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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)
(Stock code: 2018)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the "**Board**") of directors (the "**Director(s)**") of AAC Technologies Holdings Inc. ("**AAC Technologies**" or the "**Company**") is pleased to announce the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2021 together with the comparative figures for the corresponding period in 2020.

These consolidated financial statements have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu and the Company's audit and risk committee and approved by the Board on 23 March 2022.

2021 FINAL RESULTS HIGHLIGHTS:

(RMB Million)	**2021**	2020	*YoY%*	**Q4 2021**	Q4 2020	*YoY%*
Revenue	**17,667**	17,140	*+3.1%*	**4,812**	4,783	*+0.6%*
Gross Profit	**4,365**	4,227	*+3.3%*	**986**	1,342	*-26.6%*
Gross Profit Margin	***24.7%***	*24.7%*	-	***20.5%***	*28.1%*	*-7.6ppts*
Net Profit*	**1,316**	1,507	*-12.6%*	**212**	756	*-72.0%*
Net Profit Margin	***7.5%***	*8.8%*	*-1.3ppts*	***4.4%***	*15.8%*	*-11.4ppts*
Basic EPS (RMB)	**1.09**	1.25	*-12.5%*	**0.18**	0.63	*-71.8%*
Share Numbers (Weighted average, million)	**1,206**	1,209		**1,202**	1,209	

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

CEO STATEMENT

In 2021, the macro environment continued to be affected by the resurgence of pandemic which imposed challenges to the Company's development and profitability. However, while crisis brings challenges, it also brings along abundant business opportunities. In 2021, leveraging our strong market positioning in the smartphone sector, we successfully expanded the development of each product line into new markets as well as enhancing various areas such as corporate development strategy, organizational structure, research and development ("**R&D**") capabilities, corporate culture and talent acquisition. At present, solid progress has been achieved showing positive impacts. In the future, we will not merely be a supplier in the smartphone industry, but a comprehensive solution provider offering consumer-grade and user-experience-oriented products.

Leveraging our years of precision manufacturing technology and experience, we have achieved technological breakthroughs in several business segments. Through our integrated solutions and technological innovations, we have created more valued customers, increasing customer loyalty, and improving end-user experience. For example, with respect to precision acoustics, we have established high technological barriers across the industry with our SLS technology. With respect to the Optics segment, the application of WLG technology has enabled us to achieve a landmark breakthrough in the end market. With respect to the Electromagnet Drives segment, we have created a leading industry ecosystem and became the industry standard by providing our "software + hardware" integrated solutions.

Currently, our strategic markets include automotive, AR/VR, wearables, AIoT, TV, tablets and game consoles. In view of the rapidly evolving intelligent automotive market worldwide, the Company had started planning the expansion into this market since 2018. We officially entered into the automotive market in 2021 and established an independent business unit for operation. Regarding the Acoustics and Optics segments, the Company already owns a comprehensive solution for intelligent automobile, which provides customers with a portfolio of diverse products. Taking advantage of the investment cooperation with Ibeo and SWIR Vision, the Company has furthered its presence in the automotive industry, especially in the fields of automotive lens and Light Detection and Ranging ("**LiDAR**"). Foreseeing immense potential in the automotive segment, we are currently actively engaging Tier 1 automotive suppliers and domestic electric vehicle OEMs to crystalize further opportunities. As the Company's new diversified business strategy gradually takes shape, it can enhance risk diversification, in order to achieve a long-term, healthy business development.

In addition to automotive sector, we have also strengthened our strategic position in the growing wearables market. Recently, the Company and Dispelix, the leader in see-through waveguide displays for Augmented Reality ("**AR**") and Mixed Reality ("**MR**") wearables, jointly announced a strategic partnership. We will combine Dispelix' unique see-through optical waveguide technology with our expertise in large-scale, efficient operating experiences and highly complex wafer-level manufacturing technology to provide the highest quality waveguide displays solution with industry-leading appearance, image quality and clarity in order to satisfy the growing demand for AR & MR wearables globally.

Looking ahead to 2022, it could still be a year full of challenges. The pandemic continues to spread globally. Especially in China, the resurgence of COVID-19 may disrupt companies' normal operations because of pandemic prevention and control measures. Customer demand and supply chain may also be disrupted by geopolitical uncertainties. However, despite uncertainties in the industry and worldwide, we will monitor the market condition closely and continue to focus on customer needs in order to capture new opportunities and achieve sustainable development. We are committed to create more value for our customers through our "software + hardware" integrated solution, which helps enhance our product performance and differentiate ourselves in terms of end-user experience. We will continue to adhere to the core value of winning with talent. Through agile management and exceptional operation, we will continue to promote technological innovation, seize market opportunities, and achieve the Company's long-term development.

On behalf of the Company's management team, we thank our shareholders for their support. And to our staff, we would like to express our heartfelt gratitude for their service and perseverance during challenging times. We will maintain to work hand-in-hand to achieve leapfrog development, improving customer satisfaction, enhancing user experiences and delivering long-term stable returns to our shareholders.

MARKET REVIEW

According to the International Data Corporation ("**IDC**") report, the global smartphone shipment in 2021 was 1.36 billion units, a year-on-year ("**YoY**") increase of 6.2%. In the second half of 2021, smartphone shipment declined by 3.7% YoY due to supply chain disruption and component shortages. With the gradual easing of the supply chain tension, the increasing penetration rate of 5G smartphones and the rise of new smartphone forms such as folding smartphones are expected to drive the demand of the smartphone market in 2022. According to IDC, smartphone shipment in 2022 is expected to be increased by 1.5% YoY.

For the electric vehicle industry, according to the EV Tank report, the global electric vehicle sales volume reached 6.7 million in 2021, a YoY increase of 102.4%. As the largest electric vehicle market, the sales volume of the Chinese market reached 3.55 million, representing a YoY increase of 160.1%. In addition, according to the forecasts of various institutions such as the China Association of Automobile Manufacturers ("**CAAM**"), the domestic production and sales of new energy vehicles are expected to exceed 5 million units in 2022, a YoY increase of 47%, suggesting a promising market prospect.

According to the IDC report, the global AR shipment in 2021 was close to 0.3 million units, declined by 3.2% YoY due to the high ASP and imperfect industry ecosystem. However, the market maintains a positive outlook on the development of AR that the global AR shipment is expected to reach 1.35 million units in 2022 and the compound annual growth rate ("**CAGR**") is expected to reach 169% in 2021-2025. On the other hand, while the global VR shipment in 2021 was 11 million units, a YoY increase of 96%, the volume will further move up to 13.6 million in 2022 while the CAGR is expected to reach 27% in 2021-2025. The Company will fully capitalize on the demand recovery of the smartphone industry, and the rapid growth of both the electric vehicle market and AR/VR market to realize business diversification and create greater value for shareholders.

BUSINESS REVIEW

In 2021, the Group's revenue was RMB17.67 billion, up 3.1% YoY. Gross profit margin was 24.7%. Net profit was RMB1.32 billion, down 12.6% YoY. For the fourth quarter of 2021 ("**Q4 2021**"), revenue was RMB4.81 billion, up 0.6% YoY. Gross profit margin was 20.5%, down 7.6 percentage point ("**ppt**") YoY. The Company's performance was affected to a certain extent by continuous operational headwinds such as supply chain disruption due to the ongoing pandemic, the increase in operational costs in China and weaker demand due to chip shortage. The overall gross profit margin was also adversely affected by fierce competition in domestic and overseas markets. Net profit for Q4 2021 was RMB212 million, down 72.0% YoY. In addition to the aforesaid factors, the decrease of net profit was also attributed to the lack of a similar exceptional exchange gain and a reduction in government subsidies.

The Group remains prudent in financial management, and conducts active liquidity management by stringently managing capital expenditures and R&D expenses. During the reporting period, operating cash inflows were RMB4.54 billion and the capital expenditures amounted to RMB3.55 billion, lowered by 30.3% from 2020. As of 31 December 2021, net gearing ratio was 8.9%, and cash on book was RMB6.05 billion. We believe that a sound financial position is essential to the long term sustainable growth of the Group, and ensures the Group's ability in continuous innovation and development.

The Board of Directors proposed not to declare a final dividend for FY 2021 (FY 2020: HK$0.20 per share), in order to maximize the liquidity of the Group, in light of the resurgence of COVID-19 globally and market turbulences. This, together with the interim dividend paid in September 2021, gives a total of HK$0.20 per share for the year (FY 2020: HK$0.30 per share).

The Group continues to uphold the innovation-driven development strategy and strengthen its edge on product differentiation as well as core competencies to actively broaden the Group's businesses and accelerate its strategic planning in the new business areas. In 2021, the Group completed a major milestone equity investment transaction with a strategic partner in the automotive industry, Ibeo Automotive Systems GmbH which is a technology leader for LiDAR systems, and an investment in the Series A financing round for SWIR Vision Systems Inc. ("**SWIR Vision Systems**") which is a pioneer in the next generation of image sensor solutions for industrial automation, consumer electronics, AR/VR system, autonomous vehicles and other applications. The Group also completed the acquisition of 100% equity interests in Toyo Precision Appliance (Kunshan) Co., Ltd. ("**Toyo Precision**") which mainly manufactures metal casing, bottom and parts of tablets, wearables and notebooks products. These strategic movements will enhance the Group's technological leadership position and facilitate the expansion into non-smartphone verticals.

Additionally, in automotive lens and LiDAR sensor markets, the Group's product portfolio has covered front-view, surround-view, Occupant Monitoring System ("**OMS**") and Driver Monitoring System ("**DMS**") vehicle lens. The development of more premium products are in good progress, including lens for LiDAR and vehicle lens products adopting the Group's WLG technology. With respect to automotive acoustics products, the Group has been working with a leading Chinese electric vehicles OEM to co-develop products for mass-production. The mass-production is expected to commence at the end of 2022. Meanwhile, the Group has also obtained an acoustics software and tuning project for a high-end automotive OEM and the products are currently under development. In the future, the Group will integrate acoustics, optics and haptics products provide customers with intelligent cockpits solutions with multi-dimensional experiences for our customers. By providing differentiated user experience and promoting upgrade and innovation across the industry, the Group is expected to receive more customer recognition in the intelligent automotive market and accelerate its planning in the automotive industry.

