circular.

For the years ended 31 December 2018, 2019 and 2020, the Group derived 68.3 per cent., 54.7 per cent. and 52.9 per cent. of its revenues, respectively, outside of Greater China. During the years ended 31 December 2018, 2019 and 2020, the aggregate sales attributable to the Group's five largest customers comprised approximately 84.3 per cent., 79.7 per cent. and 85.5 per cent. of the Group's total revenue from sales in the respective periods. The revenue from sales attributable to the Group's largest customer was approximately 48.7 per cent., 33.0 per cent. and 40.6 per cent. of the Group's total revenue from sales for the years ended 31 December 2018, 2019 and 2020, respectively. See "*Risks relating to the Group and its Business – The Group derives a substantial portion of its revenue from a small number of customers. The loss of, or changes in product orders from, any one or more of these customers could materially and adversely affect the Group's financial condition and results of operations*". In line with industry practice, the Group does not enter into any long-term contractual relationships with its key customers.

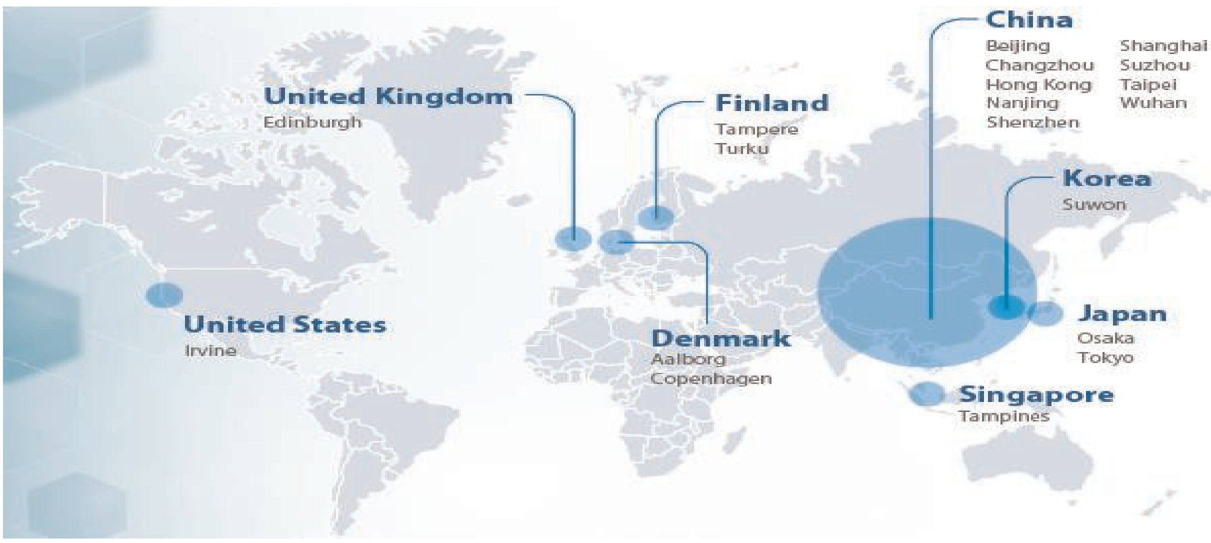
RESEARCH AND DEVELOPMENT

The Group's R&D efforts focus on miniature component structure design, industrial and process engineering and product development. Its R&D capabilities enable it to develop new and emerging technologies and standards while continuing to utilise and develop its existing technologies. Relying on its R&D efforts, the Group is able to capture market opportunities and lead industry innovation through offering value-added product offerings and integrated solutions and continued products diversification. By consistently focusing on developing products that answer to users' unmet demands and staying at the forefront of technology development, smart device makers turn to the Group for components and solutions to enhance their smart devices and gain market share. This strategic focus has proven to help the Group in withstanding changes and challenges from the downstream application market.

As at 31 December 2020, the Group employed 4,335 R&D engineers and technicians working across the Group's 19 research facilities around the world. For the years ended 31 December 2018, 2019 and 2020, the Group's R&D expenses were RMB1,512.2 million, RMB1,717.3 million and RMB1,920.3 million, respectively, representing 8.3 per cent., 9.6 per cent. and 11.2 per cent. of the Group's revenue in the respective periods.

Research and Development Facilities

As at 31 December 2020, the Group had 19 R&D centres around the world. The following graphic details the geographic coverage of the R&D network as at 31 December 2020:



Product Development

Formulated by the Group's sales and marketing, R&D, application engineering and manufacturing teams and updated from time to time, the Group's product development roadmap reflects the products that the Group can produce at present and that the Group will be able to produce in the coming years. Its R&D strategy follows its product roadmap and focuses on the development of new products, product modification, customisation and improvement to preserve its competitive position in the miniature component industry.

Collaborations with External Parties

The Group's future success will depend in part on its ability to continue to deliver advanced products and technologies to its target markets. The Group maintains strategic relationships with its customers and third-party research institutions to gain insight into industry trends and the future needs of the industries that the Group targets. The Group's collaborations with leading consumer electronic companies provide it visibility into critical design specifications and development timelines, which helps to keep the Group at the forefront of technological innovation in the consumer electronics market. Through close, long-term relationships with leading consumer electronics companies, the Group gains both a unique understanding of their product roadmaps and an ability to influence design decisions. These insights help the Group to anticipate challenges and drive its product and technology roadmap.

INTELLECTUAL PROPERTY

The Group relies on a combination of patents, copyrights, trade secrets laws and confidentiality agreements to protect its IP. As at 31 December 2018, 2019, and 2020, the Group's IP portfolio comprised of 3,366 patents, 4,411 patents, and 6,034 patents, respectively. As at 31 December 2020, 2351 patents were related to acoustics, 2140 patents were related to optics, 758 patents were related to electromagnetic drives, 216 patents were related to MEMS, 298 were related to RF and 271 patents were related to other products. As at 31 December 2020, the Group had 6,287 patent applications pending.

In compliance with the Civil Code of the PRC (中華人民共和國民法典) and the Decision of the State Council on Further Strengthening of Protection of Intellectual Property (國務院關於進一步加強知識產權保護工作的決定), the Group has formulated an IP business management practice to strengthen the Group's IP management while encouraging introduction of new technologies. In 2018, an IP Department was established under the chief executive officer office, which is primarily responsible for formulating the strategies and regulations for the development of IP protection and enforcement framework, reviewing the Group's IP management system and organising IP training programmes. The Group has put in place IP management procedures to standardise operations and to minimise the risk of any loss to the Group, customers and suppliers due to IP disputes.

The Group conducts patent risk assessment during the product design phase, monitors third parties' patents regularly, modifies product designs when necessary and ensures close cooperation between R&D and the account management department to keep abreast with the latest technological developments and undertake early deployment of patents. In case of a patent dispute, an emergency team composed of IP supervisors, account managers and patent inventors will take appropriate actions according to the IP emergency plan. As at the date of this Offering Circular, the Group is not involved in any material proceedings in respect of and has not received notice of, any material claims relating to infringement of IP rights, patents or trademarks.

COMPETITION

The Group competes mainly in the smart device components market. The market for smart device components is highly competitive and competition is expected to intensify in the future. There are a number of components in the smart device. Currently, the Group provides acoustics, haptics, MEMS, optical and mechanical components, cooling system and RF antenna and does not compete in other aspects of the smart device component market. Companies that currently compete for sales of other smart device components may enter the markets the Group operates in with stand-alone components or integrated solutions and compete with the Group. The Group currently faces competition from a number of established companies in China and overseas that produce components for smart devices. The Group also faces competition from smaller, privately held companies and could face competition from new market entrants, whether from new ventures or from established companies moving into the areas that the Group's products address. The Group may also compete against solutions internally developed by its customers.

AAC Technologies believes the Group has a competitive edge over its competitors in the following areas: (i) success in developing and creating demand for new and proprietary technologies, (ii) product scalability, performance and quality, (iii) success in identifying new markets, applications and technologies, (iv) ability to continue to establish greater name recognition and build upon its reputation in the industry and (v) its ability to protect its IP. As a result, the Group has established leading positions by market share in key products. AAC Technologies believes it is one of the world's top suppliers of acoustics products and x-axis haptic motors and one of the world's top three suppliers of plastic lenses for the mobile smartphone market.

INFORMATION SECURITY

The Group strictly complies with data protection and privacy requirements across different countries where it operates. Effective from May 2018, the European General Data Protection Regulation ("**GDPR**") had come into force throughout the European Union. Prior to the implementation of the GDPR, the Group had already well-prepared itself to become compliant with the GDPR. With the assistance of professional experts, the Group reviewed its data protection procedures and policies, in particular regarding transfer of personal data within the Group. Data transfer agreements have been entered into by and among various subsidiaries in line with the GDPR requirements. The human resources team has also taken initiatives to promote employees' awareness of the importance and compliance of GDPR.

In addition, the Group's policies and practices have been updated so as to limit and control the transfer of personal data to comply with the GDPR. The Group has adopted a robust information security management system to manage sensitive information systematically. In 2018, the Group's information technology system was ISO 27001 certified. The Group also set up a long-term work plan to expand data leakage prevention measures from key business departments to the entire group. The Group has maintained a three-level management structure involving the information security committee, information security department and information technology department to lead the Group's information security work. Comprehensive policies are in place to regulate the Group's information security management, covering aspects of data assets, personnel security, communication security, physical environment security, information security incidents, information security training, as well as newly added aspects including account access management, information security and confidentiality management and information security disciplinary measures. The aforementioned policies standardise the procedures for handling all forms of confidential information to ensure it is not disclosed to third parties. Employees who violate information security guidelines, laws and regulations, or confidentiality agreements are subjected to penalties. The Group reviews and updates the policy on a regular basis to ensure its appropriateness and effectiveness.

The Group regards information security as one of the important strategic issues and has implemented a comprehensive range of measures to safeguard data assets from breaches, leaks and hacks. The Group manages the risk of data leakage through management, technology and promotion of awareness. As at the date of this Offering Circular, AAC Technologies believes that it is substantially in compliance with all relevant laws and regulations relating to information security that has a significant impact on the Group, including the Cybersecurity Law of the PRC (中華人民共和國網絡安全法) and the GDPR.

INSURANCE

The Group maintains property insurance policies covering its equipment, plants, products, staff, trade receivables, vehicles and office furniture. The Group also maintains business insurance policies covering its employees and general business operations. AAC Technologies believes it maintains adequate insurance coverage for its operations and that the scope of the coverage is in line with industry norms. However, there are certain risks for which the Group is not insured including business interruptions and loss of key personnel, and the Group may not have sufficient insurance coverage for damages and liabilities that may arise in the course of its business operations or the damages or liabilities caused by third party.

ENVIRONMENTAL PROTECTION

The Group's sources of greenhouse gas emissions include fuel combustion, the use of carbon dioxide fire extinguishers, refrigerant dispersal, purchased electricity and other processes, and the Group's main sources of exhaust gas emissions include low-concentration organic pollutants, pickling exhaust gas and welding exhaust gas. The Group also discharges wastewater.

The Group strictly complies with environmental laws and regulations in locations where it has operations. To ensure compliance, the Group's major manufacturing bases in the PRC and Vietnam are certified for the ISO 14001 standard Environmental Management System and two of the plants in Changzhou are certified under ISO 50001 Energy Management System. For the years ended 31 December 2018, 2019 and 2020, the Group's expenditure on environmental protection was RMB52.7 million, RMB95.5 million and RMB216.0 million, respectively. Also, the Group invests significant amounts on hiring third-party professional bodies to conduct environmental compliance checks, optimise the Environmental Management System and carry out environmental engineering design and other consultancy services. The Group has also been striving to achieve sustainability performance beyond compliance by collaborating with its customers, on initiatives such as "Zero Waste to Landfill" and "Clean Water Programme". Two of the Group's production plants in Changzhou have successfully received Zero Waste to Landfill validation of Platinum level by Underwriters Laboratories, having achieved 100 per cent. waste diversion. Water risk assessment was completed at the Shenzhen production plant, paving the way for better water management and set up.

The Group monitors the latest changes in applicable environmental rules and regulations and strives to optimise the management approach accordingly. The Group's environmental management department reports relevant information to management regularly and views environmental protection as a top priority throughout the product planning process. For example, when designing a production layout, the Group considers environmental requirements of different regions, classifies the products and establishes production lines at appropriate locations.

Before commencing production, the Group conducts environmental impact assessments and designs and implements preventive environmental protection measures in accordance with laws and regulations of locations where it operates. For example, the Group installed overhead pipeline equipment in several factories to avoid soil and water contamination. An environmental management initiative is also implemented during the early stages of product R&D. The Group sets up a hazardous chemical safety management system, under which the R&D department is required to report the chemicals to be used. The chemical special control department is responsible for auditing, including conducting environment related assessments. The Group also monitors environmentally harmful substances from raw materials to finished products. The Group is committed to ensuring that its products and production processes are green and clean.

As the Group is shifting towards smart manufacturing, it has begun to formulate an automated control solution for air emissions, wastewater and other treatment facilities. After implementation of the solution, the operational status of all facilities will be displayed on the system, reducing the need for physical inspection and improving processing time.

The Group has established a sustainability working group to help enhance the board of director's oversight of environmental, social and governance risks and opportunities. It has also set up a sustainability policy and established an environmental, health and safety ("**EHS**") management system and environmental management manual. All of the Group's production lines have obtained the ISO 14001 environmental management certification. The EHS management system is equipped with internal audit control procedures. Internal checkers from the EHS department review the system at least once a year to ensure that it remains effective. To further ensure the effectiveness of the Environmental Management System, the Group commissions a third-party independent body to conduct year-long "environmental check-up" for its factories. The third-party independent body conducts an overall environmental behaviour assessment for each of the Group's factories, providing recommendations for rectification and its respective implementation.

As at the date of this Offering Circular, the Group is not aware of any material non-compliance of laws and regulations that has a significant impact on the Group related to air and greenhouse gas emissions, discharges into water and land, or generation of hazardous and non-hazardous waste.

OCCUPATIONAL HEALTH AND SAFETY

The Group regards occupational health and safety as one of its important operational priorities. The Group has implemented an EHS management system, which covers all employees in the Group. For the years ended 31 December 2018, 2019 and 2020, the Group's health and safety expenditures amounted to RMB62.5 million, RMB52.4 million and RMB98.8 million, respectively, and 88,591 person-times received safety training for a total of 132,887 hours, 94,337 person-times received safety training for a total of 141,506 hours and 82,947 person-times received safety training for a total of 124,421 hours, for the same periods.

All production plants in Shenzhen, Changzhou, Shuyang, Suzhou, Nanning and Vietnam have obtained OHSAS 18001 Occupational Health and Safety Certification and the Group have commenced transition to ISO 45001 standard in 2020. The Group's management structure is designed to involve various departments responsible for production safety, fire safety, chemical safety, environmental management and occupational health, with safety officers assigned to each area. To ensure compliance with OHSAS 18001 and relevant laws and regulations, the Group's internal auditors conduct an annual audit. In 2018, the Group further consolidated the EHS management system in two aspects, strengthening safety risks control and internal communication on safety issues.

The Group manages safety risks by building a safe work place. Monthly safety inspections have been developed into specialised inspections. Different areas and production procedures are scheduled for joint inspection by relevant departments each month. Inspections are also carried out through live camera monitoring systems. The Group implements an integrated management approach that can actively detect safety hazards, which allows quicker response to prevent safety incidents. Also, the Group focuses on safety procedures, allowing more detailed evaluation of existing practices. Safety engineers are responsible for rectifications and report to the management monthly. As at the date of this Offering Circular, AAC Technologies believes that it is substantially in compliance with all relevant laws and regulations that have a significant impact relating to occupational health and safety, including but not limited to Production Safety Law of the PRC (中華人民共和國安全生產法) and Law of the PRC on the Prevention and Treatment of Occupational Diseases (中華人民共和國職業病防治法).

EMPLOYEES

As at 31 December 2020, the Group employed a total of 33,735 permanent employees. The Group provides welfare and benefits, including but not limited to salaries allowances, annual leave and bonuses, which are provided according to laws and regulations of the jurisdictions where the Group operates. As required by the relevant regulations, the Group participates in the social insurance schemes operated by the relevant local government authorities in the PRC. The Group also participates in the mandatory pension fund and social insurance schemes for its employees in Hong Kong, Taiwan, Singapore, South Korea, Japan, India, Vietnam, Philippines, the United Kingdom, the United States, Czech Republic, Denmark and Finland. AAC Technologies believes that the recruitment, retention and development of new talent and harnessing existing talent of current employees are essential to ensuring the business success of the Group.

The Group has built long-term strategic and collaborative relationships with local universities and higher education institutions to recruit potential candidates. As at 31 December 2020, approximately 49.0 per cent. of the Group's employees had a degree level qualification or higher. The Group has implemented training and development programs to encourage existing employees to keep abreast of the latest industry developments. For the years ended 31 December 2018, 2019 and 2020, the Group provided a total of 598,873 hours, 752,225 hours and 451,481 hours of occupational training to employees, respectively, or 16.6 hours per employee, 19.1 hours per employee and 13.4 hours per employee, for the same periods.

LEGAL COMPLIANCE AND PROCEEDINGS

As at the date of this Offering Circular, AAC Technologies believes that it is substantially in compliance with all relevant laws and regulations of the jurisdictions where the Group operates.

As at the date of this Offering Circular, the Group is not engaged in any legal proceedings or claims of material importance and no legal proceedings or claims of material importance are known to the Issuer to be pending or threatened against the Group that could have a material adverse effect on the Group's business, financial condition and results of operations.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Issuer's board of directors (the "**Board**") consists of seven members, of which two are executive directors, four are independent non-executive directors and one is a non-executive director. The Board actively promotes the success of the Group by directing and supervising its affairs in a responsible and effective manner. The table below sets out certain information in respect of the directors as at the date of this Offering Circular:

Name	Age	Position
Pan Benjamin Zhengmin.	52	Executive director and chief executive officer
Mok Joe Kuen Richard.	57	Executive director
Zhang Hongjiang.	60	Independent non-executive director and chairman of the board
Au Siu Cheung Albert	70	Independent non-executive director
Peng Zhiyuan	48	Independent non-executive director
Kwok Lam Kwong Larry	65	Independent non-executive director
Wu Ingrid Chun Yuan	50	Non-executive director

The biographical information of the Issuer's directors is set out as follows:

EXECUTIVE DIRECTORS

Mr. Pan Benjamin Zhengmin, aged 52, was appointed as an executive director on 15 December 2003 and chief executive officer of the Issuer on 15 December 2003.

Mr. Pan co-founded the Group in 1993 and has over 25 years of experience in the electronics industry. He is responsible for providing strategic direction and leadership and developing and implementing the Group's strategic objectives and business plans. Specifically, Mr. Pan has held critical leadership roles with responsibilities for overseeing the sales, marketing, R&D, manufacturing, along with the Group's international expansions and operations. In addition to his experience in sales and marketing, manufacturing and management, he has also been instrumental in leading the Issuer's R&D strategy and has developed a number of patents used in the design and manufacturing of some of the Issuer's acoustic products.

Mr. Pan graduated from Jiangsu Province Wujin Teacher School (江蘇省武進師範學校) in 1987. Mr. Pan is the spouse of Ms. Wu Ingrid Chun Yuan, the non-executive director and a substantial shareholder of the Issuer and the father of Mr. Pan Kaitai, the executive vice president and chief innovation officer of the Issuer.

Mr. Mok Joe Kuen Richard, aged 57, was appointed as an independent non-executive director in April 2005 and re-designated an executive director on 5 October 2009.

Mr. Mok is responsible for the finance operations, and legal and compliance matters of the Group. He has over 30 years of experience in the financial services industry, including employments with international accountancy firms such as KPMG, the Hong Kong-listed South China Holdings Company Limited (HKSE: 0413), the investment banking firm, Asian Capital Partners Group and the Hong Kong-listed financial services group, Dah Sing Financial Holdings Limited (HKSE: 0440).

Mr. Mok is a member of the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the Institute of Chartered Accountants in England and Wales. He graduated with a bachelor's degree in economics from the London School of Economics and Political Science, London University and holds a diploma in applied psychology from Hong Kong Baptist University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Hongjiang, aged 60, was appointed as an independent non-executive director on 1 January 2019, chairman of the nomination committee (the "**Nomination Committee**"), a member of the remuneration committee (the "**Remuneration Committee**") on 24 May 2019 and chairman of the Board on 15 May 2020.

Mr. Zhang is currently an independent director of Zepp Health Corporation (NYSE: ZEPP) (formerly known as "Huami Corporation"), an independent non-executive director of BabyTree Group (HKSE: 1761) and an independent director of Shenzhen-listed Digital China Group Co., Ltd.(神州數碼集團股份有限公司)(SZSE: 000034). He is also a venture partner of Source Code Capital, a Senior Advisor to The Carlyle Group's Asian private equity platform and the chairman of Beijing Academy of Artificial Intelligence.

Previously, Mr. Zhang was the chief executive officer and executive director of Kingsoft Corporation Limited (HKSE: 3888) and a former director of Cheetah Mobile Inc. (NYSE: CMCM), Xunlei Ltd. (Nasdaq: XNET) and 21Vianet Group, Inc (Nasdaq: VNET). Mr. Zhang was a director and the chief executive officer of Kingsoft Cloud Holdings Limited. He also served as the chief technology officer at Microsoft Asia R&D Group and the assistant managing director of Microsoft Research Asia. He was appointed as one of the first 10 Microsoft Distinguished Scientists in 2010.

Mr. Zhang received a Ph.D. degree in electrical engineering from the Technical University of Denmark, and a Bachelor of Science degree from Zhengzhou University.

Mr. Zhang is a fellow of the Institute of Electric and Electronic Engineers (the "**IEEE**") and Association for Computing Machinery ("**ACM**"). He was the recipient of the 2012 ACM SIGMM Outstanding Technical Achievement Award, the 2010 IEEE Computer Society Technical Achievement Award and the 2008 Asian American Engineer of the Year Award.

Mr. Au Siu Cheung Albert, aged 70, was appointed as an independent non-executive director on 1 February 2018, the chairman of the audit and risk committee (the "Audit Committee") and a member of the Remuneration Committee on 28 May 2018.

Mr. Au has over 40 years of experience in the accountancy profession. Mr. Au is currently the Special Advisor of BDO Limited, a private company. He is an independent non-executive director and the chairman of the audit committee of Café de Coral Holdings Limited (HKSE: 0341).

Previously, Mr. Au was the founder and the chairman of BDO Limited. He was the chairman of the Hong Kong Trade Development Council's professional services advisory committee. He was an independent non-executive director of Hong Kong International Theme Parks Limited. He was president of the HKICPA. He was the chairman of the Independent Commission Against Corruption's corruption prevention advisory committee and served as a member of its advisory committee on corruption. He was the vice chairman of the Hong Kong Coalition of Professional Services Limited. He was a member of the Air Transport Licensing Authority, the Federation of Hong Kong Industries general committee, the Hong Kong Housing Authority and the Hong Kong Productivity Council where he was the chairman of audit committee. He was a non-executive director of the Securities and Futures Commission (the "SFC"), as well as the chairman of the SFC's audit committee and the deputy chairman of the budget committee, member of the SFC (HKEC Listing) appeals committee, the investment committee and the remuneration committee. Mr. Au was an independent non-executive director of ZA Bank Limited (formerly known as ZhongAn Virtual Finance Limited) and ZhongAn Financial Services Limited.