In the wearables market that generates increasing market focus, the Group announced a strategic partnership with Dispelix, the world's top see-through waveguide displays company, aiming to provide consumers with high-end AR&MR solutions. This partnership will leverage the full capability of AAC's unique manufacturing platform and global operations to support all customers engaged in the development of system-level solutions enabled by Dispelix unique technology.

PERFORMANCE AND DEVELOPMENT OF BUSINESS SEGMENTS

Acoustics Business

In 2021, the Group's acoustics business revenue was RMB8.58 billion, up 13.5% YoY. Gross profit margin was 29.7%, up 1.8 ppts YoY. For Q4 2021, the acoustics business revenue was RMB2.24 billion, up 8.4% YoY. Strong shipment growth from overseas customer during the peak season helped to offset weaker demand from Android customer base. Gross profit margin was 26.8%, down 5.0 ppts YoY, mainly from ASP pressure. In Q4, the acoustics revenue was up 2.0% quarter-on-quarter ("**QoQ**") and gross profit margin was up 0.5 ppt QoQ.

It is expected that in 2022, the revenue and gross profit margin of Android acoustics products will increase steadily. In terms of revenue, as the stereo design gradually penetrates from flagship smartphone models to mid to low-end models, the unit value of acoustics products in smartphones will increase. In terms of new products and market, in addition to the smartphone and automotive markets, the Group will actively expand the acoustics products into wearables, tablets, notebook markets. It is expected that such revenue will account for more than 5% of Android acoustics in 2022. In terms of gross profit margin, as the penetration rate of the standardized small cavity speaker module continues to increase, it will further improve the gross profit margin leveraging on the Group's automated production capability to achieve greater economies of scale and lower unit costs.

With the continuous development of intelligent cockpits and the increasing customer demand for in-car experience, automotive acoustics will see rapid growth and product upgrade in the future. The Group is committed to becoming an innovator in the development of automotive acoustics, bringing leapfrog development in terms of end-user experience and product forms. Leveraging on years of experience in the rapid iteration of acoustics in the consumer electronics industry and the capability to continuously break through technological limits as well as precision manufacturing, the Group has successfully obtained the overall acoustics solution project from a leading domestic new energy vehicle OEM and the Group's automotive acoustics system will be installed in the client's new car model which is scheduled to be launched in the near future. In addition, the Group is actively engaging with domestic new energy vehicles OEMs regarding partial application of our speaker module and has reached agreement with one of the customers to provide speaker module for their car headrests. The project is planned to undergo mass-production and to be delivered in the Q1 2023.

Optics Business

In 2021, the Group's optics business revenue was RMB2.39 billion, up 46.2% YoY. Gross profit margin was 17.2%, down 1.6 ppts YoY. For Q4 2021, revenue from the optics business was RMB513 million, down 4.2% YoY. Gross profit margin was -2.1%, down 23.5 ppts YoY. It was primarily due to one-time adjustments and industry ASP decline of plastic lens. On a QoQ basis, revenue increased by 31.3% with strong shipment growth and gross profit margin dropped by 16.9 ppts.

Compared to Q3, the market demand saw recovery in Q4. The shipment volume of plastic lens increased by 52.7% QoQ whereas shipment volume of 6P plastic lens accounted for 12% of the overall plastic lens shipment volume. Due to the decline in ASP, as well as the impact from one-time adjustments, the gross profit margin of plastics lens decreased by 30.8 ppts QoQ to -6.1% in Q4. In 2022, the Group will continue to expand the market share of plastics lens market and increase the total shipment for plastic lens significantly YoY. The WLG hybrid lens business is progressing as scheduled. The Group is focusing on 1G6P high-end hybrid lens projects with mass-production and delivery targets by 2H 2022.

The camera module business has seen steady growth, with penetration in the mid- to low-end market and breakthroughs in the high-end market. In Q4, the average monthly module shipment was around 6 million units, representing a QoQ increase of 13.9%. It is expected that the shipment volume will continue to increase in Q1 2022 with delivery of more mid- to high end camera modules. VCM business has achieved a major development milestone with the 50M AF module accredited by multiple customers. At the same time, we are also in active communication with customers regarding the OIS products of high performance price ratio.

Electromagnetic drives and precision mechanics business

In 2021, revenue from this combined segment amounted to RMB5.64 billion, down 17.7% YoY. Gross profit margin was 21.6%, down 2.1 ppts YoY. For Q4 2021, given the reduction in ASP of electromagnetic products sold to major customers and ceased production of stepping motors, revenue from this combined segment was RMB1.80 billion, down 6.2% YoY. Gross profit margin was 19.8%, down 8.0 ppts YoY. Compared to Q3, due to the increased shipment for precision mechanics and haptic motors and the consolidation of Toyo Precision, revenue grew by 28.8% QoQ while gross profit margin decreased by 0.5 ppt QoQ.

Electromagnetic drives business

In 2021, the total shipment volume of x-axis haptics motors for Android customers reached 67.3 million, increased by 235.3% YoY. Leveraging on hardware upgrades and the Group's precise software algorithm tuning capability of the x-axis haptics motors, a number of edges including stronger motor power, greater vibration intensity and lower power consumption have been achieved. As such, the Group's "hardware + software" integrated solution is well adopted by Android high-end flagship models and gaming smartphones, hence becoming the latest smartphone standard configuration. With x-axis haptics motors gradually penetrating into mid- to low-end smartphone models, it is expected that the shipment volume of the Group's Android x-axis haptics motors will have a multifold growth in 2022. Moreover, the ultra-wide x-axis haptics motor launched by the Group can be used not only in smartphones devices, but also in smart watches, tablets, intelligent automobiles, smart glasses, game controllers, VR/AR controllers, and even bone conduction headphones. It will further expand the widespread application for haptics technology.

Precision mechanics business

In Q4, the capacity utilization rate of the precision mechanics segment, particularly the metal casing products, has improved due to increased demand from major customers and the optimization of product portfolio. The gross profit margin improved significantly QoQ. In 2022, the Group will continue to promote its customer diversification strategy, optimize product portfolio and increase its resilience against business risk. The Group has consolidated the financial results of Toyo Precision as a part of the precision mechanics segment of the Group, reinforcing the Group's production capability. Leveraging on Toyo Precision's rich experience in serving European and American customers, the Group will continue to expand customer base to improve revenue and overall profitability of this business segment.

MEMS business

In 2021, the Group's MEMS business revenue was RMB1.01 billion, down 6.4% YoY, and gross profit margin was 15.1% down 2.4 ppts YoY. For Q4 2021, the MEMS business recorded a revenue of RMB238 million, down by 7.1% YoY. Gross profit margin was 12.5%, down 5.2 ppts YoY. Compared to Q3, revenue decreased by 5.9% and gross profit margin declined by 2.7 ppts. This was mainly due to the decline in ASP from major customers and the increased proportion of low-end products in the product mix.

The shipment volume for MEMS increased by 11.1% YoY in 2021, with a continuous increase in market share. In the future, while maintaining a stable and high market share in the smartphone market, the Group's MEMS microphone products will continue to expand into other markets such as true wireless stereo ("**TWS**") earphones, smart speakers, tablets and automotive markets.

FINANCIAL REVIEW

Revenue

2021 Group revenue increased YoY by 3.1%, to RMB17.7 billion. Owing to factors discussed under "Business Review" above, revenue from the acoustics and optics increased by RMB1,022 million and RMB755 million respectively, whilst electromagnetic drives and precision mechanics revenue decreased by RMB1,209 million, compared with 2020.

Gross Profit and Gross Profit Margin

2021 gross profit was RMB4.4 billion, representing an increase by 3.3%, from the gross profit of RMB4.2 billion in 2020. The rose in gross profit was primarily due to the improvement in revenue. The gross profit margin improvement was mainly contributed by the margin improvement in acoustics business.

Administrative Expenses

Administrative expenses in 2021 were RMB824 million, 22.6% higher, compared with RMB672 million in 2020. The increase was mainly contributed by the increase in professional fees as well as the incremental share incentive expenses. To cope with the strategic expansion into new market segments like automotive, the Group engaged professional consultants to facilitate the internal reorganization into new product line management structure and the setup of new KPIs and long term strategic targets. Besides, new share incentive scheme has been launched to drive the long term business objectives.

Distribution and Selling Expenses

Distribution and selling expenses of RMB333 million in 2021, along with the increase in revenue, increased by 16.5%, compared with RMB285 million in 2020.

Research and Development Expenses

R&D expenses in 2021 were RMB1,726 million, 10.1% lower than RMB1,920 million in 2020. The decrease was primarily attributable to improved use of engineering resources in R&D stage of current product platforms and new solutions.

Finance Costs

Finance costs in 2021 amounted to RMB415 million, representing an increase of 17.8% compared with RMB353 million in 2020. Such increase in finance costs was mainly due to i) the additional interest on unsecured notes accompany with the issuance of 5-years unsecured notes USD300 million at annual interest rate 2.625% and 10-years unsecured notes USD350 million at annual interest rate 3.75% in June 2021; ii) interest accrued for the contingent settlement provision at annual interest rate 4.0%.

Taxation

Taxation expenses of the Group were calculated based on the assessable profits of the subsidiaries at the rates prevailing in the relevant jurisdictions. Taxation expenses in 2021 amounted to RMB120 million, representing a decreased of 18.3% from RMB147 million in 2020. While the effective tax rate has decreased 0.4 percentage points compared with that of 2020, the decrease was due to recognition of deferred tax assets of RMB116 million in 2021 while deferred tax assets of RMB95 million in 2020 relating to government grants and other temporary differences.