Mr. Au is a fellow of HKICPA and a member of the Canadian Institute of Chartered Accountants. He graduated with a Bachelor of Commerce degree from the University of British Columbia Canada.

Mr. Peng Zhiyuan, aged 48, was appointed as an independent non-executive director on 1 January 2019, member of the Audit Committee and a member of the Nomination Committee on 24 May 2019. Mr. Peng has over 20 years of experience in corporate finance and management. He has served as senior management in various multi-national institutions over the past 15 years.

Mr. Peng is currently the global strategy officer for Sands Capital Management.

Previously, Mr. Peng was the founder and the chief executive officer of a start-up company in Virginia focusing on innovative eco-friendly technology applications. He was the managing director of the securities division and the investment banking division of Goldman Sachs (Asia) LLC, and the executive director of the fixed income division of Morgan Stanley. Mr. Peng also served in various roles with Standard Chartered Bank (LSE: STAN), Bank One (now J.P. Morgan) (NYSE: JPM), and AVIC International.

Mr. Peng is a board member of the board of Trustees for Darden School Foundation, and CAV Angels, a non-profit early stage angels investment community related to alumnus of University of Virginia. He also served on the board of Trustees for Virginia Foundation for Independent Colleges. Mr. Peng holds a Master of Business Administration degree from Darden School of Business, University of Virginia. He graduated with a bachelor's degree in engineering and finance from Beijing University of Aeronautics and Astronautics.

Mr. Kwok Lam Kwong Larry, aged 65, was appointed as an independent non-executive director on 1 February 2018, a member of the Audit Committee and a member of the Nomination Committee on 28 May 2018.

Mr. Kwok is currently an independent non-executive director of Café de Coral Holdings Limited (HKSE: 0341), Shenwan Hongyuan (H.K.) Limited (HKSE: 0218), Starlite Holdings Limited (HKSE: 0403) and a non-executive director of First Shanghai Investments Limited (HKSE: 0227). He is also an independent non-executive director of CMB Wing Lung Bank Limited, a private company in Hong Kong.

Mr. Kwok is a practicing solicitor in Hong Kong and is a partner of Kwok Yih & Chan, Solicitors. He is also qualified to practice as a solicitor in Australia, England and Wales and Singapore. Mr. Kwok is a fellow member of HKICPA, CPA Australia and the Institute of Chartered Accountants in England and Wales. Mr. Kwok graduated with dual bachelor's degrees in economics and law and a master's degree in law from the University of Sydney with dual bachelor's degrees in economics and law as well as a master's degree in law. He also obtained the Advanced Management Program Diploma from the Harvard Business School.

NON-EXECUTIVE DIRECTOR

Ms. Wu Ingrid Chun Yuan, aged 50, was appointed as a non-executive director on 4 December 2003.

Ms. Wu co-founded the Group in 1993. As a non-executive director of the Group, she is not involved in the day-to-day operations of the Group.

Ms. Wu graduated from Changzhou School of Public Health (常州衛生學校) in 1989. She is the spouse of Mr. Pan Benjamin Zhengmin, an executive director, the chief executive officer, a substantial shareholder of the Issuer and the mother of Mr. Pan Kaitai, the executive vice president and chief innovation officer of the Issuer. She is also a director of Sapphire Hill Holdings Limited and K&G International Limited, both substantial shareholders of the Issuer.

SENIOR MANAGEMENT

The table below shows certain information in respect of the Issuer's senior management as at the date of this Offering Circular:

Name	Age	Position
Pan Kaitai	29	Executive vice president and chief innovation officer
Guo Dan	38	Chief financial officer
Kim Chul Ho	59	Chairman of Asia Pacific region (ex-PRC)
David Plekenpol	61	Chairman of European and American regions
Ho Siu Tak Jonathan	48	Legal director and company secretary

The biographical information of the Issuer's senior management is set out as follows:

Mr. Pan Kaitai, aged 29, is the executive vice president and the chief innovation officer of the Issuer. Mr. Pan Kaitai joined the Issuer in March 2014 and was appointed as the executive vice president on 1 January 2021 and the chief innovation officer on 24 August 2019. He leads corporate strategy and new business development. Mr. Pan Kaitai is in charge of driving the transformation of the Issuer's business strategy, operating models, organisational structures and management processes, with a focus on promoting innovation-driven development. Mr. Pan Kaitai also leads product management and research team. He is committed to continuously improving user experience through rollout of new products and development of innovative technologies. Under his leadership, the product management and research team has completed a number of crucial R&D projects for the Issuer's next generation products. In addition, he manages the information technology team to further enhance organisational collaboration efficiency by utilising leading edge digital platform and optimising cross departmental management.

Mr. Pan graduated with a bachelor's degree in mathematics and computer science from Boston University. He is the son of Mr. Pan, an executive director and the chief financial officer of the Issuer, and Ms. Wu, the non-executive director of the Issuer, both of whom are a substantial shareholder of the Issuer.

Ms. Guo Dan, aged 38, is the chief financial officer of the Issuer. Ms. Guo joined the Issuer in March 2020 and was appointed as the chief financial officer on 2 November 2020. Ms. Guo has over 13 years of experience in investment banking, and previously held an executive director position in Goldman Sachs (Asia) L.L.C. Ms. Guo graduated with a Master of Science degree from University of Oxford.

Dr. Kim Chul Ho, aged 59, is the chairman of Asia Pacific region (ex-PRC) of the Issuer. Dr. Kim joined the Issuer in December 2007 and was appointed as the chairman of Asia Pacific region (ex-PRC) on 20 November 2019. His responsibilities include maintaining strategic relationships with key customers, suppliers and business partners, contributing to the implementation of the Group's global expansion initiatives, establishing relations with regional governments and institutions, and recruiting technical, marketing and management personnel in the Asia Pacific region. Dr. Kim also serves as senior vice president of human resources of the Issuer.

Dr. Kim is experienced in the development of electronic devices and related mass production technologies. Prior to joining the Issuer, he led the R&D management in Samsung Korea for over 15 years. Dr. Kim has successfully developed many key devices and related mass production technologies for mobile terminal. Dr. Kim graduated with a doctor's degree in material science at Seoul National University and completed a postdoctoral course in Korean Institute of Science and Technologies.

Mr. David Plekenpol, aged 61, is the chairman of European and American regions of the Issuer. Mr. Plekenpol joined the Issuer in February 2010 and was appointed as the chairman of European and American regions on 20 November 2019. Mr. Plekenpol is the former chief strategy officer of the Issuer. Mr. Plekenpol supports the Issuer's initiatives to establish a stronger corporate presence in Europe and

America and maintain strategic local relationships with customers, suppliers and governments. He also investigates and tracks the latest technological developments of the European and American regions and the impact of such new technologies on the Issuer.

Mr. Plekenpol has over 25 years of experience in the telecommunications industry with past executive positions in Lucent Technologies Inc. and Alcatel. He has founded two Silicon Valley venture capital backed start-up companies, led sales and marketing for an optical component start-up in Scotland and had two years of experience working at a venture capital backed Chinese mobile design start-up in Shanghai before joining the Issuer. Mr. Plekenpol is a member of the International Advisory Board of the University of Edinburgh Business School. He graduated with a bachelor's degree from Dartmouth College and a Master of Business Administration degree from the Graduate School of Business at Stanford University.

Mr. Ho Siu Tak Jonathan, aged 48, is the legal director and the company secretary of the Issuer. Mr. Ho joined the Issuer in April 2018 and was appointed as the company secretary on 25 March 2020. Mr. Ho is a member of the Law Society of Hong Kong and has over 20 years of legal and management experience. Mr. Ho has held various senior roles in several Hong Kong main board listed companies. Mr. Ho graduated with a master's degree in economics law from the Peking University and a Bachelor of Laws degree from the University of Hong Kong.

BOARD COMMITTEES

Audit and Risk Committee

The Issuer's Audit Committee consists of three members, namely Mr. Au Siu Cheung Albert, Mr. Peng Zhiyuan and Mr. Kwok Lam Kwong Larry. Mr. Au Siu Cheung Albert is the chairman of the Audit Committee. Written terms of reference for the Audit Committee were adopted in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the code provisions under the Corporate Governance Code (the "**CG Code**").

The primary duties of the Audit Committee are to (i) ensure proper financial reporting and disclosure, (ii) review risk management compliance and internal control systems and (iii) monitor internal audit, oversee the relationship and coordination between the Issuer, head of internal audit and external auditor.

Nomination Committee

The Issuer's Nomination Committee consists of three members, namely Mr. Zhang Hongjiang, Mr. Peng Zhiyuan and Mr. Kwok Lam Kwong Larry. Mr. Zhang Hongjiang is the chairman of the Nomination Committee. Written terms of reference for the Nomination Committee were adopted in accordance with the Listing Rules and the code provisions under the CG Code.

The primary duties of the Nomination Committee are to (i) recommend Board appointments and ensure proper and transparent procedures, (ii) review Board structure, size, composition and diversity, (iii) assess the independence of independent non-executive directors, (iv) prepare succession planning for the chairman and chief executive officer and (v) provide consultation upon the hiring, promotion and appointment of senior management.

Remuneration Committee

The Issuer's Remuneration Committee consists of three members, namely Mr. Zhang Hongjiang, Mr. Au Siu Cheung Albert and Mr. Peng Zhiyuan. Mr. Peng Zhiyuan is the chairman of the Remuneration Committee. Written terms of reference for the Remuneration Committee were adopted in accordance with the Listing Rules and the code provisions under the CG Code.

The primary duties of the Remuneration Committee are to (i) set remuneration policy and structure for executive directors, non-executive directors and senior management, (ii) plan and review management's remuneration proposals with reference to the Board's corporate goals and objectives and (iii) determine executive directors' and senior management's remuneration and incentives.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, the interests and short positions of substantial shareholders and other persons in the shares of the Issuer as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (SFO) of Hong Kong were as follows:

Name of Shareholders	Capacity	Number of shares	Derivative interest	Percentage of the Issuer's issued shares as at 31 December 2020[1]
Pan Benjamin Zhengmin ("**Mr. Pan**")[2]	Beneficial owner/interest of spouse/interest of controlled corporation/founder of a discretionary trust	495,317,652(L)	–	40.98%
Wu Ingrid Chun Yuan ("**Ms. Wu**")[3]	Interest of spouse/interest of controlled corporation/founder of a discretionary trust	495,317,652(L)	–	40.98%
JPMorgan Chase & Co.[4] . . .	Interest of controlled corporation/Person have security interest in shares/Investment Manager/Trustee/Approved lending agent	120,400,956(L) 1,355,199(S) 7,586,442(P)	5,205,244(L) 13,270,275(S)	10.39% 1.21% 0.62%

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

Notes:

(1) Percentage was computed based on the issued 1,208,500,000 shares as at 31 December 2020.

(2) Mr. Pan beneficially owns 68,262,162 shares. In addition, Mr. Pan is also deemed or taken to be interested in the following shares for the purpose of the SFO:

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

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

(iii) 112,795,525 shares representing the aggregate of (a) 106,806,278 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendants, as beneficiaries of the Pan 2005 Irrevocable Trust dated 10 May 2005; (b) 4,738,844 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendants, as beneficiaries of the Pan 2005 Exempt Trust dated 10 May 2005. Two children of Mr. Pan and Ms. Wu are over the age of 18 and have no discretion over distributions or investments in these trusts until distribution is made to them; and (c) 1,250,403 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendant, as beneficiaries of the Pan 2020 Exempt Trust dated 3 December 2020. One child of Mr. Pan and Ms. Wu is under the age of 18 and has no discretion over distributions or investments in the trust until distribution is made to him.

(3) Ms. Wu is deemed or taken to be interested in the following shares for the purposes of the SFO:

(i) 262,820,525 shares representing the aggregate of (a) 134,828,594 shares which are beneficially owned by Sapphire Hill Holdings Limited; and (b) 127,991,931 shares which are beneficially owned by K&G International Limited. These two companies are wholly-owned by Ms. Wu;

(ii) 120,952,005 shares representing the aggregate of (a) 51,439,440 shares which are beneficially owned by Silver Island Limited, a company wholly-owned by Mr. Pan; (b) 68,262,162 shares which are beneficially owned by Mr. Pan; and (c) 1,250,403 shares which are deemed to be interested by Mr. Pan and Ms. Wu's descendant, as beneficiaries of the Pan 2020 Exempt Trust dated 3 December 2020, and as Mr. Pan is her spouse, she is deemed to be interested in such 120,952,005 shares; and

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

(4) JPMorgan Chase & Co., through its various 100% controlled corporations ("**JPMorgan Group**"), is indirectly interested in (i) an aggregate of 120,400,956 shares and listed derivative interests of 1,530,000 shares with physically settled, listed derivative interests of 580,100 shares with cash settled, unlisted derivative interests of 184,644 shares with physically settled, and unlisted derivative interests of 2,910,500 shares with cash settled in long position; and (ii) an aggregate of

1,355,199 shares and listed derivative interests of 1,069,000 shares with physically settled, listed derivative interests of 2,972,000 shares with cash settled, unlisted derivative interests of 7,820,051 shares with physically settled, and unlisted derivative interests of 1,409,224 shares with cash settled in short position. Among them, 111,558,925 shares were held by JPMorgan Group as a trustee, including 111,545,122 shares held by J.P. Morgan Trust Company of Delaware which were represented the same batch of other interests of Mr. Pan and Ms. Wu as disclosed in the section headed "*Directors and Senior Management – Directors' Interests in Securities*".

In addition to the above, JPMorgan Chase & Co. is also interested in 7,586,442 shares in lending pool as described in the SFO. The term "lending pool" is defined as (i) shares that the approved lending agent holds as agent for a third party which he is authorised to lend and other shares that can be lent according to the requirements of the Securities Borrowing and Lending Rules; and (ii) shares that have been lent by the approved lending agent and only if the right of the approved lending agent to require the return of the shares has not yet been extinguished.

FOREIGN CURRENCY CONTROLS IN THE PRC

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, according to the Notice of the People's Bank of China, Ministry of Finance, Ministry of Commerce, General Administration of Customs, State Administration of Taxation and China Banking Regulatory Commission on Issues Relating to Administration of Enterprises Engaging in Renminbi Settlement of Export Trade in Goods (《關於出口貨物貿易人民幣結算企業管理有關問題的通知》), Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2012.

Since July 2013, the procedures for cross-border Renminbi trade settlement under current account items have been simplified and trades through e-commerce can also be settled under in Renminbi under the current regulatory regime. According to the Notice of the People's Bank of China on Matters Relating to the Centralized Operation of Cross-border Renminbi Funds Carried out by Multinational Enterprise Groups (《中國人民銀行關於跨國企業集團開展跨境人民幣資金集中運營業務有關事宜的通知》), a cash pooling arrangement for qualified multinational enterprise group companies was introduced in late 2014, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. In addition, according to the Notice of the People's Bank of China on Further Facilitating Cross-border Bilateral Renminbi Capital Pooling by Multinational Corporations (《中國人民銀行關於進一步便利跨國企業集團開展跨境雙向人民幣資金池業務的通知》), the eligibility requirements for multinational enterprise groups have been lowered and the cap for net cash inflow has been increased in September 2015.

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms, foreign enterprises are now permitted use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements specifically for capital account payments in Renminbi are being removed gradually.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as "**foreign debt**") and lend Renminbi-denominated loans to foreign borrowers (which are referred to as "outbound loans"), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make Renminbi payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as "**cross-border security**"). Under current rules promulgated by the State Administration of Foreign Exchange of the PRC ("**SAFE**") and PBOC, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in

Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. After piloting in the free trade zones, PBOC and SAFE launched a nation-wide system of macro-prudential management on cross-border financing in 2016, which provides for a unified regime for financings denominated in both foreign currencies and Renminbi.

According to the Notice of the National Development and Reform Commission on Pushing Forth Administrative Reform for Filing and Registration for Issuance of Foreign Debt by Enterprises (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》), since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Note Market ("**CIBM**"), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, initiated a bond market mutual access scheme between mainland and Hong Kong to allow eligible investors to invest in CIBM and has also expanded the list of eligible foreign investors in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening-up. In 2018, CFETS set forth further relaxed qualifications, application materials and the procedures for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There is no assurance that the PRC government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

FOREIGN INVESTMENT IN THE PRC

The Catalogue of Industry Guidelines on Encouraged Foreign Investment (2020 Revision) (鼓勵外商投資產業目錄(2020年版)) was issued by the NDRC and the MOFCOM on 27 December 2020 and became effective from 27 January 2021 (the **"Encouraged Catalogue"**).

On 23 June 2020, the Special Administrative Measures for Access of Foreign Investment (2020 Version) (the "**Negative List**") (外商投資准入特別管理措施(負面清單)(2020年版)) was promulgated by the NDRC and the MOFCOM. According to the Negative List, no foreign investor may engage in prohibited items listed in the Negative List, and no foreign-invested partnership may be established for the engagement in prohibited items subject to limitations on proportion of foreign investment. Investment in restricted fields of investment in the Negative List shall obtain foreign investment access permit. Unless otherwise prescribed by the PRC laws, any industries not falling into any of the encouraged, restricted or prohibited industries set out in the Encouraged Catalogue and the Negative List are generally deemed as permitted industries. The Group's principal business of manufacturing and trading miniaturised components as conducted in the PRC falls within the permitted industries in accordance with the Encouraged Catalogue and the Negative List.

Wholly Foreign-owned Enterprises

According to the PRC Company Law (中華人民共和國公司法)(the "**PRC Company Law**"), adopted by the SCNPC on 29 December 1993 and last amended on 26 October 2018. Under the PRC Company Law, companies are generally classified into two categories, namely, limited liability companies and joint stock limited companies. The PRC Company Law also applies to foreign-invested limited liability companies. In accordance with the PRC Company Law, any stipulations by other PRC laws governing foreign investment shall prevail over the PRC Company Law.

The Foreign Investment Law of the PRC (中華人民共和國外商投資法)(the "**FIL**") was adopted by the SCNPC on March 15, 2019, which came into force on 1 January 2020. The FIL further expand the opening up, promote foreign investment and protect the legitimate rights and interests of foreign investors. According to the FIL, the foreign investment refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations ("**Foreign Investor**") in the PRC, including the following: (a) Foreign Investors establishing foreign-invested enterprises in the PRC alone or collectively with other investors; (b) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (c) Foreign Investors investing in new projects in the PRC alone or collectively with other investors; and (d) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. Foreign-invested enterprise refers to enterprise that are wholly or partially invested by foreign investors and registered in the PRC under the PRC laws.

China adopts the administrative system of pre-establishment national treatment and Negative List for foreign investment. A Foreign Investor shall not invest in any field prohibited from foreign investment under the Negative List. A Foreign Investor shall meet the investment conditions stipulated under the Negative List for any restricted fields under the Negative List. For fields not mentioned in the Negative List, domestic and foreign investments shall be treated equally.

Upon the implementation of the FIL, the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (中華人民共和國中外合資經營企業法), the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) and the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC (中華人民共和國中外合作經營企業法) will be annulled. The foreign-invested enterprises established according to the former laws may retain their original form of organizations within five years after the FIL comes into effect.

The Measures on Reporting of Foreign Investment Information (外商投資信息報告辦法) was issued by the MOFCOM and State Administration for Market Regulation (the "SAMR") on December 30, 2019, which came into effect on January 1, 2020, and replaced the Interim Administrative Measures for the Record-filling of the Establishment and Modification of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法). Since January 1, 2020, for foreign investors carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to such measures.

PRC REGULATIONS RELATING TO SAFE PRODUCTION

Production Safety Law of the PRC According to the Production Safety Law of the PRC (中華人民共和國安全生產法) promulgated on 29 June 2002 and amended on 27 August 2009 and 31 August 2014, enterprises shall meet with the conditions for work safety as required by relevant laws and regulations. Enterprises having more than 100 employees shall establish a department to carry out work safety management or have full-time personnel solely responsible for work safety management. Enterprises shall provide their employees with education and training on work safety to ensure that the employees have the necessary knowledge regarding work safety, are familiar with the relevant work safety rules and operating procedures, and acquire safe operation skills required for their respective positions. The employees performing special functions as defined by the work safety supervision department of the State Council must receive special training on work safety and hold the qualification certificate for performing such special functions.

PRC REGULATIONS RELATING TO PRODUCT QUALITY, COMPETITION AND PRICE

Product Quality Law

The principal legal provisions governing product liability are set out in the Product Quality Law of the PRC(中華人民共和國產品質量法)(the "**Product Quality Law**"), which was amended on and became effective on 29 December 2018. The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law. According to the Product Quality Law, consumers or other victims who suffer personal injury or property loss due to product defects may demand compensation from the producer as well as the seller. Where the responsibility for product defects lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa. Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or the producer may be ordered to suspend operation and its business licence may be revoked. Criminal liability may be incurred in serious cases. According to the Civil Code of the PRC(中華人民共和國民法典), which was promulgated on 28 May 2020 and became effective from 1 January 2021, manufacturers shall bear liability for damage caused to others by their defective products, and for such damage, the injured party may seek compensation from either the manufacturer or the seller. Where the product defect is caused by the manufacturer, the seller may, after paying compensation, claim against the manufacturer for the same, and vice versa.

Competition Law

According to the Anti-Unfair Competition Law of the PRC(中華人民共和國反不正當競爭法)amended on 23 April 2019 and became effective from the same date, when trading on the market, operators shall abide by the principles of voluntariness, equality, fairness, honesty and credibility, and observe generally recognised business ethics. Acts of operators which contravene the provisions of the Anti-Unfair Competition Law, with a result of damaging the lawful rights and interests of other operators, and disturbing the socio-economic order shall constitute unfair competition. When the lawful rights and interests of an operator are damaged by the acts of unfair competition, it or he may institute proceedings in a people's court. In comparison, where an operator commits unfair competition in contravention of the provisions of the Anti-Unfair Competition law and causes damage to another operator, it or he shall bear the responsibility for compensating for the damages. Where the losses suffered by the injured operator are difficult to calculate, the amount of damages shall be the profit gained by the infringer during the period of infringement through the infringing act. The infringer shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the operator suspected of infringing its or his lawful rights and interests.

Price Law

According to the Price Law of the PRC(中華人民共和國價格法)promulgated on 29 December 1997 and became effective from 1 May 1998, the operators shall, in determining prices, abide by the principle of fairness, being in conformity with the law, honesty and credibility. Production and management costs and market supply and demand situation shall be the fundamental basis for the determination of prices by the operators. The operators shall, in selling, procuring commodities and providing services, display the clearly marked price in accordance with the provisions of the competent departments of price of the government. The operators shall not sell commodities with additional price besides the marked price and shall not collect any fee that has not been disclosed. Furthermore, the operators shall not commit unfair price acts such as manipulating market price to the detriment of the lawful rights and interests of other operators or consumers and so on. Any operator who commits any of the unfair price acts prescribed in the Price Law shall be ordered to make a rectification, confiscated of the illegal gains and may be concurrently imposed with a fine of less than five times the illegal gains; where the circumstances are serious, an order shall be issued for the suspension of business operations for rectification, or revocation of the business licence by the agency of industry and commerce administration. In addition, any operator who causes consumers or other operators to pay more prices for illegal price acts should refund the portion overpaid; where damage has been caused, liability for compensation shall be borne according to law. Any operator who violates the provision of clearly marked prices shall be ordered to make a rectification, confiscated of the illegal gains and may be concurrently imposed a fine of less than RMB5,000.