Net Profit and Net Profit Margin

Reported net profit for 2021 was RMB1.32 billion, a decline by 12.6% compared with RMB1.51 billion in 2020. The decline was due to the lack of similar amount of exchange gain during the period contributed to the adverse 1.3 ppts decrease in net profit margin to 7.5%.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the year ended 31 December	
	2021	2020
	RMB million	*RMB million*
Net cash from operating activities	**2,196.1**	3,592.6
Net cash used in investing activities	**(4,245.8)**	(3,262.1)
Net cash from financing activities	**612.9**	2,582.2

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipts from the Group's sales. Cash outflows were related to raw materials purchases, payroll, distribution and selling expenses, expenses incurred in R&D, administrative items and taxation charges. Net cash generated from operating activities was RMB2,196.1 million for 2021 (2020: RMB3,592.6 million).

i. Trade Receivables and Payables

As at 31 December 2021, turnover days of trade receivables decreased by 1 days to 83 days as compared to 31 December 2020. Trade receivables increased by RMB1.0 billion to RMB4.5 billion. Aging of trade receivables (net of allowance for doubtful debts) based on invoice dates between 0–90 days, 91–180 days and over 180 days were RMB4,133.2 million (31 December 2020: RMB3,200.9 million), RMB293.7 million (31 December 2020: RMB318.7 million) and RMB70.4 million (31 December 2020: RMB0 million) respectively. The Company has received subsequent settlement totaling RMB2,667.4 million up to 28 February 2022, representing 59.3% of the total amount outstanding, net of allowances, as at the end of the reporting period.

The Group's trade payables turnover days increased by 1 days to 109 days as compared to 31 December 2020. Trade payables increased by RMB578.6 million to RMB4.3 billion. Aging of trade payables based on invoice dates between 0–90 days, 91–180 days and over 180 days were RMB3,300.4 million (31 December 2020: RMB2,917.5 million), RMB949.9 million (31 December 2020: RMB747.5 million) and RMB13.4 million (31 December 2020: RMB20.1 million) respectively.

ii. Inventory Turnover

As at 31 December 2021, the inventories have increased by RMB1.7 billion compared to 31 December 2020. The inventory turnover days increased to 133 days for the year ended 31 December 2021 from 108 days for 31 December 2020.

Investing Activities

Net cash from investing activities in 2021 amounted to RMB4,245.8 million. It mainly represents the cash used in capital expenditures ("**CAPEX**") of RMB3,738.1 million (2020: RMB4,734.8 million) and acquisition of equity instruments at FVTOCI and financial assets at FVTPL of RMB580.3 million (2020: nil) and escrow deposit paid for acquisition of a subsidiary of RMB169.4 million (2020: nil), offsetting by the cash inflow arising from the government grant of RMB307.1 million (2020: RMB604.3 million) as well as the withdrawal of time deposits of RMB92.2 million for 2021 (2020: 20.8 million).

CAPEX included acquisition of land use rights, additional production plant and property, and, latest automation machinery and equipment for modifications and upgrades as well as capacity expansion. For 2021 and 2020, total CAPEX incurred were RMB3,548.2 million and RMB5,088.0 million respectively. Investing activities are focused on sustained CAPEX programs in building technology platform per the Group's business progress to capture new market opportunities and support its long-term business strategies. CAPEX are funded by internal resources and bank loans, and are subject to annual CAPEX budgeting and approval by the Board.

During the current year, the Group entered into a subscription agreement with a private equity fund pursuant to which the Group agreed to make a capital commitment of US$60,000,000 to the fund and the Group has made payment of US$2,478,000 (equivalent to approximately RMB16,020,000) and an addition of US$419,000 (equivalent to approximately RMB2,674,000) is called upon by the fund before the year ended date and included in other payables. Please refer to Note 14 to the Condensed Consolidated Financial Statements for further information.

On 14 December 2021, the Group purchased 100% equity interests in Toyo Precision Appliance (Kunshan) Co., Ltd. at the Consideration of RMB443 million in accordance with the terms and conditions of the equity transfer agreement. Upon completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company.

Financing Activities

The Group recorded net cash inflow from financing activities of approximately RMB612.9 million for 2021. Major inflow was due to the issuance of unsecured notes amounted to RMB4,163.4 million (2020: nil), and net outflows from bank borrowings, repayment of bank loans of RMB6,767.3 million (2020: RMB2,103.7 million) and new bank borrowings raised of RMB4,114.2 million (2020: RMB2,460.2 million).

Cash and Cash Equivalents

As at 31 December 2021, the unencumbered cash and cash equivalents of the Group amounted to RMB6,051.4 million (31 December 2020: RMB7,540.3 million), of which 57.9% (31 December 2020: 42.4%) was denominated in US dollar, 36.1% (31 December 2020: 51.2%) in RMB, 1.4% (31 December 2020: 3.0%) in Euros, 1.3% (31 December 2020: 1.1%) in Hong Kong dollar, 1.1% (31 December 2020: 0.6%) in Vietnamese Dong, 1.0% (31 December 2020: 0.03%) in Malaysian Ringgit, 0.4% (31 December 2020: 1.2%) in Japanese Yen, 0.3% (31 December 2020: 0.2%) in Singapore dollar, and 0.5% (31 December 2020: 0.3%) in other currencies.

Gearing Ratio and Indebtedness

As at 31 December 2021, the Group's gearing ratio, defined as total loans and unsecured notes divided by total assets, was 23.3% (31 December 2020: 21.6%). Netting off cash and cash equivalents, net gearing ratio was 8.9% (31 December 2020: 2.2%).

As at 31 December 2021, the unsecured notes of the Group were RMB6,573.2 million (31 December 2020: RMB2,511.7 million), the short-term bank loans and long-term bank loans of the Group amounted to RMB2,902.4 million (31 December 2020: RMB3,348.5 million) and RMB330.0 million (31 December 2020: RMB2,543.0 million) respectively.

Charges on Group Assets

Apart from escrow deposit for acquisition of a subsidiary of RMB169.4 million (31 December 2020: nil) and bank deposits amounting to RMB2.2 million that were pledged to banks mainly in relation to materials purchase and construction work as at 31 December 2021 (31 December 2020: RMB92.0 million), no other Group assets were charged to any financial institutions.

OFF-BALANCE SHEET TRANSACTIONS

As at 31 December 2021, the Group had not entered into any material off-balance sheet transactions.

KEY RISK FACTORS

The Company has structured risk management and internal control systems for the management of strategic, market, operational, financial and compliance risks. In our pursuit of technology innovation, the Company is committed to build sustainable risk management and operational information systems. We have been focusing on systematic review and upgrading our risk and control measures in chosen business processes, benchmarking against international best practices. Such systems are designed to manage the risk of failure to achieve business objectives, and can provide reasonable assurance against material misstatement or loss. Certain key risk factors affecting the Group are outlined below. The list of these factors is non-exhaustive, and there may be other risks and uncertainties which are not known to the Group or which may be immaterial now but could become material in the future. Besides, this announcement does not constitute a recommendation or an advice for anyone to invest in the securities of the Company. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

Risks Pertaining to the Smartphones Market

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

Reliance on a Number of Key Customers

The Group's five largest customers, which accounted for 87.3% of the Group's total revenue, are all related to the consumer electronics industry, characterized by innovation-driven and user experience-oriented business growth. Loss of or changes in market position of any of these customers may materially and adversely affect the Group's business, financial condition and results of operations. Nevertheless, the Group has focused on technology innovation to continuously enhance user experience meeting customers' specification upgrade needs. We have also implemented standardized procedures for handling all forms of customer information to ensure it is not improperly or inadvertently disclosed to third parties. The Group has established strong relationships with these major customers; all of them have been our customers for over 8 years. The credit terms granted to them are in the range of 60- to 90-day periods and are generally in line with those granted to other customers.

Risks of Supply Chain and Production Disruption due to Unforeseeable Events

The COVID-19 pandemic broke out globally in 2020. The ongoing of the pandemic in 2021 has adversely impacted on the global economy recovery. The resurgence of COVID-19 in China in 2022 has also caused certain disruption to companies' business operation of different industries. The risk of a prolonged duration of the COVID-19 pandemic might lead to significant disruption of production and shipment in the smartphone supply chain, including that of the Group. In the unlikely event that COVID-19 infects a large number of the Group's employees, the productivity of the Group's operations might be adversely affected, including the possibility of closing some premises of the Group. The above might adversely affect the Group's operating results.

Protecting the employees from the spread of COVID-19 has always been a key priority for the Group. A pandemic prevention taskforce was established and is in charge of monitoring and implementing all appropriate hygiene and distancing measures to keep the Group's employees safe while maintaining the integrity of operations to ensure supply of products to the customers. For instance, to stabilize the production capacity and the COVID-19 situation in the vicinity of our Vietnam operation, the Group made monetary donations to the Vietnam government for the purchase of vaccines for the Group's employees and the local community.

In addition to COVID-19, geopolitical events between different nations may impose unpredictable impacts to the global markets and the Company, such as disruption to the global supply of commodities including base metals and driving up the commodities' prices. The continuous increase in the prices of raw materials might lead to margin compression. Furthermore, geopolitical uncertainties may directly or indirectly impact the Group's customers, which in turn may disrupt supply chain and impact end-consumer demand.

In view of the uncertain market outlook, the Group will actively monitor the market and allocate resources flexibly to meet customers' changing demand. To mitigate the potential impacts from geopolitical events, the Group will actively manage the procurement channels, operation and production.

Operational and Obsolescence Risks

The Group's operation is subject to a number of risk factors specific to designing and providing new technology solutions. Our business continues to focus on miniature components and develop new products and technologies platforms. In meeting future design specifications and production quality requirements, our successful track record would not guarantee continual success. Changes in technological design and performance specifications or other external factors may have various levels of negative impact on the results of operations. Additionally, production, data security and quality issues may happen despite internal systems and policies set up for their prevention, which may lead to financial loss, litigation, or damage in reputation.

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

The Company has put in place a quality management system. All products are subject to thorough and comprehensive testing to meet customers' requirements and international standards. The Company will continue to improve internal process capability, including live surveillance management of production stations and evaluation of "big data" systems in our operation, and set up a solid base for continual improvement in product reliability.