PRC REGULATIONS RELATING TO FOREIGN TRADE AND CUSTOMS

Foreign Trade Law

According to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法) adopted by the SCNPC on 12 May 1994 and amended on April 2004 and became effective on 1 July 2004, and last amended on 7 November 2016, any foreign trade business operator that is engaged in the import and export of goods or technologies shall make registration for record with the administrative department of foreign trade of the State Council or the institution entrusted by it, except otherwise exempted by laws, administrative rules and rules of the department in charge of foreign trade under the State Council. If the foreign trade business operator fails to complete such registration for record, the customs will not process the procedures of declaration, inspection and release for the import or export of goods.

Customs Law

According to the Customs Law of the PRC (中華人民共和國海關法) adopted by the SCNPC on 22 January 1987 and last amended on 29 April 2021 and took effect on the same date, the import and export of goods are subject to the customs' control. Consignees of import goods and consignors of export goods have the obligation to make true declarations to the customs. Duties shall be levied by the customs in respect of the goods allowed to be imported and exported. Consignees of import goods and consignors of export goods are required to be filed with the local customs.

PRC REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Copyright

The SCNPC adopted the Copyright Law (中華人民共和國著作權法) in 1990 and amended it in 2001, 2010 and 2020, respectively. The amended Copyright Law extends copyright protection to internet activities, products disseminated over internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Centre. Copyrights covers the rights of publication, authorship, alteration, integrity, modification, reproduction, distribution and etc. A copyright shall arise from the date when a work is completed. The term of protection of the rights of authorship, alteration, and integrity of an author shall be unlimited. The term of protection of the right of publication, the right of exploitation and the right to remuneration in respect of a work where the copyright belongs to a legal person or entity without legal personality, or in respect of a work created in the course of employment where the legal person or entity without legal personality enjoys the copyright (except the right of authorship), shall be fifty years, expiring on December 31 of the fiftieth year after the first publication of such work, provided that any such work that has not been published within fifty years after the completion of its creation shall no longer be protected. In order to further implement the Computer Software Protection Regulations (計算機軟件保護條例) promulgated by the State Council on 20 December 2001 and amended on January 8, 2011, and January 30, 2013 respectively, the State Copy Right Bureau issued the Computer Software Copyright Registration Procedures (計算機軟件著作權登記辦法) on 20 February 2002, which apply to software copyright registration, license contract registration and transfer contract registration.

Patent

The SCNPC adopted the Patent Law (中華人民共和國專利法) in 1984, as most recently amended in 2020. A patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. A patent is valid for a twenty-year term in the case of an invention and a ten-year term in the case of a utility model or design, starting from the application date. A third-party user must obtain consent or a proper license from the patent owner to use the patent except for certain specific circumstances provided by law. Otherwise, the use will constitute an infringement of the patent rights.

Trademarks

Both Trademark Law of the PRC (中華人民共和國商標法) last amended on 23 April 2019 and effective on November 1, 2019, and the Regulation on Implementation of Trademark Law of the PRC (中華人民共和國商標法實施條例) promulgated by the State Council on 3 August 2002, amended on 29 April 2014 and effective on 1 May 2014 provide protection to the holders of registered trademarks. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks. A registered trademark is valid for ten years and is renewable every ten-years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve months prior to the expiration of the term. Under the Trademark Law of the PRC, any of the following acts maybe regarded as an infringement upon the right to exclusive use of a registered trademark, including (1) to use a trademark that is identical with a registered trademark in respect of the same goods without authorization of the proprietor of the registered trademark; (2) to use a trademark similar to a registered trademark in respect of the same goods or to use a trademark identical with or similar to a registered trademark in respect of similar goods, without authorization of the proprietor of the registered trademark, where such use is likely to cause confusion; (3) to sell the goods that infringe the exclusive right to use a registered trademark; (4) to counterfeit, or to make, without authorization, representations of a registered trademark of another person, or to sell such representations of a registered trademark as were counterfeited, or made without authorization; (5) to replace, without authorization, a registered trademark and put the goods bearing the replaced trademark on the market; (6) to intentionally provide a person with conveniences for such person's infringement of the trademark of another person or facilitate such person's infringement of the trademark of another person; (7) to cause, in other aspects, prejudice to the exclusive right of another person to use a registered trademark. Violation of the Trademark Law of the PRC may result in the imposition of fines, confiscation and destruction of the infringing commodities.

Domain Name

Pursuant to the Measures for the Administration of Internet Domain Names (互聯網域名管理辦法), promulgated on 24 August 2017 and with effect from 1 November 2017, "domain name" shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer. And the principle of "first come, first serve" is followed for the domain name registration service. After completing the domain name registration, the applicants become the holder of the registered domain name. Furthermore, the holder shall pay operation fees for registered domain names on schedule.

PRC LABOUR LAW AND REGULATIONS

Enterprises in China are mainly subject to the following PRC labour laws and regulations: Labour Law of the PRC (中華人民共和國勞動法), PRC Labour Contracts Law (中華人民共和國勞動合同法), the Social Insurance Law of the PRC (中華人民共和國社會保險法), the Regulation of Insurance for Work-Related Injury (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行

條例), the Administrative Regulation on Housing Fund (住房公積金管理條例) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time. The principal regulations governing the employment contract is the PRC Labour Contracts Law, which was promulgated by the SCNPC on 29 June 2007 and amended on 28 December 2012 and came into effect on 1 July 2013. Pursuant to the PRC Labour Contracts Law, employers shall establish employment relationship with employees on the date that they start employing the employees. To establish employment, a written employment contract shall be concluded, or employers will be liable for the illegal actions. Furthermore, the probation period and liquidated damages shall be restricted by the law to safeguard employees' rights and interests. As required under the Social Insurance Law of the PRC, the Regulation of Insurance for Work-Related Injury, the Regulations on Unemployment Insurance, the Provisional Measures on Insurance for Maternity of Employees, and the Administrative Regulation on Housing Fund, enterprises in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance, medical insurance and housing accumulation fund.

PRC REGULATIONS RELATING TO FIRE PROTECTION AND ENVIRONMENTAL PROTECTION

Fire Protection Law

According to the Fire Protection Law of the PRC (中華人民共和國消防法) amended by the SCNPC on 23 April 2019 and became effective on the same date, the fire protection design or construction of a construction project must conform to the national fire protection technical standards for project construction. The employer, as well as the designing, construction, project supervision and other entities, shall be responsible for the quality of fire protection design and construction according to law.

Environmental Protection Law

According to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) adopted by the SCNPC on 26 December 1989, and amended on 24 April 2014 and became effective on 1 January 2015, facilities for the prevention and control of pollution must be designed, built and put into operation simultaneously with the principal part of the construction project. Enterprises discharging pollutants must report to and register with the competent environmental protection administration authorities. Enterprises, institutions and other manufacturing operators subject to pollutant discharge permit administration shall discharge pollutants pursuant to the requirements of the pollutant discharge permit. Without a pollutant discharge permit, discharging of pollutants shall not be allowed.

Enterprises in the PRC must comply with the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), which was promulgated by the SCNPC on 11 May 1984 and amended on 27 June 2017, the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法) amended on 26 October 2018 and the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境噪聲污染防治法), which was amended and became effective on 29 December 2018. These laws regulate extensive issues in relation to the environment protection including waste water discharge, air pollution control and noise emission. Pursuant to these laws, all the enterprises that may cause environmental pollution in the course of their production and business operation shall introduce environmental protection measures in their plants and establish a reliable system for environmental protection. Enterprises are required to adopt effective measures to prevent and control the level of environmental pollution and hazards produced during the process of production, construction or other activities. Enterprises must obtain the licence for discharge of waste water and atmospheric pollutants and such pollutants shall meet the applicable national and local standards. According to the Prevention and Control of Environmental Pollution by Solid Waste Law of the PRC (中華人民共和國固體廢物污染環境防治法), which was adopted on 30 October 1995, subsequently amended on 29 December 2004, 29 June 2013, 24 April 2015, 7 November 2016 and 29 April 2020, entities and individuals generating or engaging in the collection, storage, transport, utilization or disposal of solid wastes shall adopt measures to prevent or reduce environmental pollution by solid wastes and shall bear liability for resulting any environmental pollution in accordance with the law.

Environmental Impact Assessment

According to the Environmental Impact Assessment of the PRC (中華人民共和國環境影響評價法) promulgated by the SCNPC on 28 October 2002 and last amended on 29 December 2018, and the Regulations on the Administration of Environmental Protection for Construction Project (建設項目環境保護管理條例) promulgated by the State Council on November 29, 1998 and became effective on 29 November 1998; amended on 16 July 2017 by the State Council and took effect on 1 October 2017, an environmental impact assessment is required to be completed prior to the construction of a project and a three-tier system for the environmental impact assessments shall be established. In the case of a construction project that may cause significant environmental impacts, a report of environmental impacts shall be completed by a qualified institution and includes a full assessment of environmental impacts. In the case of a construction project that may cause mild environmental impacts, a report form shall be completed by a qualified institution and includes an analysis or special assessment of environmental impacts. In the case of a construction project that may cause minimal environmental impact, an environmental impact assessment is unnecessary and a registration form shall be completed. The catalogue for the classified management of environmental impact assessments for construction projects is formulated and issued by the environmental protection administration department of the State Council. The environmental impact report and the environmental impact report form shall be submitted to the competent administrative department responsible for environmental protection for review and approval, and in the absence of such approval, the permission for construction of the project will not be granted and the construction is not allowed to be commenced. According to the Interim Measures for the Acceptance Inspections of Environment Protection Facilities of Construction Projects (建設項目竣工環境保護驗收暫行辦法) promulgated by the Ministry of Environmental Protection of the PRC on 20 November 2017, unless otherwise stipulated by laws and regulations, entities which are required to provide assessment reports and statements shall undertake the responsibility of acceptance inspections of the environmental protection facilities by itself upon the completion of the construction project. A construction project may be formally put into production or use only if the corresponding environmental protection facilities have passed the acceptance examination.

TAXATION

The following summary of certain Hong Kong, PRC and Cayman Islands tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Notes.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the Inland Revenue Ordinance), as it is currently applied in the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong, notwithstanding that the moneys in respect of which the interest is received or accrues are made available outside Hong Kong; or

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong and such interest is derived from Hong Kong; or

(iii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person (other than a corporation) carrying on a trade, profession or business in Hong Kong and such interest is derived from Hong Kong and is in respect of the funds of the trade, profession or business; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance), even if the moneys in respect of which the interest is received or accrues are made available outside Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to profits tax.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted.

The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired or disposed of. Sums received by or accrued to a corporation (other than a financial institution) by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (as defined in section 16(3) of the Inland Revenue Ordinance) from the sale, disposal or redemption of the Notes will be subject to profits tax.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

PRC

The following summary accurately describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as (a) non-PRC Noteholders, or (b) beneficial owners who are entities or individuals located outside of the PRC in this "*Taxation – PRC*" section. In considering whether to invest in the Notes, investors should consult their individual tax advisers with regard to the application fork tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Enterprise Income Tax

Pursuant to the EIT Law and its implementation regulations and Individual Income Tax Law of the PRC, which was amended on 31 August 2018 and took effect on 1 January 2019, and its implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC enterprises to non-PRC Noteholders, including non-PRC resident enterprises and non-PRC resident individuals. The current rates of such income tax are 10 per cent. for non-PRC resident enterprises and 20 per cent. for non-PRC resident individuals.

Under the EIT Law, an enterprise established outside the PRC with a "de facto management body" within the PRC is deemed a "resident enterprise". The implementing rules of the EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise.

Under the EIT Law and the implementation regulations thereunder, PRC enterprise income tax at a rate of 10 per cent. is normally applicable to PRC sourced income of non-PRC resident enterprises without establishment within the PRC or whose income has no actual connection to its establishment within the PRC, subject to adjustment by applicable treaty. The EIT Law's implementation regulations further set forth that interest income is viewed as PRC sourced income if the enterprise that pays interest is located in the PRC. If the Issuer is deemed a PRC resident enterprise for tax purposes, interest paid to overseas creditors may be regarded as PRC sourced and therefore be subject to PRC enterprise income tax at the rate of up to 10 per cent.

As at the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that the Issuer is considered as a PRC tax resident enterprise for the purpose of the EIT Law. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the actual management organ of the Issuer is within the territory of PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to EIT at the rate of 25 per cent. in respect of its income sourced from both within and outside PRC. If the Issuer is regarded as a PRC tax resident enterprise, such income tax shall be withheld by the Issuer that is acting as the obligatory withholder and such PRC enterprise shall withhold the tax amount from each payment due. Similarly, an individual income tax at the rate of 20 per cent. will apply if the interest income is viewed as PRC sourced income, unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. Also, any gain realised by non-resident enterprise (or non-resident individual) holders from the transfer of the Notes may be regarded as being derived from sources within the PRC, and accordingly, in each case, would be subject to up to 10 per cent. of the PRC Withholding Tax (or 20 per cent. for non-resident individual holders) for such gain. To the extent that the PRC has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC resident enterprise Noteholders. The tax so charged on interests paid on the Notes to non-PRC Noteholders who, or which are residents of Hong Kong (including enterprise holders and individual holders) as defined in 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 Taxes on Income which was promulgated on 21 August 2006 (the "**Arrangement**") will be 7 per cent. of the gross amount of the interest pursuant to the Arrangement and relevant interpretation of the Arrangement formulated by the State Administration of Taxation of China ("**SAT**"). To enjoy this preferential tax rate of 7 per cent., the Issuer could apply, on behalf of the Noteholders, to the State Administration of Taxation of the PRC for the application of the tax rate of 7 per cent. in accordance with the Arrangement on the interest payable in respect of the Notes.

Value-add Tax ("VAT")

On 23 March 2016, the Ministry of Finance and the SAT issued the Circular 36 which confirms that business tax will be completely replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the Noteholders providing loans to the Issuer, which thus shall be regarded as financial services subject to VAT.

Where a Noteholder who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the Issuer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC.

Circular 36 has been issued quite recently and the above statement may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Pursuant to the EIT Law and the VAT reform detailed above, if the Issuer is regarded as a PRC tax resident enterprise, it shall withhold EIT (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC-resident Noteholder and the Issuer shall withhold VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside of the PRC.

Stamp Duty

No PRC stamp duty will be imposed on non-PRC Noteholders either upon issuance of the Notes or upon a subsequent transfer of Notes to the extent that the register of Noteholders is maintained outside the PRC and the issuance and the sale of the Notes is made outside of the PRC.

THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has ceased to participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment" and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. Noteholders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

THE CAYMAN ISLANDS

The following is a discussion on certain Cayman Islands income tax consequences in relation to an investment in the Notes. The discussion is a general summary of the current law, which is subject to any prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under the Cayman Islands law.

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Issuer or non-resident investors in the Notes levied by the government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is a party to a double tax treaty with the United Kingdom but otherwise is not a party to any double tax treaties. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

Pursuant to section 6 of the Tax Concessions Act (1999 Revision) of the Cayman Islands, the Issuer has obtained an undertaking from the Governor-in-Cabinet:

(i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Issuer or its operations; and

(ii) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The certificate shall be for a period of twenty (20) years from 5 October 2004.

SUBSCRIPTION AND SALE

The Issuer has entered into a subscription agreement with the Joint Lead Managers dated 25 May 2021 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer has undertaken, among other things, that the Notes will be issued on 2 June 2021, and the Joint Lead Managers have agreed, severally and not jointly, with the Issuer to subscribe and pay for, or procure subscribers to subscribe and pay for, the 2026 Notes at an issue price of 99.870 per cent. of their principal amount and the 2031 Notes at an issue price of 99.193 per cent. of their principal amount in the amount set forth opposite its name below:

Joint Lead Managers	Principal amount of the 2026 Notes to be subscribed	Principal amount of the 2031 Notes to be subscribed
J.P. Morgan Securities plc	U.S.$90,000,000	U.S.$105,000,000
Citigroup Global Markets Limited	U.S.$90,000,000	U.S.$105,000,000
China International Capital Corporation Hong Kong Securities Limited	U.S.$90,000,000	U.S.$105,000,000
DBS Bank Ltd.	U.S.$15,000,000	U.S.$17,500,000
The Hongkong and Shanghai Banking Corporation Limited	U.S.$15,000,000	U.S.$17,500,000
Total	**U.S.$300,000,000**	**U.S.$350,000,000**

The Subscription Agreement provides that the Issuer has agreed to pay the Joint Lead Managers certain fees and underwriting commissions, to reimburse the Joint Lead Managers for certain of their expenses in connection with the initial sale and distribution of the Notes, and the Issuer will indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Lead Managers and their respective subsidiaries and affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers and certain of the Issuer's subsidiaries or affiliates may have, performed certain investment banking and advisory services for, and entered into certain commercial banking transactions with the Issuer or any member of the Group and/or their respective subsidiaries and affiliates, from time to time, for which they have received customary fees and expenses. The Joint Lead Managers and their respective subsidiaries or affiliates may, from time to time, engage in transactions with and perform services for the Issuer or any member of the Group and/or the Issuer's subsidiaries and affiliates in the ordinary course of their business.

The Joint Lead Managers and their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. References herein to the Notes being offered should be read as including any offering of the Notes to the Joint Lead Managers and/or their respective affiliates acting in such capacity. In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The distribution of this Offering Circular, or any offering material, and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular, or any offering material, are advised to consult with their own legal advisors as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken that would, or is intended to, permit a public offering of the Notes, or the possession or distribution of this Offering Circular or any amendment or supplement thereto or any offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Accordingly, the Notes should not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material, circular, prospectus, form of application or advertisement in connection with the Notes should be distributed or published in or from any jurisdiction, except in circumstances which will result in compliance with any applicable laws and regulations and will not, save as disclosed in this Offering Circular, impose any obligations on the Issuer or the Joint Lead Managers.

If a jurisdiction requires that the offering of the Notes be made by a licensed broker or dealer and the Joint Lead Managers or any of their respective affiliates is a licensed broker or dealer in that jurisdiction, the offering of the Notes shall be deemed to be made by the Joint Lead Managers or their respective affiliates on behalf of the Issuer in such jurisdiction.

General

The Notes are a new issue of securities with no established trading market. No assurance can be given as to the liquidity of any trading market for the Notes.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Notes, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

United States

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each of the Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes within the United States.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any "dealer" (as defined in the Securities Act), whether or not participating in the offering, may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager represents and agrees that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **"MiFID II"**); or

(b) a customer within the meaning of Directive 2016/97/EU (the **"Insurance Distribution Directive"**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Joint Lead Manager has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to UK Retail Investors

Each Joint Lead Manager represents, warrants and undertakes that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Note to any retail investor in the United Kingdom. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or

(b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Securities which are a "structured product" as defined in the SFO) other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

The PRC

Each of the Joint Lead Managers has represented and agreed that the offer of the Notes is not an offer of securities within the meaning of the PRC Securities Law or other pertinent laws and regulations of the PRC and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including Hong Kong, the Macau Special Administrative Region of the PRC or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the "**FIEA**"). Accordingly, each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations of Japan.

Canada

Each Joint Lead Manager has represented, warranted and undertaken that the Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act (Ontario)*, and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Cayman Islands

Each Joint Lead Manager has represented, warranted and undertaken that it has not offered or sold, and will not offer or sell, any Notes to the public or any member of the public in the Cayman Islands.

GENERAL INFORMATION

Clearing System and Settlement

The 2026 Notes have been accepted for clearance through the facilities of Euroclear and Clearstream under ISIN of XS 2341038656 and Common Code of 234103865.

The 2031 Notes have been accepted for clearance through the facilities of Euroclear and Clearstream under ISIN of XS 2342248593 and Common Code of 234224859.

LEI

The Issuer's Legal Entity Identifier (LEI) is 549300SKEDE1VKS0A552.

Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes and the execution, delivery and performance of its obligations under the Notes, the Trust Deed and the Agency Agreement. The issue of the Notes was authorised by the resolutions of the board of directors of the Issuer on 14 May 2021. PRC counsels to the Issuer and the Joint Lead Managers have advised that no other approvals or consents are required from any regulatory authorities or other relevant authorities in the PRC for the Issuer to issue the Notes except for the obtaining of the Enterprise Foreign Debt Pre-Issuance Filing Certificate in respect of the issue of the Notes from the NDRC, which has been obtained and dated 27 April 2021 pursuant to the NDRC Circular, and the post-issue filing of the information relating to the issue of the Notes with the NDRC in accordance with the NDRC Circular.

Litigation

There are no legal or arbitration proceedings against or affecting the Issuer or any member of the Group or any of their assets, and the Issuer is not aware of any pending or threatened proceedings, which are material in the context of the issue of the Notes.

No Material Adverse Change

Except as disclosed in this Offering Circular, there has been no material adverse change, nor any development or event involving a prospective material adverse change, in or affecting the general affairs, financial condition, results of operations or prospects of the Issuer or any member of the Group since 31 December 2020.

Documents Available

So long as any of the Notes is outstanding, copies of the following documents will be available for inspection during normal business hours at the specified office of the Trustee during normal business hours upon prior written request and satisfactory proof of holding:

- the Trust Deed;
- the Agency Agreement; and
- the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2019 and 2020.

Financial Statements

The audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2019 and 2020, which are included elsewhere in this Offering Circular, have been audited by Deloitte.

Listing

Application will be made to the HKSE for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. It is expected that dealing will, if permission is granted to deal in and for the listing of the Notes on the HKSE, commence on or about 3 June 2021.

INDEX TO FINANCIAL STATEMENTS

Independent Auditor's Report

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of AAC Technologies Holding Inc. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 89 to 167, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matters	How our audit addressed the key audit matters
Estimated allowance for inventories	
We identified the estimated allowance for inventories as a key audit matter due to the use of judgement and estimates by the management in estimating the allowance of inventories. The management determines the allowance for inventories with reference to the aging analysis and the estimated net realisable value for obsolete inventory items that are no longer suitable for use in operation and/or slow-moving inventory items at the end of each reporting period (refer to notes 4 and 20 to the consolidated financial statements). As at 31 December 2020, the carrying amount of the Group's inventories, net of allowance, was RMB3,995,052,000. During the year, the Group recognised and charged an allowance for inventories of RMB93,013,000 to write down relevant inventories to net realisable value. Details of the Group's inventories are set out in note 20 to the consolidated financial statements.	Our procedures in relation to estimated allowance for inventories included: • Obtaining an understanding on management process and control in identifying obsolete and/or slow-moving inventories items and how management estimates the allowance of obsolete and slow-moving inventory items; • Obtaining the inventory aging analysis and testing the accuracy by agreeing its classification by age on a sample basis, to source documents; • Evaluating the reasonableness of the allowance of obsolete and/or slow-moving inventories, where the estimated net realisable value is lower than the cost, with reference to historical sales record, ageing analysis and latest/subsequent selling and purchase prices of the inventories; and • Testing subsequent sales/usage of inventories and/or subsequent purchase of materials on a sample basis.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Chung Chin Cheung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For The Year Ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	5	**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	7	**502,277**	246,991
Fair value gain on financial assets at fair value through profit or loss	17	**–**	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	6	**(352,558)**	(248,210)
Profit before taxation	8	**1,647,599**	2,552,422
Taxation	10	**(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	12	**RMB1.25**	RMB1.84

Consolidated Statement of Financial Position

At 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	13	18,592,060	16,910,713
Right-of-use assets	14	1,895,871	1,071,912
Goodwill	15	164,350	164,350
Deposits made for acquisition of property, plant and equipment		576,467	454,527
Investment properties	16	12,466	13,660
Equity instruments at fair value through other comprehensive income	17	352,006	350,740
Intangible assets	18	373,360	433,884
Deferred tax assets	30	95,000	–
		22,061,580	19,399,786
Current assets			
Inventories	20	3,995,052	3,664,056
Trade and other receivables	21	5,176,458	5,576,036
Amounts due from related companies	22	5,595	3,622
Taxation recoverable		40,294	40,718
Pledged bank deposits	23	91,999	11,100
Bank balances and cash	23	7,540,330	5,511,974
		16,849,728	14,807,506
Current liabilities			
Trade and other payables	24	5,204,503	5,474,116
Contract liabilities	24	14,734	10,271
Lease liabilities	25	493,657	96,742
Amounts due to related companies	22	43,593	75,354
Taxation payable		166,881	178,169
Bank loans	26	3,348,546	1,876,094
Government grants	29	83,015	–
Derivative financial instruments	19	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

Consolidated Statement of Financial Position

At 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Lease liabilities	25	**317,073**	310,332
Bank loans	26	**2,542,950**	3,849,605
Unsecured notes	27	**2,511,748**	2,685,475
Contingent settlement provision	28	**1,671,812**	–
Government grants	29	**603,959**	208,938
Deferred tax liabilities	30	**48,886**	65,392
Derivative financial instruments	19	**14,421**	15,812
		7,710,849	7,135,554
Net assets		**21,820,835**	19,360,992
Capital and reserves			
Share capital	31	**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

The consolidated financial statements on pages 89 to 167 were approved and authorised for issue by the Board of Directors on 25 March 2021 and are signed on its behalf by:

PAN BENJAMIN ZHENGMIN
DIRECTOR

MOK JOE KUEN RICHARD
DIRECTOR

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2020

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Non-distributable reserve RMB'000	PRC statutory reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2019	98,906	36,438	(79,202)	1,135	23,391	18,955	18,638	87,245	713,888	10,155	18,004,539	18,934,088	–	18,934,088
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	–	(47,742)	–	–	–	–	–	(47,742)	–	(47,742)
Fair value changes on equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	76,479	–	–	–	–	76,479	–	76,479
Fair value changes on derivative financial instruments	–	–	–	–	–	–	–	–	–	(24,631)	–	(24,631)	–	(24,631)
Gain reclassified to profit or loss on hedged item	–	–	–	–	–	–	–	–	–	(1,001)	–	(1,001)	–	(1,001)
Profit for the year	–	–	–	–	–	–	–	–	–	–	2,222,375	2,222,375	(1)	2,222,374
Total comprehensive (expense) income for the year	–	–	–	–	–	(47,742)	76,479	–	–	(25,632)	2,222,375	2,225,480	(1)	2,225,479
Dividend declared	–	–	–	–	–	–	–	–	–	–	(1,530,919)	(1,530,919)	–	(1,530,919)
Shares repurchased	–	–	(277,456)	–	–	–	–	–	–	–	–	(277,456)	–	(277,456)
Shares cancelled	(771)	(36,438)	356,658	–	–	–	–	–	–	–	(319,449)	–	–	–
Capital contribution from non-controlling shareholder of subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	9,800	9,800
Disposal of equity instrument at fair value through other comprehensive income	–	–	–	–	–	–	5,637	–	–	–	(5,637)	–	–	–
Transfers	–	–	–	–	–	–	–	–	174,992	–	(174,992)	–	–	–
At 31 December 2019	98,135	–	–	1,135	23,391	(28,787)	100,754	87,245	888,880	(15,477)	18,195,917	19,351,193	9,799	19,360,992
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	–	(104,819)	–	–	–	–	–	(104,819)	(680)	(105,499)
Fair value changes on equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	14,178	–	–	–	–	14,178	–	14,178
Fair value changes on derivative financial instruments	–	–	–	–	–	–	–	–	–	(50,138)	–	(50,138)	–	(50,138)
Loss reclassified to profit or loss on hedged item	–	–	–	–	–	–	–	–	–	57,081	–	57,081	–	57,081
Profit for the year	–	–	–	–	–	–	–	–	–	–	1,506,707	1,506,707	(5,679)	1,501,028
Total comprehensive (expense) income for the year	–	–	–	–	–	(104,819)	14,178	–	–	6,943	1,506,707	1,423,009	(6,359)	1,416,650
Dividend declared	–	–	–	–	–	–	–	–	–	–	(106,807)	(106,807)	–	(106,807)
Dilution of interests in subsidiaries*	–	–	–	–	–	–	–	–	–	–	491,346	491,346	658,654	1,150,000
Transfers	–	–	–	–	–	–	–	–	593,381	–	(593,381)	–	–	–
At 31 December 2020	98,135	–	–	1,135	23,391	(133,606)	114,932	87,245	1,482,261	(8,534)	19,493,782	21,158,741	662,094	21,820,835

The People's Republic of China (the "PRC") statutory reserve are non-distributable and the transfer to these reserves is determined by the board of directors of subsidiaries established in the PRC in accordance with the Articles of Association of the subsidiaries. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries of the Company and the allocation basis are decided by their board of directors annually. The PRC statutory reserve can be used to make up for previous year's losses or convert into additional capital of the PRC subsidiaries of the Company.

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

The capital reserve relates to a deemed capital contribution from a shareholder in prior years.

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

* Dilution of interest in a subsidiary arises from issuance of new shares by a subsidiary during the year ended 31 December 2020 and the difference between the change in non-controlling interests and the consideration is recognised directly in retained profit. When the obligation for contingent settlement is established, the liability is initially recognised and presented as contingent settlement provision on the consolidated statement of financial position with the corresponding debit to equity. Details of relevant transactions are set out in note 28.

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Operating activities		
Profit before taxation	**1,647,599**	2,552,422
Adjustments for:		
Interest income	**(58,989)**	(50,273)
Finance costs	**352,558**	248,210
Depreciation of property, plant and equipment	**2,261,585**	2,018,539
Depreciation of right-of-use assets	**166,058**	112,735
Amortisation of intangible assets	**48,692**	43,838
Depreciation of investment property	**1,194**	1,194
(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)
Amortisation of upfront fee for bank loans	**–**	6,492
Amortisation of government grants	**(126,305)**	(51,019)
Fair value gain on financial assets at fair value through profit or loss	**–**	(19,234)
Reversal of impairment loss on trade receivables	**(133)**	(110)
Net allowance for inventories	**93,013**	41,527
Impairment losses recognised in respect of property, plant and equipment	**–**	35,096
Operating cash flows before movements in working capital	**4,381,835**	4,941,501
Increase in inventories	**(469,619)**	(378,972)
Decrease (increase) in trade and other receivables	**160,056**	(1,075,537)
(Increase) decrease in amounts due from related companies	**(1,973)**	1,369
(Decrease) increase in trade and other payables	**(188,444)**	715,194
(Decrease) increase in amounts due to related companies	**(31,761)**	8,407
Increase in contract liabilities	**4,463**	1,598
Cash generated from operations	**3,854,557**	4,213,560
Taxation paid	**(261,953)**	(370,068)
Net cash from operating activities	**3,592,604**	3,843,492

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Investing activities			
Deposits paid for acquisition of property, plant and equipment		**(2,160,775)**	(1,268,284)
Acquisition of property, plant and equipment		**(2,088,449)**	(1,544,236)
Payments for right-of-use assets		**(485,538)**	(20,352)
Placement of pledged bank deposits		**(101,665)**	(11,100)
Additions to intangible assets		**(2,015)**	(88,749)
Payments for rental deposits		**(509)**	(549)
Withdrawal of time deposits with original maturity over three months		**697,620**	67,545
Government grants received relating to acquisitions of non-current assets		**604,341**	142,178
Proceeds from disposal of property, plant and equipment		**144,852**	30,761
Interest received		**53,641**	48,135
Proceeds from disposal of right-of-use assets		**53,147**	561
Withdrawal of pledged bank deposits		**20,766**	2,100
Return of capital from (acquisition of) equity instruments at fair value through other comprehensive income		**2,508**	(92,696)
Placement of time deposits with original maturity over three months		**–**	(697,620)
Settlement of consideration payable for acquisition of a business		**–**	(4,083)
Proceeds from disposal of financial assets at fair value through profit or loss	17	**–**	41,804
Net cash used in investing activities		**(3,262,076)**	(3,394,585)
Financing activities			
Bank loans raised		**2,460,154**	3,234,355
Capital contributions from non-controlling interests of a subsidiary	28	**2,808,000**	9,800
Receipt from derivative financial instruments		**31,800**	50,218
Repayments of bank loans		**(2,103,695)**	(3,497,570)
Interest paid		**(299,822)**	(245,217)
Repayment of lease liabilities		**(150,962)**	(133,308)
Dividend paid		**(106,807)**	(1,530,919)
Payment to derivative financial instruments		**(56,488)**	(49,217)
Proceed from issuance of unsecured notes		**–**	2,706,185
Repurchase of shares	31	**–**	(277,456)
Acquisition of additional interests in subsidiaries		**–**	(11,868)
Net cash generated from financing activities		**2,582,180**	255,003

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Net increase in cash and cash equivalents	**2,912,708**	703,910
Cash and cash equivalents at 1 January	**4,814,354**	4,058,949
Effect of foreign exchange rate changes	**(186,732)**	51,495
	7,540,330	4,814,354
Represented by:		
Bank balances and cash	**7,540,330**	5,511,974
Less: Time deposits with original maturity over three months	**–**	(697,620)
Cash and cash equivalents at 31 December	**7,540,330**	4,814,354

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 addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

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

2. APPLICATION OF NEW AND 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.

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

Amendments to IFRSs that are mandatorily effective for the current year (continued)

2.2 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.

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

Amendments to IFRSs that are mandatorily effective for the current year (continued)

2.4 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.

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.

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 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.

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.

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" (continued)

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.

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 classification 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of preparation of consolidated financial statements (continued)

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with IFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

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

3.2 Significant accounting policies

Basis of consolidation

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Basis of consolidation (continued)

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant component of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Business combinations

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

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an assets and a liability in 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).

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss.

Goodwill

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Goodwill (continued)

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

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The revenue of the Group arising from sales of dynamic components, electromagnetic drives and precision mechanics, optic products, Micro Electro-Mechanical Systems ("MEMS") components and other products is recognised at a point in time. Under the transfer-of-control approach in IFRS 15 "Revenue from Contracts with Customers", revenue from these sales is recognised when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits of these products.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of leasehold land and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from COVID-19-related rent concessions in which the Group applied the practical expedient.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 "Financial Instruments" and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

Except for COVID-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease modifications (continued)

In relation to rent concessions that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- 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 if the changes are 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 Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Property, plant and equipment

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

Freehold land is not depreciated and is measured at cost, less any recognised impairment loss.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Investment properties

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

Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is recognised so as to write off the cost of investment properties and land over their estimated useful lives of 20 years and 50 years respectively and after taking into account of their estimated residual value, using the straight-line method.

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

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as "right-of-use assets" in the consolidated statement of financial position and is amortised over the lease term on a straight line basis. When the consideration cannot be allocated reliably between non-lease building elements and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Borrowing costs

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

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Inventories

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(ii) Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, gains and losses" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, loan receivable, pledged bank deposits, bank balances and amounts due from related companies). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on trade receivables are assessed individually for debtors with significant balances and the remaining debtors are assessed collectively with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(ii) Definition of default

The Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group estimates ECL for certain trade receivables collectively taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For collective assessment, the Group takes into consideration the following characteristics which formulating the grouping:

- Past-due status and historical credit loss experience; and
- Size of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

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

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity and recognised as treasury shares. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instrument.

Financial liabilities at amortised cost

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

Contingent settlement provision arising from a contract to repay capital from non-controlling interests

The gross financial liability arising from a contract to repay capital from non-controlling interests is recognised when contractual obligation (including potential obligation arising on the occurrence or non-occurrence of future events) to repurchase the shares in a subsidiary is established. The contingent settlement provision on the consolidated statement of financial position is initially recognised and measured at present value of the estimated capital repayment amount with the corresponding debit to equity. Subsequent to initial recognition, the adjustments arising from remeasurement of the present value of the such gross obligation under the contract to the non-controlling shareholders is recognised in profit or loss.

Derecognition of financial liabilities

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

Derivative financial instruments

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Hedge accounting

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

For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) as based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Cash flow hedges

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

For the purpose of reclassifying thee amount of gains and losses accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Hedge accounting (continued)

Cash flow hedges (continued)

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

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Intangible assets

Intangible assets acquired separately

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

Internally generated intangible assets – research and development expenditure

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Intangible assets (continued)

Internally generated intangible assets – research and development expenditure (continued)

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

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

Intangible assets acquired in a business combination

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

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

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

Impairment on property, plant and equipment, right-of-use assets and intangible assets (other than goodwill)

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

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Impairment on property, plant and equipment, right-of-use assets and intangible assets (other than goodwill) (continued)

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

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

Taxation

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Taxation (continued)

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Government grants

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

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

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

Foreign currencies

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

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

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

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

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Provisions

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

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

Retirement benefit costs

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

Short-term employee benefits

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated allowance for inventories

Management reviews the inventories aging listing at the end of each reporting period, and makes allowance for obsolete and/or slow-moving inventory items identified that are no longer suitable for use in operation. Estimation of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. Where the net realisable value is less than the cost, a material impairment may arise. As at 31 December 2020, the carrying amount of inventories was RMB3,995,052,000 (2019: RMB3,664,056,000) and net allowance for inventories of RMB93,013,000 (2019: RMB41,527,000) was recognised in the profit or loss during the year ended 31 December 2020.

Deferred tax asset

As at 31 December 2020, a deferred tax asset of RMB63,000,000 (2019: Nil) in relation to unused tax losses for certain operating subsidiaries has been recognised in the consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB1,727,640,000 (2019: RMB1,507,528,000) for the remaining subsidiaries due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

5. 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.

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.

5. REVENUE AND SEGMENT INFORMATION (continued)

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 RMB'000	2019 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 FVTPL	**–**	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

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned by each segment without allocation of finance costs, interest income, administration expenses, research and development costs, distribution and selling expenses, other income, 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.

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For The Year Ended 31 December 2020

5. REVENUE AND SEGMENT INFORMATION (continued)

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 **RMB'000**	2019 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.

5. REVENUE AND SEGMENT INFORMATION (continued)

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

	2020 RMB'000	2019 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.

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.

6. FINANCE COSTS

	2020 RMB'000	2019 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

7. OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses mainly comprise of:

	2020 RMB'000	2019 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 13)	–	(35,096)

* Included in the amount is RMB126,305,000 (2019: RMB51,019,000) representing amortisation of government grants as detailed in note 29. 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.

8. PROFIT BEFORE TAXATION

	2020 RMB'000	2019 RMB'000
Profit before taxation has been arrived at after charging (crediting) :		
Directors' emoluments (note 9)	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 (note 20)	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.

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

The aggregate Directors' and chief executive's remuneration for the year ended 31 December 2020 amounts to RMB15,813,000 (2019: RMB16,185,000), disclosed pursuant to the applicable Listing Rules and CO, are as follows:

For the year ended 31 December 2020:

	Pan Benjamin Zhengmin ("Mr. Pan") RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
Executive Directors			
Fees	–	–	–
Other emoluments:			
Salaries and other benefits	4,913	2,256	7,169
Performance related bonuses	–	4,632	4,632
Retirement benefits scheme contributions	–	16	16
Total Directors' emoluments	4,913	6,904	11,817

Mr. Pan is also the Chief Executive Officer ("CEO") of the Company and his emoluments disclosed above include those for services rendered by him as the CEO.

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

	Wu Ingrid Chun Yuan ("Ms. Wu") RMB'000	Total RMB'000
Non-executive Director		
Fees	417	417
Other emoluments:		
Salaries and other benefits	–	–
Performance related bonuses	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	417	417

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

9. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (continued)

For the year ended 31 December 2020: (continued)

	Koh Boon Hwee RMB'000 (Note iii)	Poon Chung Yin Joseph RMB'000 (Note iii)	Au Siu Cheung Albert RMB'000	Kwok Lam Kwong Larry RMB'000	Peng Zhiyuan RMB'000	Zhang Hongjiang RMB'000	Total RMB'000
Independent non-executive Directors							
Fees	375	243	796	622	661	882	3,579
Other emoluments:							
Salaries and other benefits	–	–	–	–	–	–	–
Performance related bonuses	–	–	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–	–	–
Total Directors' emoluments	375	243	796	622	661	882	3,579

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

For the year ended 31 December 2019:

	Mr. Pan RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
Executive Directors			
Fees	–	–	–
Other emoluments:			
Salaries and other benefits	4,812	2,250	7,062
Performance related bonuses	–	4,455	4,455
Retirement benefits scheme contributions	–	16	16
Total Directors' emoluments	4,812	6,721	11,533

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

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

9. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (continued)

For the year ended 31 December 2019: (continued)

	Ms. Wu RMB'000	Total RMB'000
Non-executive Director		
Fees	411	411
Other emoluments:		
Salaries and other benefits	–	–
Performance related bonuses	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	411	411

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

	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Au Siu Cheung Albert RMB'000	Kwok Lam Kwong Larry RMB'000	Peng Zhiyuan RMB'000 (Note i)	Zhang Hongjiang RMB'000 (Note i)	Tan Bian Ee RMB'000 (Note ii)	Total RMB'000
Independent non-executive Directors								
Fees	992	655	784	612	533	467	198	4,241
Other emoluments:								
Salaries and other benefits	–	–	–	–	–	–	–	–
Performance related bonuses	–	–	–	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–	–	–	–
Total Directors' emoluments	992	655	784	612	533	467	198	4,241

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

Notes:

(i) Mr. Peng Zhiyuan and Mr. Zhang Hongjiang were appointed as independent non-executive Directors of the Company on 1 January 2019.

(ii) Mr. Tan Bian Ee retired on 24 May 2019.

(iii) Mr. Koh Boon Hwee and Mr. Poon Chung Yin Joseph retired on 15 May 2020.

9. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (continued)

Employees' emoluments

The five highest paid individuals included one (2019: one) Director of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2019: four) highest paid individuals are as follows:

	2020	2019
	RMB'000	RMB'000
Employees		
– basic salaries and allowances	**7,718**	7,139
– bonus	**18,704**	17,718
– retirement benefits scheme contributions	**56**	70
	26,478	24,927

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

The emoluments were within the following bands:

	Number of employees	
	2020	2019
HK$6,000,001 to HK$6,500,000	**1**	2
HK$6,500,001 to HK$7,000,000	**1**	1
HK$7,000,001 to HK$7,500,000	**1**	–
HK$8,500,001 to HK$9,000,000	**–**	1
HK$9,000,001 to HK$9,500,000	**1**	–

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year. No emoluments were paid by the Group to the Directors of the Company and/or five highest paid individuals as an inducement to join or as compensation for loss of office.

10. TAXATION

	2020 RMB'000	2019 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 30)	(112,293)	(6,378)
	146,571	330,048

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.

10. TAXATION (continued)

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

	2020 RMB'000	2019 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.

11. DIVIDENDS

	2020 RMB'000	2019 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.

12. 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.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Electronic equipment and furniture RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2019	39,332	2,220,238	1,740,441	1,381,315	69,865	15,073,832	1,723,550	22,248,573
Currency realignment	1,474	247	1,146	1,575	71	4,606	(68)	9,051
Additions	–	72,726	209,627	84,180	4,507	1,341,874	1,839,963	3,552,877
Disposals/write-off	–	(3,611)	(21,187)	(1,936)	(2,937)	(77,150)	(14,602)	(121,423)
Transfers	–	408,550	16,173	137,849	368	979,563	(1,542,503)	–
At 31 December 2019	40,806	2,698,150	1,946,200	1,602,983	71,874	17,322,725	2,006,340	25,689,078
Currency realignment	(286)	(12,568)	(3,746)	(5,153)	(317)	(36,508)	(7,956)	(66,534)
Additions	2,627	33,668	94,607	279,556	3,366	715,045	2,994,493	4,123,362
Disposals/write-off	–	(115,469)	(30,006)	(18,199)	(6,660)	(149,804)	(6,430)	(326,568)
Transfers	–	188,731	28,611	123,249	2,481	1,414,458	(1,757,530)	–
At 31 December 2020	43,147	2,792,512	2,035,666	1,982,436	70,744	19,265,916	3,228,917	29,419,338
DEPRECIATION AND IMPAIRMENT								
At 1 January 2019	–	383,860	928,503	753,803	37,592	4,700,128	4,648	6,808,534
Currency realignment	–	109	787	790	51	2,972	–	4,709
Provided for the year	–	115,006	241,793	231,835	9,064	1,420,841	–	2,018,539
Eliminated on disposal/write-off	–	(782)	(17,088)	(760)	(2,550)	(67,333)	–	(88,513)
Impairment losses recognised in profit or loss	–	–	1,721	–	2	33,373	–	35,096
At 31 December 2019	–	498,193	1,155,716	985,668	44,159	6,089,981	4,648	8,778,365
Currency realignment	–	(3,063)	(3,202)	(2,222)	(179)	(19,985)	–	(28,651)
Provided for the year	–	139,694	226,270	241,134	7,896	1,646,591	–	2,261,585
Eliminated on disposal/write-off	–	(23,998)	(21,105)	(9,108)	(5,903)	(123,907)	–	(184,021)
At 31 December 2020	–	610,826	1,357,679	1,215,472	45,973	7,592,680	4,648	10,827,278
CARRYING VALUES								
At 31 December 2020	43,147	2,181,686	677,987	766,964	24,771	11,673,236	3,224,269	18,592,060
At 31 December 2019	40,806	2,199,957	790,484	617,315	27,715	11,232,744	2,001,692	16,910,713

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.

14. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Buildings RMB'000	Machineries RMB'000	Total 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 RMB'000	2019 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

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.

14. RIGHT-OF-USE ASSETS (continued)

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.

15. GOODWILL

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

	2020	2019
	RMB'000	RMB'000
Kaleido Technology APS	**8,705**	8,705
WiSpry, Inc.	**77,414**	77,414
深圳市軒盈通電子有限公司 (Shenzhen Xuanyingtong electronics Co., Ltd.)*	**78,231**	78,231
	164,350	164,350

* The English translation is for identification purpose only.

During the year ended 31 December 2020, the Directors of the Company determines that there is no impairment of the CGUs containing goodwill.

The basis of the recoverable amounts of the CGUs and its major underlying assumptions are summarised below:

The recoverable amount of each of the CGUs is determined on the basis of value in use calculation. The recoverable amount is based on certain key assumptions. These calculations use cash flow projections based on latest financial budgets approved by management covering a five-year period, using an applicable pre-tax discount rate ranging from 15.97% to 17.00% (2019: 14.35% to 16.40%). The cash flows beyond the five-year period are extrapolated using a steady growth rate of 3% (2019: 3%). Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not result in significant impairment loss. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's operations.

16. 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**

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

(i) Equity instruments at 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 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.