Liquidity and Interest Rate Risks

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

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

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

Foreign Exchange Risks

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

It is the Group's consistent policy to centralize foreign exchange management to monitor total foreign currency exposure, to net off affiliate positions, and, if necessary, to consolidate hedging transactions with banks. The cash inflow to the Group in denomination of the two currencies, namely RMB and USD, are mostly, over time, in balanced proportions. In addition, various bank facilities have been arranged in these two currencies, to meet our daily operating expenses and capital investment requirements. Hence, in our operating business model, the Group's revenue is mostly matched to the currencies of the outlay. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a natural hedge is not possible, the Group will mitigate foreign exchange risks via appropriate foreign exchange contracts.

Intensifying Global Trade Frictions
Prolonged and intensified trade frictions might lead to a slowdown 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.

The Group believes that it is in compliance with applicable export control regulations, and as at the date of this announcement, 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.

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

PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

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

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

FINANCIAL INFORMATION

The financial information relating to the years ended 31 December 2021 and 2020 in this announcement does not constitute the Company's statutory consolidated financial statements for those years, but represents an extract from those consolidated financial statements. The final results of the Group for the year ended 31 December 2021 have been reviewed by the Audit and Risk Committee of the Company.

The Company has delivered the consolidated financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by Section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**") and will deliver the consolidated financial statements for the year ended 31 December 2021 in due course. The Company's auditor has reported on the consolidated financial statements of the Group for both years. The auditor's reports were unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports, and did not contain a statement under Sections 406(2), 407(2) or (3) of the Companies Ordinance.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	**2021**	2020
		RMB'000	*RMB'000*
Revenue	*3*	**17,666,967**	17,140,219
Cost of goods sold		**(13,302,032)**	(12,912,734)
Gross profit		**4,364,935**	4,227,485
Other income, gains and losses	*5*	**345,440**	502,277
Share of results of an associate		**(926)**	-
Distribution and selling expenses		**(332,505)**	(285,427)
Administrative expenses		**(823,555)**	(671,861)
Research and development costs		**(1,726,217)**	(1,920,255)
Exchange gain		**1,169**	147,938
Finance costs	*4*	**(415,465)**	(352,558)
Profit before taxation	*6*	**1,412,876**	1,647,599
Taxation	*7*	**(119,767)**	(146,571)
Profit for the year		**1,293,109**	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 (expense) income ("FVTOCI")		**(19,334)**	14,178
Items that may be subsequently reclassified to profit or loss:			
Fair value changes on derivative financial instruments		**(17,278)**	(50,138)
Loss reclassified to profit or loss on hedged items		**37,872**	57,081
Exchange differences arising on translation of foreign operations		**(60,108)**	(105,499)
Total comprehensive income for the year		**1,234,261**	1,416,650
Profit (loss) for the year attributable to:			
Owners of the Company		**1,316,279**	1,506,707
Non-controlling interests		**(23,170)**	(5,679)
		1,293,109	1,501,028
Total comprehensive income (expense) attributable to:			
Owners of the Company		**1,261,131**	1,423,009
Non-controlling interests		**(26,870)**	(6,359)
		1,234,261	1,416,650
Earnings per share			
- Basic	*9*	**RMB1.09**	RMB1.25
- Diluted	*9*	**RMB1.09**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2021

	NOTES	**2021** *RMB'000*	2020 *RMB'000*
Non-current assets			
Property, plant and equipment	*10*	**19,987,447**	18,592,060
Right-of-use assets	*11*	**2,033,673**	1,895,871
Goodwill		**220,346**	164,350
Deposits made for acquisition of property, plant and equipment		**317,127**	576,467
Investment properties	*12*	**11,272**	12,466
Interest in an associate		**4,464**	-
Equity instruments at FVTOCI	*13*	**847,953**	352,006
Financial assets at fair value through profit and loss ("FVTPL")	*14*	**50,349**	-
Intangible assets		**383,758**	373,360
Deferred tax assets	*23*	**211,045**	95,000
		24,067,434	22,061,580
Current assets			
Inventories		**5,695,245**	3,995,052
Trade and other receivables	*16*	**6,012,727**	5,176,458
Escrow deposit for acquisition of a subsidiary	*25*	**169,443**	-
Amounts due from related companies		**5,601**	5,595
Taxation recoverable		**18,027**	40,294
Pledged bank deposits		**2,219**	91,999
Bank balances and cash		**6,051,372**	7,540,330
		17,954,634	16,849,728
Current liabilities			
Trade and other payables	*17*	**6,147,520**	5,204,503
Contract liabilities	*17*	**22,324**	14,734
Lease liabilities	*18*	**242,035**	493,657
Amounts due to related companies		**33,577**	43,593
Taxation payable		**164,932**	166,881
Bank loans	*19*	**2,902,389**	3,348,546
Government grants	*22*	**141,266**	83,015
Derivative financial instruments	*15*	**13,589**	24,695
		9,667,632	9,379,624
Net current assets		**8,287,002**	7,470,104
Total assets less current liabilities		**32,354,436**	29,531,684
Non-current liabilities			
Lease liabilities	*18*	**452,435**	317,073
Bank loans	*19*	**330,000**	2,542,950
Unsecured notes	*20*	**6,573,182**	2,511,748
Contingent settlement provision	*21*	**1,738,830**	1,671,812
Government grants	*22*	**700,251**	603,959
Deferred tax liabilities	*23*	**40,735**	48,886
Derivative financial instruments	*15*	**17,003**	14,421
		9,852,436	7,710,849
Net assets		**22,502,000**	21,820,835
Capital and reserves			
Share capital	*24*	**98,135**	98,135
Reserves		**21,712,531**	21,060,606
Equity attributable to owners of the Company		**21,810,666**	21,158,741
Non-controlling interests		**691,334**	662,094
Total equity		**22,502,000**	21,820,835

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 "**Hong Kong 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 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 following amendments to IFRSs issued by the International Accounting Standards Board for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

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

In addition, the Group has early applied the Amendment to IFRS 16 "Covid-19-Related Rent Concessions beyond 30 June 2021".

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

As described below, the application of the amendments to IFRSs in the current year has 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 early application of Amendment to IFRS 16 "Covid-19-Related Rent Concessions beyond 30 June 2021"

The Group has early applied the amendment in the current year. The amendment extends the availability of the practical expedient in paragraph 46A of IFRS 16 "Leases" by one year so that the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The application of this amendment has had no material impact on the Group's financial positions and performance for the current and prior years.

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

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying IFRS 7 "Financial Instruments: Disclosures".

As at 1 January 2021, the Group has several financial liabilities and derivatives, the interest of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform. The following table shows the total amounts of outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

	Hong Kong Interbank Offered Rate ("HIBOR")	**London Interbank Offered Rate ("LIBOR")**
	RMB'000	***RMB'000***
Financial liabilities		
Bank loans	**1,343,915**	**358,870**
	US$'000	***US$'000***
Derivatives		
Interest rate swaps	**-**	**160,000**

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank loans measured at amortised cost.

2.3 Impacts on application of the agenda decision of the IFRS Interpretations Committee - Cost necessary to sell inventories (IAS 2 "Inventories")

In June 2021, the IFRS Interpretations Committee, through its agenda decision, clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The IFRS Interpretations Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

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

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

2.3 Impacts on application of the agenda decision of the IFRS Interpretations Committee - Cost necessary to sell inventories (IAS 2 Inventories) - continued

The Group's accounting policy prior to the IFRS Interpretations Committee's agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the IFRS Interpretations Committee's agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and other cost necessary to sell inventories. The new accounting policy has been applied retrospectively.

The application of the IFRS Interpretations Committee's agenda decision has had no material impact on the Group's financial positions and performance.

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[2]
Amendments to IFRS 3	Reference to the Conceptual Framework[1]
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[2]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to IAS 8	Definition of Accounting Estimates[2]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[1]
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract[1]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018 - 2020[1]

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

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

Amendments to IFRS 3 "Reference to the Conceptual Framework"

The amendments:

- update a reference in IFRS 3 "Business Combinations" so that it refers to the "Conceptual Framework for Financial Reporting" issued by International Accounting Standards Board in March 2018 (the "**Conceptual Framework**") instead of the International Accounting Standards Committee's "Framework for the Preparation and Presentation of Financial Statements" (replaced by the "Conceptual Framework for Financial Reporting" issued in September 2010);

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" - continued

- 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 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 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 2021, the application of the amendments will not result in reclassification of the Group's liabilities.

Amendments to IAS 1 and IFRS Practice Statement 2 "Disclosure of Accounting Policies"

IAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

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

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

Amendments to IAS 1 and IFRS Practice Statement 2 "Disclosure of Accounting Policies" - continued

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 *Making Materiality Judgements* (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to IAS 8 "Definition of Accounting Estimates"

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty - that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in IAS 8 is retained with additional clarifications.

Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of IAS 12 "Income Taxes" so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

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

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

Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" - continued

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 31 December 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB653,299,000 and RMB694,470,000 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

Amendments to IAS 16 "Property, Plant and Equipment - Proceeds before Intended Use"

The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with IAS 2 "Inventories".

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

Amendments to IFRSs Annual Improvements to IFRSs 2018 - 2020

The annual improvements make amendments to the following standards.

IFRS 9 "Financial Instruments"

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

IFRS 16 "Leases"

The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

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

3. REVENUE AND SEGMENT INFORMATION

Operating and reportable segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's key operating decision makers in order to allocate resources to the segment and to assess its performance.

Information reported to the key operating decision makers for the purposes of resource allocation and assessment of performances focuses specifically on the type of products sold. This is also the basis upon which the Group is organised and managed.

3. REVENUE AND SEGMENT INFORMATION - continued

The Group's operating and reportable segments under IFRS 8 are acoustics product (previously termed as dynamic components, which includes acoustic modules and acoustic unit), electromagnetic drives and precision mechanics, optics products, MEMS components and other products, which represent the major types of products manufactured and sold by the Group. Revenues from these products is recognised at the point in time when controls of the products had transferred.