18. INTANGIBLE ASSETS

	Patents RMB'000	Development expenditure RMB'000	Customer base RMB'000	Total RMB'000
COST				
At 1 January 2019	279,051	166,450	113,800	559,301
Currency realignment	151	2,250	–	2,401
Addition	109,679	–	–	109,679
At 31 December 2019	**388,881**	**168,700**	**113,800**	**671,381**
Currency realignment	**(9,839)**	**(8,984)**	**–**	**(18,823)**
Addition	**2,015**	**–**	**–**	**2,015**
At 31 December 2020	**381,057**	**159,716**	**113,800**	**654,573**
AMORTISATION AND IMPAIRMENT				
At 1 January 2019	123,407	62,175	7,112	192,694
Currency realignment	278	687	–	965
Provided for the year	19,497	12,961	11,380	43,838
At 31 December 2019	**143,182**	**75,823**	**18,492**	**237,497**
Currency realignment	**(1,389)**	**(3,587)**	**–**	**(4,976)**
Provided for the year	**25,902**	**11,410**	**11,380**	**48,692**
At 31 December 2020	**167,695**	**83,646**	**29,872**	**281,213**
CARRYING VALUE				
At 31 December 2020	**213,362**	**76,070**	**83,928**	**373,360**
At 31 December 2019	245,699	92,877	95,308	433,884

Patents represent the Group's patents on designs of small and sophisticated module structures, and new addition mainly represents the patent for production of optics products (2019: method to measure and control the displacement of the diaphragm). Development expenditure represents the Group's development cost in MEMS technology and wafer-level glass moulding technology which are used to enhance the Group's current products. Customer base represents Group's customer relationship acquired by the Group as part of a business combination in 2018.

Amortisation is provided to write off the cost of patents, development expenditure and customer base, using the straight line method, over the estimated useful life ranging from 3 to 20 years.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	Current		Non-current	
	2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 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

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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 26, 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 27. 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.

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

	Range	Forward	Interest rate		Exchange frequency	
National amount	of maturity	contract rate	Receive	Pay	Receive	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 36).

20. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	970,887	882,277
Work in progress	853,735	689,547
Finished goods	2,170,430	2,092,232
	3,995,052	3,664,056

The Group has written off provision for inventories of RMB56,754,000 (2019: RMB42,765,000) in the current year.

During the year, net allowance for inventories of approximately RMB93,013,000 (2019: RMB41,527,000) has been recognised and included in cost of goods sold.

21. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 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.

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 RMB'000	2019 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.

21. TRADE AND OTHER RECEIVABLES (continued)

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).

Details of impairment assessment of trade and other receivables for the year ended 31 December 2020 and 2019 are set out in note 35.

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

22. AMOUNTS DUE FROM (TO) RELATED COMPANIES

Amounts due from related companies

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

Name of related company	**2020** **RMB'000**	2019 RMB'000
深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd.)*	**2,029**	1,680
四川茵地樂科技有限公司 (Sichuan Yindile Technology Co., Ltd.)*	**2,935**	1,575
四川茵地樂材料科技集團有限公司 (Sichuan Yindile Materials & Technology Group Co., Ltd.)*	**591**	367
四川茵地樂材料科技集團常州有限公司 (Sichuan Yindile Materials & Technology Group Changzhou Co., Ltd.)*	**40**	–
	5,595	3,622

* The English translation is for identification purpose only.

Amounts were trade-related, unsecured, interest-free and are repayable on demand. The average credit period for trade-related transaction is normally within 30 days to 90 days.

22. AMOUNTS DUE FROM (TO) RELATED COMPANIES (continued)

Amounts due to related companies

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

Name of related company	2020 RMB'000	2019 RMB'000
常州市凌迪電子科技有限公司 (Changzhou Lingdi Electronic Technology Co., Ltd)*	27,070	–
常州市武進湖塘何家紅光沖件廠 (Wujin Hutang Hejia Hongguang Stamping Factory)*	9,768	59,922
常州市友晟電子有限公司 (Changzhou Yousheng Electronics Co., Ltd.)*	6,106	14,082
紅光越南塑業有限公司 (Hongguang Viet Nam Plastic Co., Ltd.)*	649	1,350
	43,593	75,354

* The English translation is for identification purpose only.

Amounts were trade-related, unsecured, interest-free and are repayable on demand. The average credit period for trade-related transaction is normally within 30 days to 90 days.

23. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

Deposit amounting to RMB91,999,000 (2019: RMB11,100,000) has been pledged to secure credit facilities granted to certain subsidiaries which is expected to be repaid within one year.

As at 31 December 2020, there is no time deposits with original maturity over three months included in bank balances (2019: RMB697,620,000).

The bank balances carry variable interest rates ranging from 0.00% to 2.025% (2019: 0.00% to 2.34%) per annum and fixed interest rates ranging from 0.499% to 2.405% (2019: 1.10% to 2.41%) per annum. The pledged bank deposits carry fixed interest rates of 1.35% to 1.95% (2019: 1.35% to 1.75%) per annum.

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

	Bank balances and cash	
	2020 RMB'000	2019 RMB'000
US$	1,088,839	1,462,868
HK$	60,432	72,639
Japanese Yen	91,668	17,874
Euro	224,738	56,816
Other currencies	13,307	15,193

24. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Trade and other payables

	2020 RMB'000	2019 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.

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

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

24. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES (continued)

Contract liabilities

	2020 RMB'000	2019 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.

25. LEASE LIABILITIES

	2020 RMB'000	2019 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 lessee.

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

26. BANK LOANS

	2020 RMB'000	2019 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.

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

	2020 RMB'000	2019 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 RMB'000	2019 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.

27. 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.

28. 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.

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 CSRC 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 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.

29. 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.

30. 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 RMB'000	Inventories RMB'000 (Note a)	Total 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

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.

30. DEFERRED TAX ASSETS/LIABILITIES (continued)

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.

31. 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.

32. SHARE AWARD SCHEME

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

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

The expenses in relation to the share awards will be charged to profit or loss over the relevant vesting periods with a corresponding increase in equity.

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

33. 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

34. CAPITAL COMMITMENTS

	2020 **RMB'000**	2019 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of – acquisition of property, plant and equipment	**767,658**	399,694

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2020 RMB'000	2019 RMB'000
Financial assets		
Equity instruments at FVTOCI	**352,006**	350,740
Financial assets at amortised cost	**11,484,543**	10,020,431
Financial liabilities		
Derivative financial instruments	**39,116**	15,812
Financial liabilities at amortised cost	**15,144,397**	13,793,923
Lease liabilities	**810,730**	407,074

Financial risk management objectives and policies

The Group's major financial instruments include derivative financial instruments, equity instruments at FVTOCI, trade and other receivables, amounts due from (to) related companies, pledged bank deposits, bank balances and cash, trade and other payables, unsecured notes, bank loans, contingent settlement provision and lease liabilities. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in an effective manner. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Market risk

Currency risk – spot rates

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

It is the Group's policy to centralise foreign currency management to monitor the Group's total foreign currency exposure. 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 consider to monitor its anticipated foreign currency revenue and foreign currency monetary items with appropriate foreign exchange contracts.

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

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

	Assets		Liabilities	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
US$	**14,771,654**	12,919,302	**15,315,350**	11,909,258
Japanese Yen	**191,593**	166,397	**97,309**	120,280
Euro	**606,843**	581,722	**296,061**	299,360
HK$	**439,057**	478,687	**2,551**	244,396

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk – spot rates (continued)

The Group has entered into cross currency swap contracts in relation to the US$ denominated unsecured notes amounting to RMB326,245,000 (equivalent to US$50,000,000) (2019: Nil). It is the Group's policy to negotiate the terms of the hedge derivatives, to the extent possible, to match or approximate the terms of the hedged items to maximise hedge effectiveness.

Sensitivity analysis

The Group is mainly exposed to fluctuations in exchange rates of RMB against the US$, the Japanese Yen, Euro and HK$. The following details the Group's sensitivity to a 5% (2019: 5%) increase in RMB against the relevant foreign currencies which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items except for the effect on certain foreign currency denominated unsecured notes under an effective hedging relationship as the Group's net exposure to currency risk arising from the hedging relationship is insignificant and adjusts their translation at the year end for a 5% (2019: 5%) change in foreign currency rates. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive/negative number (in bracket) below indicates an increase/decrease in profit for the year where the RMB strengthen 5% (2019: 5%) against the relevant currency and vice versa. For a 5% (2019: 5%) weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	Impact	
	2020	2019
	RMB'000	RMB'000
Increase (decrease) in profit for the year		
US$	**20,389**	(37,877)
Japanese Yen	**(3,536)**	(1,729)
Euro	**(11,654)**	(10,589)
HK$	**(16,369)**	(8,786)

No sensitivity analysis has been presented for derivatives that are designated as hedging instruments because the Group's net exposure to currency risk arising from the hedging relationship is considered to be insignificant.

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

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits, lease liabilities, fixed-rate bank loans, unsecured notes and contingent settlement provision (details of which are set out in notes 23, 25, 26, 27 and 28, respectively). The bank deposits and the majority of the fixed-rate bank loans will mature within one year, the management considers the risk is insignificant to the Group.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

The Group is also exposed to cash flow interest rate risk in relation to bank deposits carried interest at prevailing market deposit rate and floating-rate bank loans (details of which are set out in notes 23 and 26, respectively). In order to keep the Group's bank loans at fixed rates, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flows of certain bank loans. The critical terms of these interest rate swaps are the same to those of hedged bank loans. Interest rate swaps are designated as effective hedging instruments and hedge accounting is used (details of which are set out in note 19).

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates with alternative nearly risk-free rates. As listed in note 26, several of the Group's LIBOR and other relevant interbank offered rates bank loans may be subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates.

Sensitivity analysis

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

If interest rates had been 50 basis points (2019: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2020 would increase/decrease by RMB22,426,000 (2019: increase/decrease by RMB3,010,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans and bank balances.

Other price risk

The Group is exposed to equity price risk on its investments in listed equity securities at FVTOCI.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date. For sensitivity analysis of equity securities with fair value measurement categorised within Level 1, the sensitivity rate of 10% is applied in current year.

As at 31 December 2020, if the prices of the respective equity instruments had been 10% higher/lower, the investment revaluation reserve as at 31 December 2020 would increase/decrease by RMB4,801,000 (2019: RMB6,956,000) for the Group as a result of the changes in fair value of equity instruments at FVTOCI.

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

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

As at 31 December 2020 and 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

As at 31 December 2020, the Group has concentration of credit risk on total trade and bills receivables as 66.87% (2019: 72.84%) of the total trade and bills receivables are due from the Group's five largest customers. These five customers are large multi-national corporations and are mobile phone and/or consumer electronic companies. The management considers, based on the strong financial background, good creditability and repayment history of those debtors, there are no significant credit risks.

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for trade receivables.

Management assessed the expected loss on trade receivables with significant balances or credit-impaired balances and bill receivables individually by estimation based on historical credit loss experience, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

In determining the ECL for trade receivables with significant balances and bills receivables, the management considers the probability of default is negligible and loss given default is low based on the external credit rating of the customers and the bank issued bills, and accordingly, no loss allowance is made in the consolidated financial statement.

In determining the ECL for other receivables, the management has taken into account the historical default experience and forward-looking information, as appropriate, for example, the Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in the Group's outstanding other receivables is insignificant.

In addition, the management is of the opinion that there has no default occurred for trade receivables balance as at 31 December 2019 in which past due 90 days or more and the balances are still considered fully recoverable due to long term/on-going relationship and good repayment record from these customers. No trade receivables balance as at 31 December 2020 is past due 90 days or more.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

As part of the Group's credit risk management, the Group applied internal credit rating for its customers. Other than the trade receivables with significant balances and bill receivables, the remaining balances of gross carrying amount of RMB497,538,000 (2019: RMB568,450,000) are grouped collectively based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtor. The management considers the historical default rate is low for these remaining balances which is not yet past due and accordingly, no loss allowances is made in the consolidated financial statements. The following table provides information about the exposure to credit risk and ECL for trade receivables which are past due and assessed collectively during the year.

For the year ended 31 December 2020

	Gross carrying amount RMB'000	Weighted average loss rate	Loss allowance RMB'000	Net carrying amount RMB'000
Trade receivables				
1 – 90 days past due	18,059	0.2%	(36)	18,023
	18,059		(36)	18,023

For the year ended 31 December 2019

	Gross carrying amount RMB'000	Weighted average loss rate	Loss allowance RMB'000	Net carrying amount RMB'000
Trade receivables				
1 – 90 days past due	70,227	0.04%	(31)	70,196
91 – 180 days past due	443	9.9%	(44)	399
Over 180 days past due	193	68.4%	(132)	61
	70,863		(207)	70,656

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. Such forward-looking information is used by the management to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management to ensure relevant information about specific debtors is updated.

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2019	1,227	20,213	21,440
Changes due to trade receivables recognised as at 1 January 2019			
– Impairment losses recognised	103	–	103
– Impairment losses reversed	(349)	–	(349)
New financial assets originated or purchased	136	–	136
Written off	(913)	–	(913)
Currency realignment	3	–	3
As at 31 December 2019 and 1 January 2020	**207**	**20,213**	**20,420**
Changes due to trade receivables recognised as at 1 January 2020			
– Transferred to credit-impaired	**(10)**	**10**	**–**
– Impairment losses recognised	**–**	**23**	**23**
– Impairment losses reversed	**(194)**	**–**	**(194)**
New financial assets originated or purchased	**38**	**–**	**38**
Currency realignment	**(5)**	**–**	**(5)**
As at 31 December 2020	**36**	**20,246**	**20,282**

For amounts due from related companies, in order to minimise the credit risk, the management continuously monitors the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In the opinion of the management, the risk of default by these counterparties is not significant and the Group assessed that the ECL on these balances are insignificant in accordance with IFRS 9 as at 31 December 2020 and 2019 and thus no impairment loss was recognised.

The management considers the bank balances that are deposited with the financial institutions with good credit rating to be low credit risk financial assets. The management considers the bank balances are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers, and accordingly, impairment loss was considered as insignificant.

Liquidity risk

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

35. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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

	Weighted average interest rate	On demand RMB'000	Less than 1 year RMB'000	1 – 2 years RMB'000	2 – 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31 December 2020								
Non-derivative financial liabilities								
Non-interest bearing	–	767,674	4,301,667	–	–	–	5,069,341	5,069,341
Variable interest rate	1.6%	–	1,458,618	527,539	–	–	1,986,157	1,958,971
Fixed interest rate	3.5%	–	2,059,200	1,769,401	3,030,602	93,799	6,953,002	6,444,273
Contingent settlement provision	4.0%	–	–	–	1,856,960	–	1,856,960	1,671,812
Lease liabilities	4.4%	–	510,540	111,032	115,062	141,394	878,028	810,730
		767,674	8,330,025	2,407,972	5,002,624	235,193	16,743,488	15,955,127
Derivatives – gross settlement								
Interest rate swap contracts								
– inflow		–	(11,315)	(5,976)	–	–	(17,291)	(17,270)
– outflow		–	27,795	11,374	–	–	39,169	39,118
		–	16,480	5,398	–	–	21,878	21,848
Cross currency swap contracts								
– inflow		–	(9,975)	(10,159)	(372,906)	–	(393,040)	(380,511)
– outflow		–	18,317	18,317	382,870	–	419,504	397,779
		–	8,342	8,158	9,964	–	26,464	17,268
At 31 December 2019								
Non-derivative financial liabilities								
Non-interest bearing	–	614,055	4,768,694	–	–	–	5,382,749	5,382,749
Variable interest rate	3.8%	–	349,444	933,791	565,915	–	1,849,150	1,736,646
Fixed interest rate	3.7%	–	1,717,382	1,755,005	3,502,138	405,276	7,379,801	6,674,528
Lease liabilities	4.5%	–	112,767	102,139	139,174	115,522	469,602	407,074
		614,055	6,948,287	2,790,935	4,207,227	520,798	15,081,302	14,200,997
Derivatives – gross settlement								
Interest rate swap contracts								
– inflow		–	(38,066)	(23,440)	(9,960)	–	(71,466)	(70,297)
– outflow		–	45,803	29,717	12,161	–	87,681	86,109
		–	7,737	6,277	2,201	–	16,215	15,812

36. 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	Fair value as at 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.	The higher the discount rate, the lower the fair value, and vice versa.
					Forecasted future cash flows	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.	The higher the lack of marketability discount, the lower the fair value.
					TTM P/S multiples of selected comparable companies.	The higher the TTM P/S multiples, the higher the fair value.

36. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

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

Financial liabilities	Fair value as at 2020 RMB'000	Fair value as at 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.

36. 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**

37. CAPITAL RISK MANAGEMENT

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

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

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

38. RETIREMENT BENEFITS SCHEME

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

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

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

39. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere in the consolidated financial statements, during the year, the Group had the following significant transactions with related parties, all of which are transacted with entities controlled by close family members of substantial shareholders of the Company. The substantial shareholders are also Directors of the Company.

Nature of balances/transactions	2020 RMB'000	2019 RMB'000
Purchase of raw materials	80,662	128,702
Services fee recharged	1,265	1,829
Property rentals received	1,555	1,558
Consulting fee	–	226
Payment for lease liabilities	25,199	24,878
Interest on lease liabilities	2,693	555
Leases liabilities	49,955	–
	US$'000	US$'000
Payment for lease liabilities	161	161

Emoluments paid to the key management personnel of the Company which represents the executive Directors of the Company and the five highest paid individuals, are set out in note 9.

Balances with related parties are disclosed in note 22.

40. PRINCIPAL SUBSIDIARIES

(a) General information of subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2020 and 31 December 2019, are as follows:

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
Wholly-owned subsidiary in 2020 and 2019			
AAC Acoustic Technologies Inc.*	British Virgin Islands	Registered capital US$50,000	Investment holding
AAC Technologies Pte. Ltd.#	Singapore	Shares SGD500,000	Sale of products, research and development
AAC Technologies Vietnam Co., Ltd. (Note a)#	Vietnam	Registered capital US$6,500,000	Manufacture and sales of products

40. PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
Wholly-owned subsidiary in 2020 and 2019 (continued)			
香港遠宇電子有限公司 YEC Electronics Limited#	Hong Kong	Ordinary shares HK$10,000	Sales of acoustic related products
瑞聲科技(香港)有限公司 AAC Technologies Limited#	Hong Kong	Ordinary shares HK$10,000	Sales of acoustic related products, investment, research and development
瑞聲(中國)投資有限公司 AAC (China) Investment Co., Ltd. (Note b)#	PRC	Registered capital US$400,000,000	Investment holding
瑞泰(江蘇)投資有限公司 Ruitai (Jiangsu) Investment Co., Ltd. (Note c)#	PRC	Registered capital US$349,000,000 (2019: US$250,000,000)	Investment holding
瑞聲聲學科技(常州)有限公司 AAC Acoustic Technologies (Changzhou) Co., Ltd. (Note d)#	PRC	Registered capital US$8,000,000	Manufacture and sales of acoustic products, research and development
瑞聲光電科技(常州)有限公司 AAC Microtech (Changzhou) Co., Ltd. (Note f)#	PRC	Registered capital US$227,800,000 (2019: US$122,800,000)	Manufacture and sales of electronic components, research and development
瑞聲精密製造科技(常州)有限公司 AAC Module Technologies (Changzhou) Co., Ltd. (Note g)#	PRC	Registered capital US$336,800,000	Manufacture and sales of tooling and precision components, research and development
瑞聲開泰精密科技(常州)有限公司 AAC Kaitai Precision Technologies (Changzhou) Co., Ltd. (Note h)#	PRC	Registered capital US$120,000,000	Manufacture and sales of electronic components research and development
常州美歐電子有限公司 American Audio Components (Changzhou) Co., Ltd. (Note i)#	PRC	Registered capital US$23,000,000	Manufacture and sales of precision components and acoustic products, research and development
常州泰瑞美電鍍科技有限公司 Changzhou Tairuimei Electroplating Technology Co., Ltd. (Note j)#	PRC	Registered capital RMB69,000,000	Provision of electroplating service

40. PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
Wholly-owned subsidiary in 2020 and 2019 (continued)			
瑞聲科技(沭陽)有限公司 AAC Technologies (Shuyang) Co., Ltd. (Note k)#	PRC	Registered capital US$49,000,000 (2019: US$9,000,000)	Manufacture and sales of precision components for acoustic products, research and development
瑞聲科技信息諮詢(常州)有限公司 AAC Technology Information Consultancy (Changzhou) Co., Ltd. (Note r)#	PRC	Registered capital US$574,296,000	Investment holding
瑞聲精密電子沭陽有限公司 AAC Precision Electronics Shuyang Co., Ltd. (Note l)#	PRC	Registered capital US$104,980,000	Manufacture and sales of electronics related accessories and components, research and development
沭陽瑞泰科技有限公司 Shuyang Ruitai Technologies Co., Ltd. (Note m)#	PRC	Registered capital US$292,000,000	Manufacture and sales of electronic components, research and development
瑞聲開泰(深圳)科技發展有限公司 AAC Kaitai (Shenzhen) Sci-Tech Development Co., Ltd. (Note o)#	PRC	Registered capital RMB275,952,000	Sales of products
瑞聲聲學科技(深圳)有限公司 AAC Acoustic Technologies (Shenzhen) Co., Ltd. (Note p)#	PRC	Registered capital US$141,580,000	Manufacture and sales of acoustic products, research and development
瑞泰精密 (南寧) 科技有限公司 AAC Raytech Module (Nanning) Technologies Co., Ltd. (Note q)#	PRC	Registered capital US$100,000,000	Manufacture and sales of products
Non-wholly owned subsidiary in 2020			
誠瑞光學(常州)股份有限公司 AAC Optics (Changzhou) Co., Ltd. (Notes e&s)	PRC	Registered capital RMB6,768,896,000 (2019: US$362,000,000)	Manufacture and sales of optics products, research and development
誠瑞光學(蘇州)有限公司 AAC Optics (Suzhou) Co., Ltd. (Notes n&s)	PRC	Registered capital RMB1,417,503,000	Manufacture and sales of optics and electronic components, research and development

40. PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Notes:

(a) Wholly-owned foreign enterprise commencing from 20 September 2013 to 19 December 2052.
(b) Wholly-owned foreign enterprise for a term of 30 years commencing from 13 November 2012.
(c) Wholly-owned foreign enterprise for a term of 30 years commencing from 20 September 2016.
(d) Wholly-owned foreign enterprise for a term of 50 years commencing from 28 September 2003.
(e) Non-wholly owned PRC enterprise commencing from 31 December 2008. The name had been changed from 瑞聲通訊科技(常州)有限公司 AAC Communication Technologies (Changzhou) Co., Ltd. to 誠瑞光學(常州)股份有限公司AAC Optics (Changzhou) Co., Ltd. on 27 September 2020.
(f) Wholly-owned foreign enterprise for a term of 50 years commencing from 13 April 2006.
(g) Wholly-owned foreign enterprise for a term of 20 years commencing from 8 May 2007.
(h) Wholly-owned foreign enterprise for a term of 20 years commencing from 29 July 2013. The name had been changed from瑞聲光學科技(常州)有限公司 AAC Optics Technologies (Changzhou) Co., Ltd. to 瑞聲開泰精密科技(常州)有限公司 AAC Kaitai Precision Technologies (Changzhou) Co., Ltd. on 8 June 2020.
(i) Wholly-owned foreign enterprise for a term of 30 years commencing from 28 January 2000.
(j) Wholly-owned foreign enterprise for a term of 20 years commencing from 11 April 2005.
(k) Wholly-owned foreign enterprise for a term of 20 years commencing from 8 November 2006.
(l) Wholly-owned foreign enterprise for a term of 20 years commencing from 13 June 2010.
(m) Wholly-owned foreign enterprise for a term of 20 years commencing from 24 September 2015.
(n) Non-wholly owned PRC enterprise for a term of 35 years commencing from 6 April 2004. The name had been changed from 瑞聲光電科技(蘇州)有限公司 AAC Optronics Technologies (Suzhou) Co., Ltd. to 誠瑞光學(蘇州)有限公司 AAC Optics (Suzhou) Co., Ltd. on 27 October 2020.
(o) Wholly-owned foreign enterprise for a term of 10 years commencing from 29 August 2013.
(p) Wholly-owned foreign enterprise for a term of 20 years commencing from 12 January 2004.
(q) Wholly-owned foreign enterprise for a term of 20 years commencing from 29 November 2017. The name had been changed from 瑞聲精密 (南寧) 科技有限公司 to 瑞泰精密 (南寧) 科技有限公司 on 25 March 2020.
(r) Wholly-owned foreign enterprise for a term of 20 years commencing from 10 October 2019.
(s) The subsidiaries are non-wholly owned enterprise from July 2020 and the Group's interests had been diluted from 100% to 82.02% during the year, excluding share incentive scheme of AAC Optics.

* Directly wholly-owned subsidiary
\# Indirectly wholly-owned subsidiary

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

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

40. PRINCIPAL SUBSIDIARIES (continued)

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

Name of subsidiary	Country of Establishment/ operations	Proportion of ownership interests and voting rights held by the Group		Loss attributable to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	2020	2019	2020	2019
				RMB'000	RMB'000	RMB'000	RMB'000
AAC Optics	PRC	82.02%*	100%	(5,503)	–	652,471	–
Individually immaterial subsidiaries with non-controlling interests				(176)	(1)	9,623	9,799
				(5,679)	(1)	662,094	9,799

* Details of change in ownership interest in subsidiaries are disclosed in note 28, excluding share incentive scheme of AAC Optics.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Unsecured notes RMB'000	Bank loans RMB'000	Consideration payable in relation to acquisition of additional interests in subsidiaries RMB'000	Lease liabilities RMB'000	Dividend payable RMB'000	Interest payable RMB'000	Contingent settlement provision RMB'000	Total RMB'000
At 1 January 2019	–	5,920,361	11,676	75,291	2	10,545	–	6,017,875
Bank loans raised	–	3,234,355	–	–	–	–	–	3,234,355
Repayment of bank loans	–	(3,497,570)	–	–	–	–	–	(3,497,570)
Foreign exchange translation	(20,710)	62,061	192	6,537	–	–	–	48,080
Amortisation of upfront fee for bank loans	–	6,492	–	–	–	–	–	6,492
Issuance of unsecured notes	2,706,185	–	–	–	–	–	–	2,706,185
Consideration paid	–	–	(11,868)	–	–	–	–	(11,868)
Addition of lease liabilities	–	–	–	458,554	–	–	–	458,554
Repayment of lease liabilities	–	–	–	(133,308)	–	–	–	(133,308)
Dividend declared	–	–	–	–	1,530,919	–	–	1,530,919
Dividend paid	–	–	–	–	(1,530,919)	–	–	(1,530,919)
Payment to derivative financial instrument	–	–	–	–	–	(49,217)	–	(49,217)
Receipt for derivative financial instrument	–	–	–	–	–	50,218	–	50,218
Finance costs	–	–	–	12,337	–	235,873	–	248,210
Interest paid	–	–	–	(12,337)	–	(232,880)	–	(245,217)
At 31 December 2019	**2,685,475**	**5,725,699**	**–**	**407,074**	**2**	**14,539**	**–**	**8,832,789**
Bank loans raised	**–**	**2,460,154**	**–**	**–**	**–**	**–**	**–**	**2,460,154**
Repayment of bank loans	**–**	**(2,103,695)**	**–**	**–**	**–**	**–**	**–**	**(2,103,695)**
Foreign exchange translation	**(173,727)**	**(196,885)**	**–**	**(4,130)**	**–**	**–**	**(198)**	**(374,940)**
Addition of lease liabilities	**–**	**–**	**–**	**558,748**	**–**	**–**	**–**	**558,748**
Repayment of lease liabilities	**–**	**–**	**–**	**(150,962)**	**–**	**–**	**–**	**(150,962)**
Dividend declared	**–**	**–**	**–**	**–**	**106,807**	**–**	**–**	**106,807**
Dividend paid	**–**	**–**	**–**	**–**	**(106,807)**	**–**	**–**	**(106,807)**
Transfer from equity (note 28)	**–**	**–**	**–**	**–**	**–**	**–**	**1,658,000**	**1,658,000**
Payment to derivative financial instrument	**–**	**–**	**–**	**–**	**–**	**(56,488)**	**–**	**(56,488)**
Receipt for derivative financial instrument	**–**	**–**	**–**	**–**	**–**	**25,687**	**–**	**25,687**
Finance costs	**–**	**6,223**	**–**	**27,333**	**–**	**304,992**	**14,010**	**352,558**
Interest paid	**–**	**–**	**–**	**(27,333)**	**–**	**(272,489)**	**–**	**(299,822)**
At 31 December 2020	**2,511,748**	**5,891,496**	**–**	**810,730**	**2**	**16,241**	**1,671,812**	**10,902,029**

Consideration payable in relation to acquisition of additional interests in subsidiaries, interest payable and dividend payable are included in other payables and accruals in note 24.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTE	2020 RMB'000	2019 RMB'000
Non-current assets			
Interests in subsidiaries		**1,171,857**	1,171,857
Current assets			
Other receivables		**4,877**	6,546
Amounts due from subsidiaries		**3,007,050**	2,906,026
Bank balances and cash		**35,979**	419,433
		3,047,906	3,332,005
Current liabilities			
Other payables		**(22,626)**	(12,371)
Government grants		**(448)**	–
		(23,074)	(12,371)
Net current assets		**3,024,832**	3,319,634
Total assets less current liabilities		**4,196,689**	4,491,491
Non-current liabilities			
Unsecured notes		**(2,511,748)**	(2,685,475)
Government grants		**(1,306)**	–
		(2,513,054)	(2,685,475)
Net assets		**1,683,635**	1,806,016
Capital and reserves			
Share capital	31	**98,135**	98,135
Reserves		**1,585,500**	1,707,881
		1,683,635	1,806,016

Movement of reserves

	Share premium RMB'000	Treasury shares RMB'000	Special reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2019	36,438	(79,202)	33,428	1,726,111	1,716,775
Profit and total comprehensive income for the year	–	–	–	1,798,710	1,798,710
Dividend declared	–	–	–	(1,530,919)	(1,530,919)
Shares repurchased	–	(277,456)	–	–	(277,456)
Shares cancelled	(36,438)	356,658	–	(319,449)	771
At 31 December 2019	**–**	**–**	**33,428**	**1,674,453**	**1,707,881**
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**(15,574)**	**(15,574)**
Dividend declared	**–**	**–**	**–**	**(106,807)**	**(106,807)**
At 31 December 2020	**–**	**–**	**33,428**	**1,552,072**	**1,585,500**

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of AAC Technologies Holding Inc. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 95 to 171, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matters
Inventory costing and estimated allowance of inventories	
We identified inventory costing and the estimated allowance of inventories as a key audit matter due to the fact that inventories and the related cost of goods sold are significant to the consolidated financial statements as a whole as well as the use of judgement and estimates by the management in estimating the allowance of inventories. Cost of inventories are determined on a weighted average method and management reviews the inventory costing on a regular basis to ensure accuracy. In respect of the allowance of inventories the management determines the allowance with reference to the aging analysis and the estimated net realisable value for obsolete and/or slow-moving inventory items that are no longer suitable for use in operation at the end of each reporting period (refer to notes 4 and 21 to the consolidated financial statements). As at 31 December 2019, the carrying amount of the Group's inventories was RMB3,664,056,000. During the year, the Group recognised and charged an allowance for obsolete inventories of RMB41,527,000 to the consolidated statement of profit or loss and other comprehensive income. Details of the Group's inventories are set out in note 21 to the consolidated financial statements.	Our procedures in relation to inventory costing and estimated allowance of inventories included: • Obtaining an understanding on how costing of inventories is determined and calculated and how management estimates the allowance of obsolete and slow-moving inventory items; • Understanding the key controls relating to the costing of inventories, identification of aged and obsolete inventories and preparation of aging analysis of inventories; • Reperforming the calculations of the costing of inventories on a sample basis and agreeing to source documents; • Obtaining the inventory aging analysis and agreeing its classification by age on a sample basis, to source documents; • Evaluating the reasonableness of the allowance of obsolete and/or slow-moving inventories as identified from the inventory aging analysis; and • Testing subsequent sales or usage of inventories on a sample basis.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For The Year Ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5	**17,883,757**	18,131,153
Cost of goods sold		**(12,776,765)**	(11,388,078)
Gross profit		**5,106,992**	6,743,075
Other income, gains and losses		**246,991**	236,556
Gain on final settlement of earn-out consideration	17	**–**	147,830
Fair value gain (loss) on financial assets at fair value through profit or loss	17	**19,234**	(118,881)
Distribution and selling expenses		**(275,329)**	(316,521)
Administrative expenses		**(642,803)**	(649,856)
Research and development costs		**(1,717,251)**	(1,512,160)
Exchange gain (loss)		**62,798**	(1,853)
Finance costs	6	**(248,210)**	(217,888)
Profit before taxation	7	**2,552,422**	4,310,302
Taxation	9	**(330,048)**	(514,417)
Profit for the year		**2,222,374**	3,795,885
Other comprehensive income (expense):			
Item that will not be subsequently reclassified to profit or loss:			
Fair value changes on equity instruments at fair value through other comprehensive income		**76,479**	(10,479)
Items that may be subsequently reclassified to profit or loss:			
Fair value changes on derivative financial instruments		**(24,631)**	4,449
(Gain) loss reclassified to profit or loss on hedged items		**(1,001)**	1,268
Exchange differences arising on translation of foreign operations		**(47,742)**	49,796
Total comprehensive income for the year		**2,225,479**	3,840,919
Profit (loss) for the year attributable to:			
Owners of the Company		**2,222,375**	3,795,885
Non-controlling interests		**(1)**	–
		2,222,374	3,795,885
Total comprehensive income (expense) attributable to:			
Owners of the Company		**2,225,480**	3,840,919
Non-controlling interests		**(1)**	–
		2,225,479	3,840,919
Earnings per share – Basic	11	**RMB1.84**	RMB3.11

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	12	**16,910,713**	15,440,039
Right-of-use assets	13	**1,071,912**	–
Goodwill	14	**164,350**	164,350
Prepaid lease payments	15	**–**	622,362
Deposits made for acquisition of property, plant and equipment		**454,527**	1,085,904
Investment properties	16	**13,660**	14,854
Equity instruments at fair value through other comprehensive income	17	**350,740**	178,684
Intangible assets	18	**433,884**	366,607
Derivative financial instruments	20	**–**	11,153
		19,399,786	17,883,953
Current assets			
Inventories	21	**3,664,056**	3,319,480
Trade and other receivables	22	**5,576,036**	4,474,213
Financial assets at fair value through profit or loss	17	**–**	22,426
Amounts due from related companies	23	**3,622**	4,991
Taxation recoverable		**40,718**	35,509
Pledged bank deposits	24	**11,100**	2,100
Bank and other balances and cash	24	**5,511,974**	4,126,494
		14,807,506	11,985,213
Current liabilities			
Trade and other payables	25	**5,474,116**	4,548,240
Contract liabilities	25	**10,271**	8,673
Lease liabilities	26	**96,742**	–
Amounts due to related companies	23	**75,354**	62,468
Taxation payable		**178,169**	204,880
Bank loans	27	**1,876,094**	3,492,507
		7,710,746	8,316,768
Net current assets		**7,096,760**	3,668,445
Total assets less current liabilities		**26,496,546**	21,552,398

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Bank loans	27	**3,849,605**	2,427,854
Unsecured notes	28	**2,685,475**	–
Government grants	29	**208,938**	117,779
Lease liabilities	26	**310,332**	–
Deferred tax liabilities	30	**65,392**	71,669
Derivative financial instruments	20	**15,812**	998
		7,135,554	2,618,300
Net assets		**19,360,992**	18,934,098
Capital and reserves			
Share capital	31	**98,135**	98,906
Reserves		**19,253,058**	18,835,192
Equity attributable to owners of the Company		**19,351,193**	18,934,098
Non-controlling interests		**9,799**	–
Total equity		**19,360,992**	18,934,098

The consolidated financial statements on pages 95 to 171 were approved and authorised for issue by the Board of Directors on 25 March 2020 and are signed on its behalf by:

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

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2019

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Non-distributable reserve RMB'000	PRC statutory reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interest RMB'000	Total RMB'000
At 1 January 2018	99,231	234,771	–	1,135	23,391	(30,841)	436,545	87,245	468,892	4,438	16,226,133	17,550,940	–	17,550,940
Effect of adoption of new standard of IFRS 9	–	–	–	–	–	–	(407,428)	–	–	–	407,428	–	–	–
	99,231	234,771	–	1,135	23,391	(30,841)	29,117	87,245	468,892	4,438	16,633,561	17,550,940	–	17,550,940
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	–	49,796	–	–	–	–	–	49,796	–	49,796
Fair value changes on equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	(10,479)	–	–	–	–	(10,479)	–	(10,479)
Fair value changes on derivative financial instruments	–	–	–	–	–	–	–	–	–	4,449	–	4,449	–	4,449
Loss reclassified to profit or loss on hedged item	–	–	–	–	–	–	–	–	–	1,268	–	1,268	–	1,268
Profit for the year	–	–	–	–	–	–	–	–	–	–	3,795,885	3,795,885	–	3,795,885
Total comprehensive income (expense) for the year	–	–	–	–	–	49,796	(10,479)	–	–	5,717	3,795,885	3,840,919	–	3,840,919
Dividend declared	–	–	–	–	–	–	–	–	–	–	(2,179,901)	(2,179,901)	–	(2,179,901)
Shares repurchased	–	–	(277,860)	–	–	–	–	–	–	–	–	(277,860)	–	(277,860)
Shares cancelled	(325)	(198,333)	198,658	–	–	–	–	–	–	–	–	–	–	–
Transfers	–	–	–	–	–	–	–	–	244,996	–	(244,996)	–	–	–
At 31 December 2018	98,906	36,438	(79,202)	1,135	23,391	18,955	18,638	87,245	713,888	10,155	18,004,549	18,934,098	–	18,934,098
Effects on adoption of new standard (note 2)	–	–	–	–	–	–	–	–	–	–	(10)	(10)	–	(10)
At 1 January 2019 (restated)	98,906	36,438	(79,202)	1,135	23,391	18,955	18,638	87,245	713,888	10,155	18,004,539	18,934,088	–	18,934,088
Exchange differences arising from translation of financial statements of foreign operations	–	–	–	–	–	(47,742)	–	–	–	–	–	(47,742)	–	(47,742)
Fair value changes on equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	76,479	–	–	–	–	76,479	–	76,479
Fair value changes on derivative financial instruments	–	–	–	–	–	–	–	–	–	(24,631)	–	(24,631)	–	(24,631)
Gain reclassified to profit or loss on hedged item	–	–	–	–	–	–	–	–	–	(1,001)	–	(1,001)	–	(1,001)
Profit for the year	–	–	–	–	–	–	–	–	–	–	2,222,375	2,222,375	(1)	2,222,374
Total comprehensive (expense) income for the year	–	–	–	–	–	(47,742)	76,479	–	–	(25,632)	2,222,375	2,225,480	(1)	2,225,479
Dividend declared	–	–	–	–	–	–	–	–	–	–	(1,530,919)	(1,530,919)	–	(1,530,919)
Shares repurchased	–	–	(277,456)	–	–	–	–	–	–	–	–	(277,456)	–	(277,456)
Shares cancelled	(771)	(36,438)	356,658	–	–	–	–	–	–	–	(319,449)	–	–	–
Capital contribution from non-controlling shareholder of subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	9,800	9,800
Disposal of equity instrument at fair value through other comprehensive income	–	–	–	–	–	–	5,637	–	–	–	(5,637)	–	–	–
Transfers	–	–	–	–	–	–	–	–	174,992	–	(174,992)	–	–	–
At 31 December 2019	98,135	–	–	1,135	23,391	(28,787)	100,754	87,245	888,880	(15,477)	18,195,917	19,351,193	9,799	19,360,992

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

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

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

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

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Operating activities		
Profit before taxation	**2,552,422**	4,310,302
Adjustments for:		
Interest income	**(50,273)**	(36,840)
Finance costs	**248,210**	217,888
Depreciation of property, plant and equipment	**2,018,539**	1,713,557
Depreciation of right-of-use assets	**112,735**	–
Amortisation of intangible assets	**43,838**	36,236
Release of prepaid lease payments	**–**	12,639
Depreciation of investment property	**1,194**	1,195
Loss on disposal of property, plant and equipment	**2,149**	773
(Gain) loss on disposal of prepaid lease payments	**(65)**	5,530
Amortisation of upfront fee for bank loans	**6,492**	6,306
Amortisation of government grants	**(51,019)**	(15,627)
Gain on final settlement of earn-out consideration	**–**	(147,830)
Fair value (gain) loss on financial assets at fair value through profit or loss	**(19,234)**	118,881
(Reversal) allowance for impairment loss on trade receivables	**(110)**	16,785
Net allowance for obsolete inventories	**41,527**	60,566
Impairment losses recognised in respect of property, plant and equipment	**35,096**	9
Impairment losses recognised in respect of goodwill	**–**	3,098
Written off of a loan receivable	**–**	12,931
Operating cash flows before movements in working capital	**4,941,501**	6,316,399
(Increase) decrease in inventories	**(378,972)**	57,399
(Increase) decrease in trade and other receivables	**(1,075,537)**	2,828,777
Decrease (increase) in amounts due from related companies	**1,369**	(3,215)
Increase (decrease) in trade and other payables	**715,194**	(1,748,715)
Increase in amounts due to related companies	**8,407**	15,451
Increase (decrease) in contract liabilities	**1,598**	(510)
Cash generated from operations	**4,213,560**	7,465,586
Taxation paid	**(370,068)**	(676,286)
Net cash from operating activities	**3,843,492**	6,789,300

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Investing activities			
Government grants received relating to acquisitions of property, plant and equipment		**142,178**	46,244
Withdrawal of time deposits with original maturity over three months		**67,545**	–
Interest received		**48,135**	38,495
Proceeds from disposal of financial assets at fair value through profit or loss	17	**41,804**	737,374
Proceeds from disposal of property, plant and equipment		**30,761**	13,365
Withdrawal of pledged bank deposits		**2,100**	12,430
Proceeds from disposal of prepaid lease land		**561**	4,839
Acquisition of property, plant and equipment		**(1,544,236)**	(2,940,805)
Deposits paid for acquisition of property, plant and equipment		**(1,268,284)**	(1,085,904)
Placement of time deposits with original maturity over three months		**(697,620)**	(67,545)
Acquisition of equity instruments at fair value through other comprehensive income		**(92,696)**	(100,000)
Additions to intangible assets		**(88,749)**	(1,406)
Payments for right-of-use assets		**(20,352)**	–
Placement of pledged bank deposits		**(11,100)**	(5,502)
Settlement of consideration payable for acquisition of a business		**(4,083)**	–
Payments for rental deposits		**(549)**	–
Acquisition of a business	33	**–**	(155,079)
Prepaid rentals on prepaid lease payments		**–**	(106,289)
Settlement received on earn-out consideration		**–**	5,568
Proceeds from disposal of an available-for-sale investment in prior year		**–**	5,129
Net cash used in investing activities		**(3,394,585)**	(3,599,086)
Financing activities			
Bank loans raised		**3,234,355**	5,071,907
Proceed from issuance of unsecured notes		**2,706,185**	–
Receipt from derivative financial instruments		**50,218**	–
Capital contribution from a non-controlling shareholder of a subsidiary		**9,800**	–
Repayments of bank loans		**(3,497,570)**	(5,627,102)
Dividend paid		**(1,530,919)**	(2,181,600)
Repurchase of shares	31	**(277,456)**	(277,860)
Interest paid		**(232,880)**	(215,695)
Repayment of lease liabilities		**(145,645)**	–
Payment to derivative financial instruments		**(49,217)**	–
Acquisition of additional interests in subsidiaries		**(11,868)**	(16,488)
Net cash generated from (used in) financing activities		**255,003**	(3,246,838)

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Net increase (decrease) in cash and cash equivalents	**703,910**	(56,624)
Cash and cash equivalents at 1 January	**4,058,949**	4,034,082
Effect of foreign exchange rate changes	**51,495**	81,491
	4,814,354	4,058,949
Represented by:		
Bank balances and cash	**5,511,974**	4,126,494
Less: Time deposits with original maturity over three months	**(697,620)**	(67,545)
Cash and cash equivalents at 31 December	**4,814,354**	4,058,949

1. GENERAL

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

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 41.

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

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

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

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

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

2.1 IFRS 16 Leases

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

Definition of a lease

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

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

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

2.1 IFRS 16 Leases (continued)

As a lessee

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

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

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

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

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

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

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

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

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

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

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

2.1 IFRS 16 Leases (continued)

As a lessee (continued)

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

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

Notes:

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

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

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

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

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

2.1 IFRS 16 Leases (continued)

As a lessee (continued)

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

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

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

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

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2022

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

Amendments to IAS 1 and IAS 8 Definition of Material

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

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

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

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

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

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

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

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

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

The New Framework:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss.

Goodwill

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

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

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

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The revenue of the Group arising from sales of dynamic components, electromagnetic drives and precision mechanics, MEMS components and other products is recognised at a point in time. Under the transfer-of-control approach in IFRS 15, revenue from these sales is recognised when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits of these products.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of leasehold land and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

Except for short-term leases and lease of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Property, plant and equipment

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

Freehold land is measured at cost, less any recognised impairment loss.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

Effective 1 January 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of IFRS 16 and subleased by the Group under operating leases.

Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties and land over their estimated useful lives of 20 years and 50 years respectively and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Effective 1 January 2019, a leased property which is recognised as a right-of-use asset upon application of IFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property, which is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss in the period in which the property is derecognised.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application of IFRS 16) in the consolidated statement of financial position and is amortised over the lease term on a straight line basis. When the consideration cannot be allocated reliably between non-lease building elements and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Borrowing costs

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

Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 "Business Combinations" applies.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income ("OCI") and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, gains and losses" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI nor designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, loan receivable, pledged bank deposits, bank balances and amounts due from related companies). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on trade receivables are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(ii) Definition of default

The Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Derecognition of financial assets

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

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

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity and recognised as treasury shares. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instrument.

Financial liabilities at amortised cost

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivative financial instruments

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

Hedge accounting

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

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Cash flow hedges

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

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

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Hedge accounting (continued)

Discontinuation of hedge accounting (continued)

Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Derecognition of financial liabilities

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

Intangible assets

Intangible assets acquired separately

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

Internally generated intangible assets – research and development expenditure

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets acquired in a business combination

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

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

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

Impairment on property, plant and equipment, right-of-use assets and intangible assets (other than goodwill)

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

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

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

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

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

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Government grants

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

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

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

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

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

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

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

Provisions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs

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

Short-term employee benefits

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated allowance of inventories

Management reviews the inventories aging listing at the end of each reporting period, and makes allowance for obsolete and/or slow-moving inventory items identified that are no longer suitable for use in operation. Estimation of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. Where the net realisable value is less than the cost, a material impairment may arise. As at 31 December 2019, the carrying amount of inventories was RMB3,664,056,000 (2018: RMB3,319,480,000) and an allowance of RMB41,527,000 (2018: RMB60,566,000) was recognised in the profit or loss during the year ended 31 December 2019.