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

All sales contracts terms and the performance obligations of goods and services provided by the Group are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Information regarding these segments is presented below.

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

	2021	2020
	RMB'000	*RMB'000*
Operating and reportable segments		
Segment revenue - recognised at a point in time		
Acoustics products	**8,582,092**	7,559,954
Electromagnetic drives and precision mechanics	**5,638,782**	6,847,410
Optics products	**2,389,371**	1,634,423
MEMS components	**1,013,350**	1,082,582
Other products	**43,372**	15,850
Revenue	**17,666,967**	17,140,219
Segment results		
Acoustics products	**2,545,593**	2,109,693
Electromagnetic drives and precision mechanics	**1,220,778**	1,627,981
Optics products	**411,521**	307,660
MEMS components	**153,489**	189,863
Other products	**33,554**	(7,712)
Total profit for operating and reportable segments	**4,364,935**	4,227,485
Unallocated amounts:		
Interest income	**48,611**	58,989
Other income, gains and losses (excluding interest income)	**296,829**	443,288
Share of results of an associate	**(926)**	-
Distribution and selling expenses	**(332,505)**	(285,427)
Administrative expenses	**(823,555)**	(671,861)
Research and development costs	**(1,726,217)**	(1,920,255)
Exchange gain	**1,169**	147,938
Finance costs	**(415,465)**	(352,558)
Profit before taxation	**1,412,876**	1,647,599

3. REVENUE AND SEGMENT INFORMATION - continued

Segment results represent the profit earned by each segment without allocation of interest income, other income, gains and losses (excluding interest income), share of result of an associate, distribution and selling expenses, administration expenses, research and development costs, exchange gain and finance costs. This is the measure reported to the key operating decision makers for the purpose of resource allocation and performance assessment.

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

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

	2021	2020
	RMB'000	*RMB'000*
Acoustics products	**1,120,282**	983,297
Electromagnetic drives and precision mechanics	**562,759**	590,525
Optics products	**453,397**	359,298
MEMS components	**57,225**	38,354
Other products	**3,046**	1,587
Depreciation and amortisation included in cost of inventories	**2,196,709**	1,973,061
Unallocated portion	**505,452**	504,468
	2,702,161	2,477,529

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 excluded financial instruments in foreign countries that exceeds 10% of the Group's total non-current assets.

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

	2021	2020
	RMB'000	*RMB'000*
Greater China* (country of domicile)	**8,442,782**	8,080,078
Other foreign countries:		
Other Asian countries	**968,790**	800,252
America	**8,253,237**	8,256,632
Europe	**2,158**	3,257
	17,666,967	17,140,219

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

3. REVENUE AND SEGMENT INFORMATION - continued

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

During the year, the aggregate amount of revenue derived from the Group's top customers which individually has contributed to over 10% of the Group's revenue and included in all of the Group's segments, amounted to RMB13,056,212,000 (2020: RMB12,669,545,000). The total amount of revenue by each customer and number of customers are not disclosed, as in the opinion of the management such disclosure is harmful to the Group's business.

4. FINANCE COSTS

	2021	2020
	RMB'000	*RMB'000*
Interest on bank loans	**145,060**	215,368
Interest on unsecured notes	**178,278**	95,847
Interest on lease liabilities	**46,016**	27,333
Others	**66,945**	14,010
	436,299	352,558
Less:		
Finance costs capitalised in qualifying assets	**(20,834)**	-
	415,465	352,558

5. OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses mainly comprise of:

	2021	2020
	RMB'000	*RMB'000*
Government grants*	**252,153**	316,263
Interest income	**48,611**	58,989
Rental income	**12,951**	12,203
(Loss) gain on disposal/write-off of property, plant and equipment	**(45,546)**	2,305
Gain on termination of leases	**1,789**	-
Gain on derecognition of right-of-use assets	**-**	1,132

* Included in the amount is RMB152,601,000 (2020: RMB126,305,000) representing the amortisation of government grants as detailed in note 22. In addition, during the current year, the Group recognised government grants of RMB2,434,000 (2020: RMB57,253,000) in respect of Covid-19-related subsidies. The remaining amount mainly represents the incentives granted by the PRC local authorities to the Group for engaging in High Technology business, employment of expatriates and technologically advanced staff. All the grants were approved and received during the year of recognition.

6. PROFIT BEFORE TAXATION

	2021	2020
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	**14,543**	15,813
Other staff's retirement benefits scheme contributions	**518,746**	336,411
Other staff costs	**4,460,187**	4,070,868
Total staff costs*	**4,993,476**	4,423,092
Depreciation of property, plant and equipment	**2,499,122**	2,261,585
Depreciation of right-of-use assets	**197,649**	166,058
Total depreciation*	**2,696,771**	2,427,643
Depreciation of right-of-use assets capitalised in qualifying assets	**(40,442)**	-
	2,656,329	2,427,643
Allowance for inventories, included in cost of goods sold	**102,791**	93,013
Amortisation of intangible assets	**44,638**	48,692
Auditor's remuneration	**3,494**	3,383
Cost of inventories recognised as expense	**13,199,241**	12,819,721
Cost of raw materials included in research and development costs	**226,971**	304,624
Depreciation of investment property	**1,194**	1,194
Allowance (reversal) of impairment loss on trade receivables	**4,078**	(133)
Short-term and low value asset leases expense	**33,004**	25,129

* Staff costs of RMB976,247,000 (2020: RMB969,142,000) and depreciation of RMB267,545,000 (2020: RMB298,197,000) had been included in research and development costs.

7. TAXATION

	2021	2020
	RMB'000	*RMB'000*
The current tax charge (credit) comprises:		
PRC Enterprise Income Tax	**162,935**	141,190
Other jurisdictions	**53,530**	95,669
PRC and overseas withholding tax	**164**	25,098
Under(over) provision of taxation in prior years	**25,552**	(3,093)
	242,181	258,864
Deferred tax (see note 23)	**(122,414)**	(112,293)
	119,767	146,571

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 date ranging from 2022 to 2023 (2020: 2021 to 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 is effective from 1 January 2019 for 10-year period.

Pursuant to the relevant laws and regulation in Vietnam, one of the Group's subsidiaries is entitled to concessionary tax rate which is granted based on the fulfilment of carrying qualifying business activities. This tax holiday for the Vietnamese subsidiary will expire in 2027.

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

7. TAXATION - continued

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

	2021	2020
	RMB'000	*RMB'000*
Profit before taxation	**1,412,876**	1,647,599
Tax at the applicable income tax rate (Note a)	**353,219**	411,900
Tax effect of income not taxable for tax purpose	**(47,241)**	(62,003)
Tax effect of expenses not deductible for tax purpose	**75,368**	58,849
Tax effect of tax holiday and concession	**(181,292)**	(181,791)
Tax effect of tax losses not recognised	**152,895**	172,745
Tax effect of deductible temporary differences not recognised	**23,107**	6,638
Recognition of deductible temporary differences previously not recognised	**(73,027)**	-
Utilisation/recognition of tax losses previously not recognised	**(67,330)**	(117,717)
Effect of super deduction for research and development cost (Note b)	**(98,417)**	(60,147)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(36,867)**	(86,670)
Under(over) provision in prior years	**25,552**	(3,093)
PRC and overseas withholding tax	**(4,174)**	9,578
Others	**(2,026)**	(1,718)
Tax charge for the year	**119,767**	146,571

Notes:

(a) The PRC EIT rate of 25% (2020: 25%) is the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

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

8. DIVIDENDS

	2021	2020
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2020 final dividend of HK$0.20 (2019: nil) per ordinary share	**201,892**	-
2021 interim dividend of HK$0.20 (2020: HK$0.10) per ordinary share	**201,360**	106,807
	403,252	106,807

Subsequent to the end of the reporting period, in line with the prudent financial management of the Group, the Directors proposed not to declare a final dividend for the year ended 31 December 2021.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2021 is based on the profit for the year attributable to owners of the Company of RMB1,316,279,000 (2020: RMB1,506,707,000) and on the weighted average of 1,206,381,000 (2020: 1,208,500,000 shares) number shares in issue during the year.

For the year ended 31 December 2021, the Directors consider the effect of the dilutive impact arising from the unvested Restricted Shares (as defined in note 26) granted by a subsidiary is insignificant. The Group does not have other potential dilutive ordinary shares outstanding for the year ended 31 December 2021 (For the year ended 31 December 2020: No diluted earnings per share is presented as the Group does not have any dilutive ordinary shares outstanding).

10. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of RMB3,817,218,000 (2020: RMB4,123,362,000). Part of the consideration of RMB576,467,000 (2020: RMB454,527,000) was paid up in advance in prior year.

Also, during the year, the Group disposed/write-off of certain property, plant and equipment with an aggregate carrying amount of RMB71,469,000 (2020: RMB142,547,000) for proceeds of RMB25,923,000 (2020: RMB144,852,000) and resulting in a loss on disposal of RMB45,546,000 (2020: gain on disposal of RMB2,305,000).

During the year ended 31 December 2021 and 2020, no impairment loss has been recognised as there is no indication for impairment.

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

11. RIGHT-OF-USE ASSETS

	Leasehold land	Buildings	Machineries	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2021				
Carrying amount	1,380,374	580,577	72,722	2,033,673
As at 31 December 2020				
Carrying amount	1,393,870	421,087	80,914	1,895,871
For the year ended 31 December 2021				
Depreciation for the year	40,045	149,412	8,192	197,649
For the year ended 31 December 2020				
Depreciation for the year	21,001	136,865	8,192	166,058

11. RIGHT-OF-USE ASSETS - continued

	2021	2020
	RMB'000	*RMB'000*
Expense relating to short-term leases	**32,263**	24,255
Expense relating to leases of low-value assets, excluding short-term leases of low value assets	**741**	874
Total cash outflow for leases	**508,414**	688,962
Acquisition of a subsidiary	**25,792**	-
Additions to right-of-use assets	**394,032**	1,044,795

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 ended 31 December 2021, the Group early terminated certain leases which constitute lease modifications. As a result, the Group has derecognised right-of-use assets of RMB75,709,000 and lease liabilities of RMB77,498,000, and a gain of early termination of RMB1,789,000 has been recognised in profit or loss. During the year ended 31 December 2020, the Group returned the leasehold land of RMB52,015,000 to the government at a consideration of RMB53,147,000 and a gain of derecognition of RMB1,132,000 had been recognised in profit or loss.