5. REVENUE AND SEGMENT INFORMATION

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

Information reported to the CEO for the purposes of resource allocation and assessment of performances focuses specifically on the type of products sold. This is also the basis upon which the Group is organised and managed. The Group's operating and reportable segments under IFRS 8 are dynamic components (including acoustic modules (formerly known as miniature speaker modules), acoustic unit (formerly known as receivers and speakers)), electromagnetic drives and precision mechanics, MEMS components and other products (including optics, traditional microphones and headsets), which represent the major types of products manufactured and sold by the Group. Revenues from these products is recognised at the point in time when controls of the products had transferred.

5. REVENUE AND SEGMENT INFORMATION (continued)

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

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

Information regarding these segments is presented below.

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

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

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

5. REVENUE AND SEGMENT INFORMATION (continued)

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

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

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned by each segment without allocation of finance costs, interest income, administration expenses, research and development costs, distribution and selling expenses, other income, gains and losses, gain on final settlement of earn-out consideration, fair value gain (loss) on financial assets at fair value through profit or loss and exchange gain (loss). This is the measure reported to the CEO for the purpose of resource allocation and performance assessment.

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

5. REVENUE AND SEGMENT INFORMATION (continued)

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

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

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

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

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

6. FINANCE COSTS

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

7. PROFIT BEFORE TAXATION

	2019 RMB'000	2018 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments (note 8)	16,185	16,485
Other staff's retirement benefits scheme contributions	421,275	483,266
Other staff costs	4,187,564	3,922,881
Total staff costs	4,625,024	4,422,632
Less: Staff costs included in research and development costs	(873,928)	(906,782)
	3,751,096	3,515,850
Depreciation of property, plant and equipment	2,018,539	1,713,557
Less: Depreciation included in research and development costs	(282,279)	(237,065)
	1,736,260	1,476,492
Allowance for obsolete inventories, included in cost of goods sold (note 21)	41,527	60,566
Amortisation of intangible assets	43,838	36,236
Amortisation of upfront fee for bank loans	6,492	6,306
Auditor's remuneration	3,319	3,148
Cost of inventories recognised as expense	12,735,238	11,327,512
Cost of raw materials included in research and development costs	250,248	46,047
Depreciation of right-of-use assets	112,735	–
Depreciation of investment property	1,194	1,195
Written off of a loan receivable (note 19)	–	12,931
Impairment losses recognised in respect of goodwill (note 14)	–	3,098
Impairment losses recognised in respect of property, plant and equipment, included in other income, gains and losses (note 12)	35,096	9
Loss on disposal of property, plant and equipment	2,149	773
(Gain) loss on disposal of prepaid lease payments	(65)	5,530
(Reversal of) allowance for impairment loss on trade receivables	(110)	16,785
Short-term and low value asset leases expense	24,818	N/A
Operating lease rentals in respect of		
– building premises	N/A	52,312
– machineries	N/A	10,698
– others	N/A	2,810
Release of prepaid lease payments	N/A	12,639
Government grants*	(163,843)	(135,266)
Interest income	(50,273)	(36,840)
Rental income	(13,714)	(13,443)

* Included in the amount is RMB51,019,000 (2018: RMB15,627,000) representing amortisation of government grants. The remaining amount mainly represents the incentives granted by the PRC local authorities to the Group for engaging in High Technology business, employment of expatriates and technologically advanced staff. All the grants were approved and received during the year of recognition.

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

The aggregate Directors' and chief executive's remuneration for the year ended 31 December 2019 amounts to RMB16,185,000 (2018: RMB16,485,000), disclosed pursuant to the applicable Listing Rules and CO, are as follows:

For the year ended 31 December 2019:

	Pan Benjamin Zhengmin ("Mr. Pan") RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
Executive Directors			
Fees	–	–	–
Other emoluments:			
Salaries and other benefits	4,812	2,250	7,062
Performance related bonuses	–	4,455	4,455
Retirement benefits scheme contributions	–	16	16
Total Directors' emoluments	4,812	6,721	11,533

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

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

	Wu Ingrid Chun Yuan ("Ms. Wu") RMB'000	Total RMB'000
Non-executive Director		
Fees	411	411
Other emoluments:		
Salaries and other benefits	–	–
Performance related bonuses	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	411	411

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

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

For the year ended 31 December 2019: (continued)

	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Au Siu Cheung Albert RMB'000	Kwok Lam Kwong Larry RMB'000	Peng Zhiyuan RMB'000 (Note i)	Zhang Hongjiang RMB'000 (Note i)	Tan Bian Ee RMB'000 (Note ii)	Total RMB'000
Independent non-executive Directors								
Fees	992	655	784	612	533	467	198	4,241
Other emoluments:								
Salaries and other benefits	–	–	–	–	–	–	–	–
Performance related bonuses	–	–	–	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–	–	–	–
Total Directors' emoluments	992	655	784	612	533	467	198	4,241

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

Notes:

(i) Mr. Peng Zhiyuan and Mr. Zhang Hongjiang were appointed as independent non-executive Directors of the Company on 1 January 2019.

(ii) Mr. Tan Bian Ee retired on 24 May 2019.

For the year ended 31 December 2018:

	Mr. Pan RMB'000	Mok Joe Kuen Richard RMB'000	Total RMB'000
Executive Directors			
Fees	–	–	–
Other emoluments:			
Salaries and other benefits	4,536	2,165	6,701
Performance related bonuses	–	5,814	5,814
Retirement benefits scheme contributions	–	15	15
Total Directors' emoluments	4,536	7,994	12,530

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

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

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

For the year ended 31 December 2018: (continued)

	Ms. Wu RMB'000	Total RMB'000
Non-executive Director		
Fees	466	466
Other emoluments:		
Salaries and other benefits	–	–
Performance related bonuses	–	–
Retirement benefits scheme contributions	–	–
Total Director's emolument	466	466

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

	Koh Boon Hwee RMB'000	Poon Chung Yin Joseph RMB'000	Tan Bian Ee RMB'000	Chang Carmen I-Hua RMB'000 (Note i)	Au Siu Cheung Albert RMB'000 (Note ii)	Kwok Lam Kwong Larry RMB'000 (Note ii)	Total RMB'000
Independent non-executive Directors							
Fees	1,056	698	489	186	579	481	3,489
Other emoluments:							
Salaries and other benefits	–	–	–	–	–	–	–
Performance related bonuses	–	–	–	–	–	–	–
Retirement benefits scheme contributions	–	–	–	–	–	–	–
Total Directors' emoluments	1,056	698	489	186	579	481	3,489

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

Notes:

(i) Ms. Chang Carmen I-Hua retired on 28 May 2018.

(ii) Mr. Au Siu Cheung Albert and Mr. Kwok Lam Kwong Larry were both appointed as independent non-executive Directors of the Company during the year ended 31 December 2018.

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

Employees' emoluments

The five highest paid individuals included one (2018: one) Director of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2018: four) highest paid individuals are as follows:

	2019	2018
	RMB'000	RMB'000
Employees		
– basic salaries and allowances	**7,139**	6,866
– bonus	**17,718**	22,183
– retirement benefits scheme contributions	**70**	70
	24,927	29,119

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

The emoluments were within the following bands:

	Number of employees	
	2019	2018
HK$6,000,001 to HK$6,500,000	**2**	–
HK$6,500,001 to HK$7,000,000	**1**	–
HK$7,000,001 to HK$7,500,000	**–**	–
HK$7,500,001 to HK$8,000,000	**–**	1
HK$8,000,001 to HK$8,500,000	**–**	1
HK$8,500,001 to HK$9,000,000	**1**	–
HK$9,000,001 to HK$9,500,000	**–**	2

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

9. TAXATION

	2019 RMB'000	2018 RMB'000
The current tax charge (credit) comprises:		
PRC Enterprise Income Tax	226,057	393,111
Other jurisdictions	109,893	133,208
Hong Kong Profits Tax	2,931	383
PRC withholding tax	6,376	–
Overprovision of taxation in prior years	(8,831)	(9,527)
	336,426	517,175
Deferred tax (see note 30)	(6,378)	(2,758)
	330,048	514,417

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

According to a joint circular of Ministry of Finance and the State Taxation Administration of the PRC, Cai Shui 2008 No. 1, the accumulated undistributed profits earned by foreign invested enterprise prior to 1 January 2008 can be exempted from EIT when they are distributed to foreign investor after 2008. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to EIT at 10% and withheld by the PRC subsidiary, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Implementation Regulation. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to the Taxes on Income, the withholding tax rate on dividend paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise and it is considered as the beneficial owner of the dividend, and remains at 10% otherwise.

In addition, certain PRC subsidiaries were officially endorsed as High and New Technology Enterprises ("HNTE") till the dates ranging from 31 October 2020 to 22 November 2022. Pursuant to the EIT Law, those PRC subsidiaries endorsed as HNTE shall be entitled to a preferential tax rate of 15% till the expiry of the HNTE status for the respective PRC subsidiaries.

Pursuant to relevant laws and regulations in Singapore, one of the Group's subsidiaries is entitled to a concessionary tax rate under Development and Expansion Incentive program which is granted based on the fulfilment of carrying out qualifying business activities. This incentive program expired in 2018. Agreement for its extension on similar terms for another 10-year period after expiry has been signed, and is effective from 1 January 2019.

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

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

9. TAXATION (continued)

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

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

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

10. DIVIDENDS

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

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

11. EARNINGS PER SHARE

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

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

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Electronic equipment and furniture RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2018	38,137	2,022,351	1,470,316	1,119,139	63,357	12,662,919	1,280,321	18,656,540
Currency realignment	1,195	1,886	2,795	2,483	131	13,850	3,915	26,255
Additions	–	41,954	246,962	132,827	7,842	1,366,674	1,828,817	3,625,076
Disposals	–	–	(8,406)	(2,154)	(3,267)	(38,996)	(6,475)	(59,298)
Transfers	–	154,047	28,774	129,020	1,802	1,069,385	(1,383,028)	–
At 31 December 2018	39,332	2,220,238	1,740,441	1,381,315	69,865	15,073,832	1,723,550	22,248,573
Currency realignment	1,474	247	1,146	1,575	71	4,606	(68)	9,051
Additions	–	72,726	209,627	84,180	4,507	1,341,874	1,839,963	3,552,877
Disposals	–	(3,611)	(21,187)	(1,936)	(2,937)	(77,150)	(14,602)	(121,423)
Transfers	–	408,550	16,173	137,849	368	979,563	(1,542,503)	–
At 31 December 2019	40,806	2,698,150	1,946,200	1,602,983	71,874	17,322,725	2,006,340	25,689,078
DEPRECIATION AND IMPAIRMENT								
At 1 January 2018	–	284,305	728,992	554,251	30,418	3,527,535	4,648	5,130,149
Currency realignment	–	303	1,312	1,963	74	6,327	–	9,979
Provided for the year	–	99,252	204,255	199,688	9,292	1,201,070	–	1,713,557
Eliminated on disposal	–	–	(5,935)	(2,099)	(2,191)	(34,935)	–	(45,160)
Impairment losses (reversed) recognised in profit or loss	–	–	(121)	–	(1)	131	–	9
At 31 December 2018	–	383,860	928,503	753,803	37,592	4,700,128	4,648	6,808,534
Currency realignment	–	109	787	790	51	2,972	–	4,709
Provided for the year	–	115,006	241,793	231,835	9,064	1,420,841	–	2,018,539
Eliminated on disposal	–	(782)	(17,088)	(760)	(2,550)	(67,333)	–	(88,513)
Impairment losses recognised in profit or loss	–	–	1,721	–	2	33,373	–	35,096
At 31 December 2019	–	498,193	1,155,716	985,668	44,159	6,089,981	4,648	8,778,365
CARRYING VALUES								
At 31 December 2019	40,806	2,199,957	790,484	617,315	27,715	11,232,744	2,001,692	16,910,713
At 31 December 2018	39,332	1,836,378	811,938	627,512	32,273	10,373,704	1,718,902	15,440,039

During the year, the Group has reviewed the estimated useful life of its property, plant and equipment and has fully impaired certain property, plant and equipment with carrying value of RMB35,096,000 (2018: RMB131,000) due to termination of production on certain products that were not part of the Group's core business and due to replacement of some other machineries by more advanced models as part of the Group's automation plan. Reversal of impairment loss of RMB122,000 was made in the prior year (2019: nil), as certain property, plant and equipment which was fully impaired in previous years was put into use.

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

13. RIGHT-OF-USE ASSETS

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

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

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

The Group regularly entered into short-term leases for certain building premises, machineries, etc.

14. GOODWILL

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

	Note	**2019 RMB'000**	2018 RMB'000
北京東微世紀科技有限公司 (Eastmicro Technology (Beijing) Co., Ltd.)*		**–**	–
AAC Technologies Japan R&D Centre Co., Ltd. ("AAC Japan")		**–**	–
Kaleido Technology APS		**8,705**	8,705
WiSpry, Inc.		**77,414**	77,414
深圳市軒盈通電子有限公司 (Shenzhen Xuanyingtong electronics Co., Ltd.)*	33	**78,231**	78,231
		164,350	164,350

* The English translation is for identification purpose only.

14. GOODWILL (continued)

During the year ended 31 December 2019, the Directors of the Company determines that there is no impairment of the CGU containing goodwill.

The basis of the recoverable amounts of the CGU and its major underlying assumptions are summarised below:

The recoverable amount of the CGU is determined on the basis of value in use calculation. The recoverable amount is based on certain key assumptions. These calculations use cash flow projections based on latest financial budgets approved by management covering a five-year period, using an applicable pre-tax discount rate ranging from 14.35% to 16.40% (2018: 13.37% to 16.60%). The cash flows beyond the five-year period are extrapolated using a steady growth rate of 3%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not result in significant impairment loss.

In the prior year, Eastmicro Technology (Beijing) Co., Ltd. had ceased all business operation. Therefore, an impairment loss on goodwill of RMB1,750,000 was recognised.

Also, in the prior year, an impairment loss on goodwill of RMB1,348,000 in respect of AAC Japan was recognised due to the poor development of the business in that market.

15. PREPAID LEASE PAYMENTS

In the prior year, the majority amount represents the prepayment of rentals for medium-term land use rights situated in the PRC for a period of 50 years. Prepaid lease payments has been reclassified to right-of-use assets on adoption of IFRS 16 at 1 January 2019.

16. INVESTMENT PROPERTIES

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

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

(i) Equity instruments at FVTOCI

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

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

Unlisted shares

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

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

Listed shares

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

(ii) Financial assets at FVTPL

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

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

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

18. INTANGIBLE ASSETS

	Patents RMB'000	Development expenditure RMB'000	Customer base RMB'000	Total RMB'000
COST				
At 1 January 2018	250,725	159,901	–	410,626
Currency realignment	3,603	6,549	–	10,152
Acquisition of a business	–	–	113,800	113,800
Addition	24,723	–	–	24,723
At 31 December 2018	**279,051**	**166,450**	**113,800**	**559,301**
Currency realignment	**151**	**2,250**	**–**	**2,401**
Addition	**109,679**	**–**	**–**	**109,679**
At 31 December 2019	**388,881**	**168,700**	**113,800**	**671,381**
AMORTISATION AND IMPAIRMENT				
At 1 January 2018	106,446	48,341	–	154,787
Currency realignment	308	1,363	–	1,671
Provided for the year	16,653	12,471	7,112	36,236
At 31 December 2018	**123,407**	**62,175**	**7,112**	**192,694**
Currency realignment	**278**	**687**	**–**	**965**
Provided for the year	**19,497**	**12,961**	**11,380**	**43,838**
At 31 December 2019	**143,182**	**75,823**	**18,492**	**237,497**
CARRYING VALUE				
At 31 December 2019	**245,699**	**92,877**	**95,308**	**433,884**
At 31 December 2018	155,644	104,275	106,688	366,607

Patents represent the Group's patents on designs of small and sophisticated module structures, and new addition mainly represent method to measure and control the displacement of the diaphragm. Development expenditure represents the Group's development cost in MEMS technology and wafer-level glass moulding technology which are used to enhance the Group's current products. Customer base represents Group's customer relationship acquired by the Group as part of a business combination in the prior year (details set out in note 33).

Amortisation is provided to write off the cost of patents, development expenditure and customer base, using the straight line method, over the estimated useful life ranging from 5 to 20 years.

19. LOAN RECEIVABLE

In prior year, the Group has agreed with the former non-controlling shareholder to waive its right to enforce payment of the loan receivable, net of the consideration payable due to the former non-controlling shareholder of RMB6,863,000. As a result, the loan receivable net of the consideration payable of RMB12,931,000 was written off.

20. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The hedges were highly effective in hedging cash flow exposure to interest rate movements. Net adjustments on cash flow hedges of loss of RMB25,632,000 for the year ended 31 December 2019 (2018: gain of RMB5,717,000) have been recognised in OCI and accumulated in equity. The management expected the accumulated sum is to be released to profit or loss at various dates in the coming maturity periods after the reporting period.

Included in borrowings as disclosed in note 27 were bank loans of RMB1,395,242,000 (2018: RMB1,372,639,000) which were under cash flow hedges and the major terms of the interest rate swap contracts under cash flow hedges at the end of the reporting period are as follows:

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

* LIBOR represents London Interbank Offered Rate.

The above derivatives are measured at fair value. The classification of the measurement of the above derivatives at 31 December 2019 is Level 2 under the fair value hierarchy (details set out in note 37).

21. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	882,277	804,842
Work in progress	689,547	311,861
Finished goods	2,092,232	2,202,777
	3,664,056	3,319,480

The Group has written off provision for obsolete inventories of RMB42,765,000 (2018: RMB18,586,000) in the current year.

During the year, allowance for obsolete inventories of approximately RMB41,527,000 (2018: RMB60,566,000) has been recognised and included in cost of goods sold.

22. TRADE AND OTHER RECEIVABLES

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

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

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

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

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 days to 120 days of issuance. The Group accepts bank acceptance and commercial bills with maturities ranging from 30 to 180 days at the end of the credit terms in lieu of immediate cash payment.

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

Details of impairment assessment of trade and other receivables for the years ended 31 December 2019 and 2018 are set out in note 36.

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

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

23. AMOUNTS DUE FROM (TO) RELATED COMPANIES

Amounts due from related companies

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

Name of related company	2019 RMB'000	2018 RMB'000
深圳市遠宇實業發展有限公司 (Shenzhen Yuanyu Industrial Development Co., Ltd.)*	1,680	1,680
四川茵地樂科技有限公司 (Sichuan Yindile Technology Co., Ltd.)*	1,575	2,665
四川茵地樂材料科技集團有限公司 (Sichuan Yindile Materials & Technology Group Co., Ltd.)*	367	584
常州中科來方能源發展有限公司 (Changzhou Zhongke Laifang Power Development Co., Ltd.)*	–	61
常州遠宇精密模具製造有限公司 (Changzhou Yuanyu Precise Model Manufacturing Co., Ltd.)*	–	1
	3,622	4,991

* The English translation is for identification purpose only.

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

Amounts due to related companies

Details of amounts due to related companies are stated as follows:

Name of related company	2019 RMB'000	2018 RMB'000
常州市武進湖塘何家紅光沖件廠 (Wujin Hutang Hejia Hongguang Stamping Factory)*	59,922	46,691
常州市友晟電子有限公司 (Changzhou Yousheng Electronics Co., Ltd.)*	14,082	11,652
紅光越南塑業有限公司 (Hongguang Viet Nam Plastic Co., Ltd.)*	1,350	3,853
四川茵地樂材料科技集團有限公司 (Sichuan Yindile Materials & Technology Group Co., Ltd.)*	–	271
常州遠宇精密模具製造有限公司 (Changzhou Yuanyu Precise Model Manufacturing Co., Ltd.)*	–	1
	75,354	62,468

* The English translation is for identification purpose only.

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

24. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

Deposit amounting to RMB11,100,000 (2018: RMB2,100,000) has been pledged to secure credit facilities granted to certain subsidiaries which is expected to be repaid within one year.

As at 31 December 2019, included in bank balances and cash is a balance of time deposits with original maturity over three months of RMB697,620,000 (2018: RMB67,545,000).

The bank balances carry variable interest rates ranging from 0.00% to 2.34% (2018: 0.00% to 2.317%) per annum and fixed interest rates ranging from 1.10% to 2.41% (2018: 1.10% to 2.025%) per annum. The pledged bank deposits carry fixed interest rates of 1.35% to 1.75% (2018: 0.30% to 1.75%) per annum.

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

	Pledged bank deposits		Bank balances and cash	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**–**	–	**1,462,868**	1,096,175
HK$	**–**	–	**72,639**	171,824
Japanese Yen	**–**	–	**17,874**	48,538
Euro	**–**	–	**56,816**	20,178
Other currencies	**–**	–	**15,193**	22,839

25. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Trade and other payables

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

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

25. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES (continued)

Trade and other payables (continued)

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

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

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

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

Contract liabilities

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

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

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

26. LEASE LIABILITIES

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

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

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

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

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

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

27. BANK LOANS

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

27. BANK LOANS (continued)

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

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

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

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

28. UNSECURED NOTES

The amount represents US$388,000,000 unsecured notes at a fixed coupon rate of 3.00% 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.

29. GOVERNMENT GRANTS

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

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

30. DEFERRED TAX LIABILITIES

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

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

At 31 December 2019, the Group has unrecognised deferred tax liability in relation to PRC withholding tax on undistributed earnings in certain of its PRC subsidiaries, as it is the intention of the management to retain the earnings within these subsidiaries.

At the end of the reporting period, certain subsidiaries of the Group has unused tax losses of RMB1,507,528,000 (2018: RMB1,121,048,000) available for offset against future profits. These losses may be carried forward for five years to year 2024 (2018: year 2023) from the year when the losses are incurred. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

31. SHARE CAPITAL

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

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

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

32. SHARE AWARD SCHEME

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

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

The expenses in relation to the share awards will be charged to profit or loss over the relevant vesting periods with a corresponding increase in equity.

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

33. ACQUISITION OF A BUSINESS

Acquisition of 深圳市軒盈通電子有限公司 ("Xuanyingtong")

On 17 May 2018, the Group completed the acquisition of the entire registered capital of Xuanyingtong for a consideration of RMB164,131,000.

Consideration transferred as at date of acquisition

	RMB'000
Total consideration	164,131
Less: Consideration payable	(4,083)
Cash paid at date of acquisition	160,048

Acquisition-related costs amounting to RMB177,000 have been excluded from the cost of acquisition and have been recognised directly as an expense and included in the "administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised on 17 May 2018 (date of acquisition) are as follows:

	RMB'000
Intangible assets	113,800
Inventories	4,870
Trade and other receivables	137,149
Bank balances and cash	4,969
Trade and other payables	(146,438)
Deferred tax liability	(28,450)
	85,900

Net cash outflow on acquisition:	
Total consideration	(164,131)
Consideration payable, included in other payables	4,083
Cash and cash equivalents acquired	4,969
	(155,079)

Goodwill arising on acquisition:	
Purchase consideration	164,131
Less: Fair value of identified net assets acquired	(85,900)
	78,231

33. ACQUISITION OF A BUSINESS (continued)

Acquisition of 深圳市軒盈通電子有限公司 ("Xuanyingtong") (continued)

The fair value of the intangible assets acquired was estimated by applying an income approach. The key model inputs used in determining the fair value were discount rate of 16.6% and long-term sustainable growth rate of 3%.