As at 31 December 2021, the Group has obtained the land use right certificates for all leasehold lands except for leasehold lands with a carrying amount of RMB730,150,000 (2020: RMB730,150,000) in which the Group is in the process of obtaining. The land was acquired in 2020 in which the balance payment of the acquisition amounting to RMB373,000,000 is paid in 2021 and the Group has obtained the land use right certificate as of the report date.

The Group regularly entered into short-term leases for certain building premises and machineries, etc. As at 31 December 2021 and 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense is disclosed above.

During the year, the Group entered into new lease agreements for the use of leasehold land, buildings and machineries from 13 months to 50 years. On the lease commencement, the Group recognised right-of-use asset of RMB371,263,000 and lease liabilities of RMB370,755,000 (2020: right-of-use assets of RMB559,257,000 and lease liabilities of RMB558,748,000). Except for the payment made on the acquisition of leasehold land of RMB395,767,000 (2020: RMB485,538,000), the recognition of the remaining newly added right-of-use assets constitutes non-cash transactions.

11. RIGHT-OF-USE ASSETS - continued

Restrictions or covenants on leases

As at 31 December 2021, lease liabilities of RMB694,470,000 are recognised with related right-of-use assets of RMB653,299,000 (2020: lease liabilities of RMB450,986,000 are recognised with related right-of-use assets of RMB502,001,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

12. INVESTMENT PROPERTIES

	RMB'000
CARRYING VALUES	
At 1 January 2020	13,660
Depreciation during the year	(1,194)
At 31 December 2020	12,466
Depreciation during the year	(1,194)
At 31 December 2021	11,272

13. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity instruments at FVTOCI

	2021	2020
	RMB'000	*RMB'000*
Unlisted shares	**800,553**	303,995
Listed shares	**47,400**	48,011
	847,953	352,006

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 2021, the Group acquired certain equity interests in private entities, mainly comprising the investment in a Germany based company which engaged in solid state LiDAR senor for automotive series use at a consideration of Euro59,992,000 (equivalent to RMB473,821,000) (2020: nil).

13. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - continued

Equity instruments at FVTOCI - continued

Listed shares

The amount represents the Group's investment in a company listed in Japan. As at 31 December 2021, the fair value of the investment determined by reference to the quoted market bid prices available was RMB47,400,000 (2020: RMB48,011,000).

14. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year, the Group entered into a subscription agreement with a private equity fund pursuant to which the Group agreed to make a capital commitment of US$60,000,000 to the fund and the Group has made payment of US$2,478,000 (equivalent to approximately RMB16,020,000) and an addition of US$419,000 (equivalent to approximately RMB2,674,000) is called upon by the fund before the year ended date and included in other payables. The fund is to primarily invest in industry-leading technology companies, mainly in Germany, German speaking countries and regions, the Nordic countries and the Greater China, as well as other technologically-advanced regions with strong growth potential.

In addition, during the year, the Group makes a preferred shares investment of US$5,000,000 (equivalent to approximately RMB31,879,000) in a private entity which engaged in MEMS business.

The above investments are classified as financial assets at FVTPL and presented under non-current assets as they are not held for trading, instead, they are held for long-term strategic purpose. As at 31 December 2021, the fair value of the financial assets at FVTPL is RMB50,349,000 with no changes in fair value noted during the year.

15. DERIVATIVE FINANCIAL INSTRUMENTS

	Current		**Non-current**	
	2021	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Derivatives financial liabilities				
Interest rate swap contracts	**5,014**	16,467	**-**	5,381
Cross currency swap contract	**8,575**	8,228	**17,003**	9,040
	13,589	24,695	**17,003**	14,421

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 ("**US$**") denominated bank loans by swapping floating interest rates to fixed interest rates. The terms of this contract were negotiated to match with those of the hedged bank loans with the same notional amount as the principal amount of bank loans. For the year ended 31 December 2020, 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 for the year ended 31 December 2020 had been recognised in other comprehensive income and accumulated in the hedging reserve. Loss of RMB19,577,000 for the year ended 31 December 2020 on cash flow hedge was reclassified to profit or loss. During the year ended 31 December 2021, the Group repaid the floating-rate US-denominated bank loans. As a result, the hedge accounting was discontinued and the accumulated hedging reserve of RMB23,661,000 was released to profit or loss.

15. DERIVATIVE FINANCIAL INSTRUMENTS - continued

The Group entered into a cross currency swap contract with total notional amount of US$50,000,000 (2020: 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 20. 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 loss of RMB3,067,000 for the year ended 31 December 2021 (2020: gain of RMB15,044,000) has been recognised in other comprehensive income and accumulated in the hedging reserve. Loss of RMB14,211,000 (2020: loss of RMB37,504,000) 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:

National amount	Range of maturity	Forward contract rate	Interest rate Receive	Interest rate Pay	Exchange frequency Receive	Exchange frequency Pay
At 31 December 2021						
Cross currency swap contract						
US$50,000,000	27 November 2024	US$1 to RMB6.7345	3.00%	5.38%	Semi-annually	Semi-annually
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 contract						
US$50,000,000	27 November 2024	US$1 to RMB6.7345	3.00%	5.38%	Semi-annually	Semi-annually

The management considers that the interest rate benchmark reform will not have a material impact on the Group's interest rate swap contracts carry interest at LIBOR as these contracts will be matured before the cessation of LIBOR.

The above derivatives are measured at fair value. The classification of the measurement of the above derivatives at 31 December 2021 and 2020 is Level 2 under the fair value hierarchy (details set out in note 28).

16. TRADE AND OTHER RECEIVABLES

	2021	2020
	RMB'000	*RMB'000*
Trade receivables	**4,062,457**	3,185,395
Bank acceptance and commercial bills	**434,863**	334,175
	4,497,320	3,519,570
Prepayments	**373,853**	376,170
Value-added tax recoverable	**836,684**	953,669
Other receivables	**292,900**	312,912
Loan and interest receivables*	**11,970**	14,137
	6,012,727	5,176,458

* Loans of RMB11,609,000 (2020: RMB13,000,000) made to certain suppliers of the Group, which are unsecured, and carry interest rates at 4.35% (2020: 4.35%) per annum. The amounts are repayable in 1 year.

16. TRADE AND OTHER RECEIVABLES - continued

As at 1 January 2020, trade receivables from contracts with customers amounted to RMB4,345,306,000.

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.

	2021	2020
	RMB'000	*RMB'000*
Age		
0 - 90 days	**4,133,170**	3,200,890
91 - 180 days	**293,704**	318,680
Over 180 days	**70,446**	-
	4,497,320	3,519,570

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 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB170,160,000 (2020: RMB18,023,000) which are past due as at the reporting date. Included in the past due balances, RMB34,062,000 has been past due 90 days or more (2020: none of the balance has been past due 90 days or more).

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:

	2021	2020
	RMB'000	*RMB'000*
US$	**154,662**	40,830
Euro	**-**	83

17. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Trade and other payables

	2021	2020
	RMB'000	*RMB'000*
Trade payables	**2,626,140**	2,447,120
Notes payables - guaranteed	**1,637,537**	1,237,986
	4,263,677	3,685,106
Payroll and welfare payables	**476,776**	445,326
Payables for acquisition of property, plant and equipment	**599,105**	446,733
Other payables and accruals	**545,434**	627,338
Payable for acquisition of a subsidiary	**169,605**	-
Payables related to Restricted Shares (as defined in Note 26) granted to employees	**92,923**	-
	6,147,520	5,204,503

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

17. 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 or the note issued date, is as follows:

	2021	2020
	RMB'000	*RMB'000*
Age		
0 - 90 days	**3,300,438**	2,917,433
91 - 180 days	**949,924**	747,542
Over 180 days	**13,315**	20,131
	4,263,677	3,685,106

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:

	2021	2020
	RMB'000	*RMB'000*
US$	**686,669**	648,320
Japanese Yen	**15,210**	61,572
Euro	**21,546**	42,971

Contract liabilities

	2021	2020
	RMB'000	*RMB'000*
Contract liabilities on sales of miniaturised components	**22,324**	14,734

As at 1 January 2020, contract liabilities amounted to RMB10,271,000. 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.

18. LEASE LIABILITIES

	2021	2020
	RMB'000	*RMB'000*
Lease liabilities payable:		
Within one year	**242,035**	493,657
Within a period of more than one year but not more than two years	**149,531**	99,395
Within a period of more than two years but not more than five years	**143,555**	93,907
Within a period of more than five years	**159,349**	123,771
	694,470	810,730
Less: Amount due for settlement with 12 months shown under current liabilities	**242,035**	493,657
Amount due for settlement after 12 months shown under non-current liabilities	**452,435**	317,073

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 4.56% (2020: 4.36%). These lease liabilities were measured at the present value of the lease payments that are not yet paid.

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

	EURO	Singapore Dollar ("SGD")	US$
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2021	101,279	252	1,003
As at 31 December 2020	111,605	678	2,014

19. BANK LOANS

	2021	2020
	RMB'000	*RMB'000*
Bank loans	**3,232,389**	5,891,496
Less: Amount due within one year included in current liabilities	**2,902,389**	3,348,546
Amount due after one year	**330,000**	2,542,950
Bank loans are repayable as follows*:		
Within one year	**2,902,389**	3,348,546
After one year but within two years	**330,000**	2,128,377
After two years but within five years	**-**	324,873
After five years	**-**	89,700
	3,232,389	5,891,496

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

19. BANK LOANS - continued

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

	2021	2020
	RMB'000	*RMB'000*
US$	**277,515**	513,874
HK$	-	162,330
RMB	-	259,997

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

	2021	2020
	RMB'000	*RMB'000*
Fixed-rate borrowings	**2,052,884**	3,932,525
Variable-rate borrowings	**1,179,505**	1,958,971
	3,232,389	5,891,496

The Group's variable loans carry interest at mainly LIBOR, HIBOR and other relevant interbank offered rates plus a certain basis point adjustment. The management considers that the interest rate benchmark reform will not have a material impact on the Group's variable loans carry interest at LIBOR and HIBOR as these loans will be fully repaid before the cessation of LIBOR.

The variable rate bank loans carry interest rate ranging from 0.70% to 1.00% per annum (31 December 2020: 0.89% to 3.90% per annum). The fixed rate bank loans carry interest rate ranging from 0.90% to 4.30% per annum (31 December 2020: 1.98% to 4.90% per annum). The Company issued guarantees to respective banks to secure these borrowings.

During the current year, certain non-current bank loans of RMB1,034,369,000 were early repaid due to strategy plan (2020: Nil).

20. UNSECURED NOTES

During the current year, the Group issued new unsecured notes of US$300,000,000 due 2 June 2026 at a fixed interest rate of 2.625% ("**2026 Notes**") and US$350,000,000 due 2 June 2031 at fixed interest rate of 3.750% ("**2031 Notes**"). The proceeds were used for refinancing and general corporate purposes. The unsecured notes are listed on the Hong Kong Stock Exchange. The effective interest rates of the 2026 Notes and 2031 Notes are 2.7023% and 3.8656% respectively.

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

21. 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 ("**2020 Shareholders Agreement**"). 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.

Given that AAC Optics is in preparation for the proposed spin-off and separate listing, in order to comply with the regulatory requirements and market practices for listing in the PRC, as already announced on 31 October 2021, the shareholders of AAC Optics has entered into a termination agreement to terminate the 2020 Shareholders Agreement ("**Termination Agreement**") and a supplemental agreement to the Termination Agreement, pursuant to which certain rights were granted to the First Round Strategic Investors and Second Round Strategic Investors ("**Existing Strategic Investors**"), to the effect that certain shareholder rights originally granted to the Existing Strategic Investors under the 2020 Shareholders Agreement are amended. Since the right granted to the Second Round Strategic Investors to require the Group for capital repayment plus a premium under the occurrence or non-occurrence of future events remain unchanged, the Company continue to recognise the contractual obligation as contingent settlement provision as at 31 December 2021.

22. GOVERNMENT GRANTS

During the year, the Group received government grants of RMB307,144,000 (2020: RMB604,341,000) in aggregate from various PRC government authorities as an incentive for leasing factories, constructing electronic plants and acquiring machineries. As the grants related to assets, the amount received is to be amortised and released to profit or loss on a systematic basis over the useful lives of the related assets.

During the year, RMB152,601,000 (2020: RMB126,305,000) of the grants have been released to profit or loss.

23. 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)	Government grants *RMB'000*	Others *RMB'000*	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
Credit to profit or loss	36,301	6,717	71,312	1,715	116,045
At 31 December 2021	99,301	38,717	71,312	1,715	211,045

Deferred tax liabilities

	Depreciation/ amortisation *RMB'000* (Note b)	PRC withholding tax on undistributed earnings *RMB'000*	Total *RMB'000*
At 1 January 2020	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
Reversal of withholding tax upon distribution	-	(4,338)	(4,338)
Credited to profit or loss	(2,031)	-	(2,031)
Currency realignment	(963)	(819)	(1,782)
At 31 December 2021	40,735	-	40,735

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.

23. DEFERRED TAX ASSETS/LIABILITIES - continued

At the end of the reporting period, the Group has unused tax losses of approximately RMB3,729,369,000 (2020: RMB3,077,679,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB662,008,000 (2020: RMB420,000,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB3,067,361,000 (2020: RMB2,657,679,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward for up to 5 or 10 years to various years up to 2031 (2020: year 2030) from the year when the losses are incurred.

At 31 December 2021 and 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.

24. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Shares of US$0.01 each		
Authorised:		
Ordinary shares at 1 January 2020, 31 December 2020 and 31 December 2021	5,000,000,000	50,000
Issued and fully paid:		
Ordinary shares at 1 January 2020, 31 December 2020 and 31 December 2021	1,208,500,000	12,085
		RMB'000
At 1 January 2020, 31 December 2020 and 31 December 2021		98,135

25. ACQUISITION OF A SUBSIDIARY

On 14 December 2021, the Group acquired 100% interest in Toyo Precision. Toyo Precision is principally engaged in design, development and manufacturing of material for metal frame of intelligent technology products and was acquired with the objective to achieve inorganic growth by strategically pursing partnership and acquisition opportunities. The acquisition has been accounted for as acquisition of business using the acquisition method.

Consideration transferred

	RMB'000
Cash	**273,630**
Escrow deposit for acquisition of a subsidiary	**169,443**
Total	**443,073**

Acquisition-related costs amounting to RMB2,620,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the "administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition

	RMB'000
Property, plant and equipment	**206,432**
Right-of-use assets	**25,792**
Deposits made for acquisition of property, plant and equipment	**1,908**
Inventories	**89,943**
Trade and other receivables	**105,034**
Taxation recoverable	**2,330**
Bank balances and cash	**121,263**
Trade and other payable	**(119,551)**
Bank loans	**(38,500)**
Lease liabilities	**(7,574)**
	387,077

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB78,922,000 at the date of acquisition had gross contractual amounts of RMB78,922,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to nil.

25. ACQUISITION OF A SUBSIDIARY - continued

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	**443,073**
Less: recognised amounts of net assets acquired	**(387,077)**
Goodwill arising on acquisition	**55,996**

Goodwill arose on the acquisition of Toyo Precision because the acquisition included the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Toyo Precision. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisition is expected to be deductible for tax purpose.

Net cash outflow on acquisition of Toyo Precision

	RMB'000
Total consideration	**443,073**
Less: Cash and cash equivalents balances acquired	**(121,263)**
Escrow deposit for acquisition of a subsidiary*	**(169,443)**
	152,367

* The escrow deposit for the acquisition of a subsidiary will be transferred to the seller upon the issuance of the completion account and the confirmation of the final adjustment to the total consideration as stated in the agreement.

Impact of acquisition on the results of the Group

Included in the profit for the year is RMB4,425,000 attributable to the additional business generated by Toyo Precision. Revenue for the year includes RMB72,640,000 generated from Toyo Precision.

Had the acquisition of Toyo Precision been completed on 1 January 2021, revenue for the year of the Group would have been RMB18,521,880,000, and profit for the year attributable to owners of the Company would have been RMB1,362,613,000. The pro forma 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 on 1 January 2021, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Toyo Precision been acquired at the beginning of the current year, the Directors of the Company calculated depreciation of property, plant and equipment based on the recognised amounts of property, plant and equipment at the date of the acquisition.

26. SHARE AWARD SCHEME

Share award scheme of the Company

The Company on 23 March 2016 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 the Company, or purchased on the Hong Kong 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 are charged to profit or loss over the relevant vesting periods with a corresponding increase in share award reserve.

On 26 August 2021, the Trustee purchased an aggregate of 6,042,500 shares at prices ranging from HK$40.20 to HK$42.95 per share at a total consideration of HK$253,287,800 (equivalent to RMB211,211,000) on the Hong Kong Stock Exchange for the purpose of the Scheme.

As at 31 December 2021, an aggregate of 6,042,500 shares of the Company had been purchased by the Trustee. Since the date of adoption of the Scheme up to 31 December 2021, no new shares had been issued to the Trustee and no shares had been granted to selected employee(s) under the Scheme.

Subsidiary share incentive scheme ("Subsidiary Scheme")

AAC Optics, a subsidiary of the Company, entered into a capital increase agreement with three limited partnerships ("**Platforms**"), with the purpose to create share incentive platforms. The Subsidiary Scheme entitles selected employees of AAC Optics ("**Eligible Scheme Participants**") to subscribe the shares of AAC Optics, accounted for approximately 2.0% of the enlarged share capital or 135,377,918 shares of AAC Optics, corresponding to a consideration of RMB135,377,918 or at the subscription price of 1 RMB per share of AAC Optics at the time of grant, which is payable at the same time. Under the Subsidiary Scheme, the Eligible Scheme Participants would settle the subscription price of shares by cash or by combination of cash and related approved loans from the Group or Platforms at market interest rate. During the year ended 31 December 2021, the fund raised from the Subsidiary Scheme is RMB135,378,000. After deducting the loans of RMB35,663,000 from the Group to certain Eligible Scheme Participants, the net cash proceeds is RMB99,715,000.

Except for 11,163,857 shares which were granted and vested immediately, the remaining shares would be vested over a requisite service period of up to three-and-a-half year subject to the relevant key performance targets of AAC Optics during the vesting period ("**Restricted Shares**"). Upon the issue of new shares that are vested under the Subsidiary Scheme, the Group's interest in AAC Optics has been changed. 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. As at 31 December 2021, the net cash proceeds of the unvested portion of Restricted Shares, amounting to RMB92,923,000, is recorded as other payables as the shares are contingently returnable.

26. SHARE AWARD SCHEME - continued

Subsidiary share incentive scheme ("Subsidiary Scheme") - continued

A summary of activities of the Restricted Shares with vesting condition of the Subsidiary Scheme is presented as follows:

	Number of restricted shares	Fair value of share incentive at grant date *RMB'000*
Unvested as at 1 January 2021	**-**	**-**
Granted during the year	**135,377,918**	**227,847**
Vested during the year	**(11,163,857)**	**(18,890)**
Unvested as at 31 December 2021	**124,214,061**	**208,957**

In the opinion of the Directors of the Company, the estimated compensation cost of Restricted Shares was based on the fair value of shares of AAC Optics at the date of grant by reference to the consideration of the latest share issue of AAC Optics in October 2020. At the end of each reporting period, the Group revises its estimates of the Restricted Shares that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to share-based payments reserve including in the non-controlling interests.