The fair value of trade and other receivables at the date of acquisition amounted to RMB137,149,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB137,149,000 at the date of acquisition. All contractual receivables at acquisition date are expected to be recoverable.

Goodwill arose in the acquisition of Xuanyingtong because the cost of acquisition includes a control premium. In addition, the consideration paid for the acquisition effectively included an amount in relation to the benefit of expected synergies and revenue growth of Xuanyingtong. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising from this acquisition was not expected to be deductible for tax purposes.

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 December 2018 is a profit of RMB23,238,000 attributable to Xuanyingtong. Revenue for the year ended 31 December 2018 includes RMB373,057,000 attributable to Xuanyingtong.

Had the acquisition of Xuanyingtong been completed on 1 January 2018, the total amount of revenue of the Group for the year ended 31 December 2018 would have been RMB18,341,598,000 and the amount of the profit for the year ended 31 December 2018 would have been RMB3,795,030,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the period, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Xuanyingtong been acquired at the beginning of the period, the management has calculated amortisation of intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements of Xuanyingtong.

34. OPERATING LEASE COMMITMENTS

The Group as a lessee

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

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

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

The Group as a lessor

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

Minimum lease payments receivable on leases are as follows:

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

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

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

35. CAPITAL COMMITMENTS

	2019 **RMB'000**	2018 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of – acquisition of property, plant and equipment	**399,694**	732,453

36. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Derivative financial instruments	–	11,153
Financial assets at FVTPL	–	22,426
Equity instruments at FVTOCI	350,740	178,684
Financial assets at amortised cost	10,020,430	7,779,705
Financial liabilities		
Derivative financial instruments	15,812	998
Financial liabilities at amortised cost	13,793,923	10,400,210
Lease liabilities	407,074	N/A

Financial risk management objectives and policies

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

Market risk

Currency risk – spot rates

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

It is the Group's policy to centralise foreign currency management to monitor the Group's total foreign currency exposure. 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 consider to monitor its anticipated foreign currency revenue and foreign currency monetary items with appropriate foreign exchange contracts.

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

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

	Assets		Liabilities	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
US$	12,919,302	10,254,703	11,909,258	9,217,249
Japanese Yen	166,397	134,431	120,280	81,064
Euro	581,722	22,109	299,360	9,103
HK$	478,687	571,364	244,396	238,967

36. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk – spot rates (continued)

Sensitivity analysis

The Group is mainly exposed to fluctuations in exchange rates of RMB against the US$, the Japanese Yen, Euro and HK$. The following details the Group's sensitivity to a 5% (2018: 5%) increase in RMB against the relevant foreign currencies which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2018: 5%) change in foreign currency rates. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A negative number (in bracket) below indicates a decrease in profit for the year where the RMB strengthen 5% (2018: 5%) against the relevant currency and vice versa. For a 5% (2018: 5%) weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	Impact	
	2019	2018
	RMB'000	RMB'000
Decrease in profit for the year		
US$	**(37,877)**	(38,905)
Japanese Yen	**(1,729)**	(2,001)
Euro	**(10,589)**	(488)
HK$	**(8,786)**	(12,465)

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

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits, lease liabilities, fixed-rate bank loans and fixed rate unsecured notes (details of which are set out in notes 24, 26, 27 and 28). The bank deposits and the majority of the fixed-rate bank loans will mature within one year, the management considers the risk is insignificant to the Group.

The Group is also exposed to cash flow interest rate risk in relation to bank deposits carried interest at prevailing market deposit rate and floating-rate bank loans (details of which are set out in notes 24 and 27). In order to keep the Group's bank loans at fixed rates, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flows of certain bank loans. The critical terms of these interest rate swaps are the same to those of hedged bank loans. Interest rate swaps are designated as effective hedging instruments and hedge accounting is used (details of which are set out in note 20).

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

36. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

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

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2019 would increase/decrease by RMB4,230,000 (2018: increase/decrease by RMB10,137,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans and bank balances.

Other price risk

The Group is exposed to equity price risk on its investments in listed equity securities at FVTPL/FVTOCI.

Sensitivity analysis

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

As at 31 December 2019, if the prices of the respective equity instruments had been 10% higher/lower, the profit for the year ended 31 December 2019 and the investment revaluation reserve as at 31 December 2019 would increase/decrease by RMB0 (2018: RMB2,243,000) and RMB6,956,000 (2018: RMB3,743,000), respectively for the Group as a result of the changes in fair value of financial assets at FVTPL and equity instruments at FVTOCI respectively.

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

Credit risk and impairment assessment

As at 31 December 2019 and 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

36. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

As at 31 December 2019, the Group has concentration of credit risk on total trade and bills receivables as 72.84% (2018: 69.91%) of the total trade and bills receivables are due from the Group's five largest customers. These five customers are large multi-national corporations and are mobile phone and/or consumer electronic companies. The management considers, based on the strong financial background, good creditability and repayment history of those debtors, there are no significant credit risks.

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for trade receivables.

Management assessed the expected loss on trade and bills receivables individually by estimation based on historical credit loss experience, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

In addition, the management is of the opinion that there has no default occurred for trade receivables past due 90 days or more and the balances are still considered fully recoverable due to long term/on-going relationship and good repayment record from these customers.

As part of the Group's credit risk management, the Group applied internal credit rating for its customers. The Group's trade and bills receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtor. The following table provides information about the exposure to credit risk and ECL for trade and bills receivables which are assessed collectively based on provision matrix during the year.

For the year ended 31 December 2019

	Gross carrying amount RMB'000	Weighted average loss rate	Loss allowance RMB'000	Net carrying amount RMB'000
Trade and bills receivables				
1 – 90 days past due	70,227	0.04%	(31)	70,196
91 – 180 days past due	443	9.9%	(44)	399
Over 180 days past due	193	68.4%	(132)	61
	70,863		(207)	70,656

36. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

For the year ended 31 December 2018

	Gross carrying amount RMB'000	Weighted average loss rate	Loss allowance RMB'000	Net carrying amount RMB'000
Trade and bills receivables				
1 – 90 days past due	59,900	0.4%	(260)	59,640
91 – 180 days past due	1,382	10.0%	(138)	1,244
Over 180 days past due	944	87.8%	(829)	115
	62,226		(1,227)	60,999

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. Such forward-looking information is used by the management to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management to ensure relevant information about specific debtors is updated.

The following table shows the movement in lifetime ECL that has been recognised for trade and bills receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	**Lifetime ECL (credit-impaired) RMB'000**	**Total RMB'000**
As at 1 January 2018	–	4,623	4,623
Impairment losses recognised	1,227	15,558	16,785
Currency realignment	–	32	32
As at 31 December 2018 and 1 January 2019	**1,227**	**20,213**	**21,440**
Changes due to trade and bills receivables recognised as at 1 January 2019			
– impairment losses recognised	**103**	**–**	**103**
New financial assets originated or purchased	**136**	**–**	**136**
Impairment losses reversed	**(349)**	**–**	**(349)**
Written off	**(913)**	**–**	**(913)**
Currency realignment	**3**	**–**	**3**
As at 31 December 2019	**207**	**20,213**	**20,420**

36. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

In determining the ECL for other receivables, the management has taken into account the historical default experience and forward-looking information, as appropriate, for example, the Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in the Group's outstanding other receivables is insignificant.

For amounts due from related companies, in order to minimise the credit risk, the management continuously monitors the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In the opinion of the management, the risk of default by these counterparties is not significant and the Group assessed that the ECL on these balances are insignificant in accordance with IFRS 9 as at 31 December 2019 and 2018 and thus no impairment loss was recognised.

The management considers the bank balances that are deposited with the financial institutions with good credit rating to be low credit risk financial assets. The management considers the bank balances are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers, and accordingly, impairment loss was considered as insignificant.

Liquidity risk

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

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

	Weighted average interest rate	On demand RMB'000	Less than 1 year RMB'000	1 - 2 years RMB'000	2 - 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31 December 2019								
Non-derivative financial liabilities								
Non-interest bearing	–	614,055	4,768,694	–	–	–	5,382,749	5,382,749
Variable interest rate	3.8%	–	349,444	933,791	565,915	–	1,849,150	1,736,646
Fixed interest rate	3.7%	–	1,830,149	1,857,144	3,641,312	520,798	7,849,403	7,081,602
		614,055	6,948,287	2,790,935	4,207,227	520,798	15,081,302	14,200,997
Derivatives – gross settlement								
interest rate swap contracts								
– inflow		–	(38,066)	(23,440)	(9,960)	–	(71,466)	(70,297)
– outflow		–	45,803	29,717	12,161	–	87,681	86,109
		–	7,737	6,277	2,201	–	16,215	15,812

36. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted average interest rate	On demand RMB'000	Less than 1 year RMB'000	1 - 2 years RMB'000	2 - 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31 December 2018								
Non-derivative financial liabilities								
Non-interest bearing	–	626,095	3,853,754	–	–	–	4,479,849	4,479,849
Variable interest rate	3.5%	–	318,081	371,035	735,380	–	1,424,496	1,322,827
Fixed interest rate	4.0%	–	3,238,939	422,720	1,134,067	–	4,795,726	4,597,534
		626,095	7,410,774	793,755	1,869,447	–	10,700,071	10,400,210
Derivatives – gross settlement								
interest rate swap contracts								
– inflow		–	(26,895)	(24,682)	(20,537)	–	(72,114)	(69,432)
– outflow		–	26,727	25,198	21,251	–	73,176	70,430
		–	(168)	516	714	–	1,062	998

37. 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.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

37. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

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

Financial assets	Fair value as at 2019 RMB'000	Fair value as at 2018 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	– Assets (under hedge accounting)	11,153 Assets (under hedge accounting)	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at an applicable discount rate taking into account the credit risk of the counter- parties and of the Group as appropriate.	N/A	N/A
Equity instruments at FVTOCI – Listed shares	69,559	37,429	Level 1	Quoted bid prices in an active market.	N/A	N/A
Financial assets at FVTPL – Listed shares	–	22,426	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity instruments at FVTOCI – Unquoted equity investments	6,920	12,409	Level 3	Income approach. The discounted cash flow method was used to capture future economic benefits to be derived from the ownership of these investments.	Discount rate, taking into account of weighted average cost of capital determined using a Capital Asset Pricing Model.	The higher the discount rate, the lower the fair value, and vice versa.
					Forecasted future cash flows.	The higher the forecast cash flow, the higher the fair value, and vice versa.
Equity instruments at FVTOCI – Unquoted equity investments	92,696	–	N/A (Note)			
Equity instruments at FVTOCI – Unquoted equity investments	181,565	128,846	Level 3	Market approach. The market approach was used to determine the valuation using trailing-twelve-month ("TTM") Price-to-Sales ("P/S") multiples of selected comparable listed companies in a similar business and similar business model and adjusted for the lack of marketability.	The lack of marketability discount.	The higher the lack of marketability discount, the lower the fair value.
					TTM P/S multiples of selected comparable companies.	The higher the TTM P/S multiples, the higher the fair value.

37. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

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

Financial liabilities	Fair value as at 2019 RMB'000	Fair value as at 2018 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	**15,812 Liabilities (under hedge accounting)**	998 Liabilities (under hedge accounting)	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at an applicable discount rate taking into account the credit risk of the counter- parties and of the Group as appropriate.	N/A	N/A

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

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

Reconciliation of level 3 fair value measurements

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

38. CAPITAL RISK MANAGEMENT

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

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

38. CAPITAL RISK MANAGEMENT (continued)

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

39. RETIREMENT BENEFITS SCHEME

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

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

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

40. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere in the consolidated financial statements, during the year, the Group had the following significant transactions with related parties, all of which are transacted with entities controlled by close family members of substantial shareholders of the Company. The substantial shareholders are also Directors of the Company.

Nature of transactions	**2019** **RMB'000**	2018 RMB'000
Purchase of raw materials	**128,702**	121,712
Sales of raw materials	**1,829**	1,457
Property rentals paid	**–**	24,860
Property rentals paid for leases liabilities	**24,878**	–
Property rentals received	**1,558**	1,562
Consulting fee	**226**	–
	US$'000	US$'000
Property rentals paid	**–**	184
Property rentals paid for leases liabilities	**175**	–

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

Balances with related parties are disclosed in note 23.

41. PRINCIPAL SUBSIDIARIES

(a) General information of subsidiaries

Details of the Company's principal subsidiaries, all of which are wholly-owned subsidiaries of the Group as at 31 December 2019 and 31 December 2018, are as follows:

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
AAC Acoustic Technologies Inc.*	British Virgin Islands	Registered capital – US$50,000	Investment
AAC Technologies Pte. Ltd.#	Singapore	Ordinary Shares – SGD500,000	Sale of products, research and development
AAC Technologies Vietnam Co., Ltd. (Note a)#	Vietnam	Registered capital – US$6,500,000	Manufacture and sales of products
香港遠宇電子有限公司 YEC Electronics Limited#	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products
瑞聲科技(香港)有限公司 AAC Technologies Limited (Note r)#	Hong Kong	Ordinary shares – HK$10,000	Sales of acoustic related products, investment, research and development
瑞聲(中國)投資有限公司 AAC (China) Investment Co., Ltd. (Note b)#	PRC	Registered capital – US$400,000,000	Investment
瑞泰(江蘇)投資有限公司 Ruitai (Jiangsu) Investment Co., Ltd. (Note c)#	PRC	Registered capital – US$250,000,000	Investment
瑞聲聲學科技(常州)有限公司 AAC Acoustic Technologies (Changzhou) Co., Ltd. (Note d)#	PRC	Registered capital – US$8,000,000	Manufacture and sales of acoustic products, research and development
瑞聲通訊科技(常州)有限公司 AAC Communication Technologies (Changzhou) Co., Ltd. (Note e)#	PRC	Registered capital – US$362,000,000 (2018: US$168,000,000)	Manufacture and sales of products, research and development
瑞聲光電科技(常州)有限公司 AAC Microtech (Changzhou) Co., Ltd. (Note f)#	PRC	Registered capital – US$122,800,000	Manufacture and sales of electronic components, research and development
瑞聲精密製造科技(常州)有限公司 AAC Module Technologies (Changzhou) Co., Ltd. (Note g)#	PRC	Registered capital – US$336,800,000 (2018: US$276,800,000)	Manufacture and sales of tooling and precision components, research and development

41. PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Name of subsidiary	Country of establishment/ operations	Nominal value of issued and fully paid share/ registered capital	Principal activities
瑞聲光學科技(常州)有限公司 AAC Optics Technologies (Changzhou) Co., Ltd. (Note h)#	PRC	Registered capital – US$120,000,000	Manufacture and sales of electronic components, research and development
常州美歐電子有限公司 American Audio Components (Changzhou) Co., Ltd. (Note i)#	PRC	Registered capital – US$23,000,000	Manufacture and sales of precision components and acoustic products, research and development
常州泰瑞美電鍍科技有限公司 Changzhou Tairuimei Electroplating Technology Co., Ltd. (Note j)#	PRC	Registered capital – RMB69,000,000	Provision of electroplating service
瑞聲科技(沭陽)有限公司 AAC Technologies (Shuyang) Co., Ltd. (Note k)#	PRC	Registered capital – US$9,000,000	Manufacture and sales of precision components for acoustic products, research and development
瑞聲精密電子沭陽有限公司 AAC Precision Electronics Shuyang Co., Ltd. (Note l)#	PRC	Registered capital – US$104,980,000	Manufacture and sales of electronics related accessories and components, research and development
沭陽瑞泰科技有限公司 Shuyang Ruitai Technologies Co., Ltd. (Note m)#	PRC	Registered capital – US$292,000,000	Manufacture and sales of electronic components, research and development
瑞聲光電科技(蘇州)有限公司 AAC Optronics Technologies (Suzhou) Co., Ltd. (Note n)#	PRC	Registered capital – RMB1,417,503,000 (2018: US$187,000,000)	Manufacture and sales of electronic components, research and development
瑞聲開泰(深圳)科技發展有限公司 AAC Kaitai (Shenzhen) Sci-Tech Development Co., Ltd. (Note o)#	PRC	Registered capital – RMB275,952,000 (2018: US$40,000,000)	Sales of products
瑞聲聲學科技(深圳)有限公司 AAC Acoustic Technologies (Shenzhen) Co., Ltd. (Note p)#	PRC	Registered capital – US$141,580,000 (2018: US$100,000,000)	Manufacture and sales of acoustic products, research and development
瑞泰精密(南寧)科技有限公司 AAC Raytech Module (Nanning) Technologies Co., Ltd. (Note q)#	PRC	Registered capital – US$100,000,000	Manufacture and sales of products

41. PRINCIPAL SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Notes:

(a) Wholly-owned foreign enterprise commencing 20 September 2013 to 19 December 2052.
(b) Wholly-owned foreign enterprise for a term of 30 years commencing 13 November 2012.
(c) Wholly-owned foreign enterprise for a term of 30 years commencing 20 September 2016.
(d) Wholly-owned foreign enterprise for a term of 50 years commencing 28 September 2003.
(e) Wholly-owned foreign enterprise for a term of 20 years commencing 31 December 2008.
(f) Wholly-owned foreign enterprise for a term of 50 years commencing 13 April 2006.
(g) Wholly-owned foreign enterprise for a term of 20 years commencing 8 May 2007.
(h) Wholly-owned foreign enterprise for a term of 20 years commencing 29 July 2013.
(i) Wholly-owned foreign enterprise for a term of 30 years commencing 28 January 2000.
(j) Wholly-owned foreign enterprise for a term of 20 years commencing 11 April 2005.
(k) Wholly-owned foreign enterprise for a term of 20 years commencing 8 November 2006.
(l) Wholly-owned foreign enterprise for a term of 20 years commencing 13 June 2010.
(m) Wholly-owned foreign enterprise for a term of 20 years commencing 24 September 2015.
(n) Wholly-owned foreign enterprise for a term of 35 years commencing 6 April 2004.
(o) Wholly-owned foreign enterprise for a term of 10 years commencing 29 August 2013.
(p) Wholly-owned foreign enterprise for a term of 20 years commencing 12 January 2004.
(q) Wholly-owned foreign enterprise for a term of 20 years commencing 29 November 2017. The name had been changed from 瑞聲科技(南寧)有限公司 to 瑞聲精密(南寧)科技有限公司 on 29 October 2019, and changed to 瑞泰精密(南寧)科技有限公司 on 25 March 2020.
(r) The name of the subsidiary had been changed from AAC Acoustic Technologies Limited to AAC Technologies Limited on 13 August 2019.

Indirectly wholly-owned subsidiary
* Directly wholly-owned subsidiary

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

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

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

There were no material non-controlling interest in aggregate or individually as at 31 December 2018 and 31 December 2019.

(c) Change in ownership interest in subsidiaries

During the year ended 31 December 2017, the Group had acquired additional interests in Mems Technology Pte. Ltd. increasing its equity interests from 60% to 100%.

In the prior year, partial consideration of RMB16,488,000 was paid and an amount of RMB6,863,000 was offset against loan receivable (details as set out in note 19). During the year ended 31 December 2019, the remaining consideration of RMB11,868,000 had been paid.

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Unsecured notes RMB'000	Bank loans RMB'000	Consideration payable in relation to acquisition of additional interests in subsidiaries RMB'000	Lease liabilities RMB'000	Dividend payable RMB'000	Interest payable RMB'000	Total RMB'000
At 1 January 2018	–	6,289,914	33,348	–	1,701	8,352	6,333,315
Bank loans raised	–	5,071,907	–	–	–	–	5,071,907
Repayment of bank loans	–	(5,627,102)	–	–	–	–	(5,627,102)
Foreign exchange translation	–	179,336	1,679	–	–	–	181,015
Amortisation of upfront fee for bank loans	–	6,306	–	–	–	–	6,306
Loan receivable offset	–	–	(6,863)	–	–	–	(6,863)
Consideration paid	–	–	(16,488)	–	–	–	(16,488)
Dividend declared	–	–	–	–	2,179,901	–	2,179,901
Dividend paid	–	–	–	–	(2,181,600)	–	(2,181,600)
Finance costs	–	–	–	–	–	217,888	217,888
Interest paid	–	–	–	–	–	(215,695)	(215,695)
At 31 December 2018	–	5,920,361	11,676	–	2	10,545	5,942,584
Effect of adoption of new standard of IFRS 16	–	–	–	75,291	–	–	75,291
At 1 January 2019	–	5,920,361	11,676	75,291	2	10,545	6,017,875
Bank loans raised	–	3,234,355	–	–	–	–	3,234,355
Repayment of bank loans	–	(3,497,570)	–	–	–	–	(3,497,570)
Foreign exchange translation	(20,710)	62,061	192	6,537	–	–	48,080
Amortisation of upfront fee for bank loans	–	6,492	–	–	–	–	6,492
Issuance of unsecured notes	2,706,185	–	–	–	–	–	2,706,185
Consideration paid	–	–	(11,868)	–	–	–	(11,868)
Addition of lease liabilities	–	–	–	458,554	–	–	458,554
Repayment of lease liabilities	–	–	–	(145,645)	–	–	(145,645)
Dividend declared	–	–	–	–	1,530,919	–	1,530,919
Dividend paid	–	–	–	–	(1,530,919)	–	(1,530,919)
Payment to derivative financial instrument	–	–	–	–	–	(49,217)	(49,217)
Receipt for derivative financial instrument	–	–	–	–	–	50,218	50,218
Finance costs	–	–	–	12,337	–	235,873	248,210
Interest paid	–	–	–	–	–	(232,880)	(232,880)
At 31 December 2019	2,685,475	5,725,699	–	407,074	2	14,539	8,832,789

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

43. EVENTS AFTER REPORTING PERIOD

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

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

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTE	**2019** **RMB'000**	2018 RMB'000
Non-current assets			
Interests in subsidiaries		**1,171,857**	1,171,857
Current assets			
Other receivables		**6,546**	5,621
Amounts due from subsidiaries		**2,906,026**	483,856
Bank balances and cash		**419,433**	155,866
		3,332,005	645,343
Current liabilities			
Other payables		**(12,371)**	(1,519)
Net current assets		**3,319,634**	643,824
Total assets less current liabilities		**4,491,491**	1,815,681
Non-current liabilities			
Unsecured notes		**(2,685,475)**	–
Net assets		**1,806,016**	1,815,681
Capital and reserves			
Share capital	31	**98,135**	98,906
Reserves		**1,707,881**	1,716,775
		1,806,016	1,815,681

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Movement of reserves

	Share premium RMB'000	Treasury shares RMB'000	Special reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018	234,771	–	33,428	1,943,918	2,212,117
Profit and total comprehensive income for the year	–	–	–	1,962,094	1,962,094
Dividend declared	–	–	–	(2,179,901)	(2,179,901)
Shares repurchased	–	(277,860)	–	–	(277,860)
Shares cancelled	(198,333)	198,658	–	–	325
At 31 December 2018	**36,438**	**(79,202)**	**33,428**	**1,726,111**	**1,716,775**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**1,798,710**	**1,798,710**
Dividend declared	**–**	**–**	**–**	**(1,530,919)**	**(1,530,919)**
Shares repurchased	**–**	**(277,456)**	**–**	**–**	**(277,456)**
Shares cancelled	**(36,438)**	**356,658**	**–**	**(319,449)**	**771**
At 31 December 2019	**–**	**–**	**33,428**	**1,674,453**	**1,707,881**

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