27. OPERATING LEASE ARRANGEMENTS

The Group as a lessor

The properties held for rental purposes have committed lessees for the next 2 years (2020: 3 years).

Undiscounted lease payments receivable on leases are as follows:

	2021 ***RMB'000***	2020 *RMB'000*
Within one year	**15,220**	15,220
In the second year	**8,066**	15,220
In the third year	**-**	8,067
	23,286	38,507

28. 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/ labilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input (s)	Significant unobservable input(s)	Sensitivity/relationship of unobservable inputs to fair value
	2021	2020				
	RMB'000	*RMB'000*				
Equity instruments at FVTOCI - Listed shares	**47,400**	48,011	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity instruments at FVTOCI - Unquoted equity investments	**450,362**	6,669	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. Forecasted future cash flows	The higher the discount rate, the lower the fair value, and vice versa. The higher the forecast future cash flow, the higher the fair value, and vice versa.
Equity instruments at FVTOCI - Unquoted equity investments	**336,717**	297,326	Level 3	Market approach. The market approach was used to determine the valuation based on the recent transaction prices of underlying investments or 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. TTM P/S multiples of selected comparable companies.	The higher the lack of marketability discount, the lower the fair value. The higher the TTM P/S multiples, the higher the fair value.
Equity instruments at FVTOCI - Unquoted equity investment	**13,474**	-	Level 2	N/A (Note)	N/A	N/A
Financial assets at FVTPL	**50,349**	-	Level 2	N/A (Note)	N/A	N/A
Interest rate swap contracts	**5,014 Liabilities (under hedge accounting)**	21,848 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 contract	**25,578 Liabilities (under hedge accounting)**	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

Notes: The investments were made near the end of reporting period or still in the initial setup stage since the capital contribution, the management is of the opinion that the carrying amounts of the investments as at 31 December 2021 approximate their fair values.

28. 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

Except for listed unsecured notes in which there is fair value based on the quoted bid price in an active market, amounting to RMB6,575,029,000 (31 December 2020: RMB2,575,965,000), the management considers that the carrying amounts of the other 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 2020	281,181
Return of capital	(2,508)
Total gain	
- in other comprehensive income	35,489
Currency realignment	(10,167)
At 31 December 2020	303,995
Purchase made	518,821
Total losses	
- in other comprehensive income	(25,795)
Currency realignment	(9,942)
At 31 December 2021	787,079

Included in other comprehensive income is an amount of RMB25,795,000 loss (2020: RMB35,489,000 gain) relating to unlisted equity securities classified as equity instruments at FVTOCI held at the end of the current reporting period and is reported as changes of FVTOCI.

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

The Group has entered interest rate swaps contracts and cross currency swap contract that are covered by the International Swaps and Derivatives Association Master Agreements ("**ISDA Agreements**") signed with various banks. These derivative instruments are not offset in the consolidated statement of financial position as the ISDA Agreements are in place with a right to set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts. No further disclosure is provided as the amounts involved in maser netting arrangements are not significant

CORPORATE GOVERNANCE

The Board and the Company consider effective corporate governance not only a safeguard of the interests and confidence of our stakeholders, but also a key component in the Group's sustainable long term development and value creation. Our Board, which is at the centre of our corporate governance structure, has regularly reviewed and refined principles, policies and practices on the conduct with an aim to support the growth of the Group's operations. Our sound corporate governance structure includes a quality Board, high standards of corporate responsibility and sustainability awareness, a high degree of transparency, accountability and independence, and an effective design, implementation and enforcement of risk management as well as internal controls systems.

Based on regular reviews of the Company's actual performance against the Corporate Governance Code (the "**CG Code**") in Appendix 14 to the Hong Kong Listing Rules, the Board is satisfied that throughout the financial year ended 31 December 2021, the Company has complied with all the code provisions. Furthermore, the Company strives to go beyond code provisions compliance by embracing the latest and the best corporate governance practices, such as correlating a significant proportion of the executive Directors' remuneration with the corporate and individual performance, the Board and its committees conducting annual evaluation of the Board and committees performance, and putting effective whistleblowing policy in place.

In addition, the Board in 2021 reviewed the Company's policies and practices on corporate governance, the terms of reference of the Board and Board Committees and published its Sustainability Report for the year ended 31 December 2020 in April 2021. We believe that the Sustainability Report, together with the Corporate Governance Report, will help to better explain our environmental, social and governance ("**ESG**") strategies, policies and practices.

RISK MANAGEMENT AND INTERNAL CONTROL

Effective risk management and internal control systems are fundamental to the achievement of our strategic objectives. The Company has in place an Enterprise Risk Management ("**ERM**") framework to effectively identify, assess, mitigate and monitor key strategic, market, financial, operational and compliance risks. The framework enables us to adopt a proactive and structured approach to identifying and managing risks across the organization with on-going monitoring and review. Our Board, acting through the Audit and Risk Committee in the first instance, is responsible for overseeing and evaluating management in the design, implementation and maintaining a sound and effective risk management and internal control systems on an ongoing basis.

The Audit and Risk Committee reviewed accounting principles, practices and important issues of judgment and estimation adopted by the Group in preparing the financial statements for the year ended 31 December 2021. The Audit and Risk Committee met four times during the year in advance of Board meetings that considered the quarterly, interim and final results and the related announcements. To reinforce the Company's ERM focus, high-risk areas identified in the external auditor's planning memorandum were discussed and special internal audit procedures were agreed where deemed appropriate. Two physical meetings with the external auditors were held during 2021. Audit and Risk Committee meetings are by design held a few working days ahead of full Board meetings to ensure that management will have enough time to answer any important queries raised for further discussion and reporting at ensuing Board meetings. Audit and Risk Committee Chairman reports significant issues covered at Audit and Risk Committee meetings to the full Board. Based on the work of the Audit and Risk Committee and further deliberations at Board meetings, the Board acknowledged and discharged their responsibilities for the preparation of the Group's financial statements for the year ended 31 December 2021.

Executive management owns the risk management and internal control processes and practices and has confirmed to the Board that these were operating adequately and effectively throughout the 2021 financial year. The internal audit department carries out independent analyses and appraisals of the adequacy and effectiveness of prescribed risk management and internal controls. The Audit and Risk Committee receives quarterly updates on risk management and internal audit reports from management and internal audit, in addition to monthly management accounts and business updates that are received by all Board members. External audit observations and recommendations have been discussed and followed up. The Audit and Risk Committee oversees the internal audit plans, the effectiveness of the independent professional firm's internal control assessment and its co-sourcing arrangement with the internal audit and cumulative progress reports on implementation of corrective and preventive measures arising from internal and external audit findings. Through this process, the Board had an ongoing review and assessment of the Company's systems of risk management and internal controls over strategic, market, operational, financial and compliance matters during 2021, and was satisfied that they were adequate and effective for the 2021 financial year.

The Board and management recognize that ERM will need ongoing refinement and reinforcement in terms of risk-culture, risk appetite and risk management practices before it becomes effectively embedded in business decisions, whether strategic or operational. We believe that the engagement of an independent professional firm, in the past few years, has brought additional expertise in the risk assessment process. The various projects co-sourced with the external professional firm to assist internal audit for reviewing and evaluating internal controls in several key management processes have completed and the refinement recommendations are constructive.

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

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

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

The tumultuous year of 2021 continued to see unprecedented challenges brought on by the COVID-19 pandemic and other external turbulences. Yet, where challenges exist, opportunities emerge. The Group has made great strides in embracing challenges with a growth mindset and adapting to the new normal, all to pave way for a sustainable future of the Group.

Amidst the COVID-19 pandemic, we further integrated the people-centric principle into our daily operations, making it our priority to safeguard our valuable asset – our employees. We place great emphasis on safeguarding the holistic well-being of employees, attracting and retaining key talents, and encouraging the innovative output of our talents. To stabilise our production capacity and the COVID-19 situation in the vicinity of our Vietnam operation, we made monetary donations to the Vietnam government for the purchase of vaccines for our employees and the local community. Our dedicated task-force team also continued to closely monitor the pandemic and make appropriate adjustments to our existing pandemic prevention measures.

The following are extracts of our sustainability management and performance during the year:

- An ESG training session was arranged and participated by the Board on the latest ESG updates and management best practices to improve the efficacy of Board oversight on long-term ESG values.

- The Sustainability Working Group reviewed the identified material topics and their materiality, ESG performance, and targets to ensure they align with the Group's long-term goals.

- Several large-scale conventional energy-saving projects have commenced, such as installing external wall insulation, retrofitting central air-conditioning systems, and installing solar photovoltaic panels. The Group has plans to expand these energy-saving projects to cover more premises of the Group. These projects help reduce the reliance on conventional energy and cost.

- Our consistent effort in sustainability-related performance and disclosures was recognised by various ESG awards from reputable organisations. In particular, Forbes places AAC Technologies at 44th out of the top 300 companies worldwide in their inaugural World's Top Female-Friendly Companies ranking, recognising our effort in promoting gender equality and female representation at executive and board levels.

- With the newly launched digitalised working platform, the Group can efficiently disseminate the most up-to-date information, including COVID-19 preventive measures, to all its employees.

SHARE AWARD SCHEME

As announced by the Company on 23 March 2016, the Board resolved to adopt a share award scheme (the "**Scheme**") in which Employees (other than Excluded Employees) may be selected by the Board to participate. The purpose of the Scheme is to permit the Company to grant Awards to Selected Employees as incentives for their contributions to the Group and to attract suitable personnel for further development of the Group. The maximum number of shares that may be awarded under the Scheme during its term is limited to 1.65% (i.e. 19,940,250 shares as at 23 March 2022) of the issued share capital of the Company from time to time. The maximum number of Awarded Shares that may be granted to any one Selected Employee shall not exceed 0.5% (i.e. 6,042,500 shares as at 23 March 2022) of the issued share capital of the Company from time to time. Pursuant to the Scheme, shares will be subscribed for at a subscription price as determined by the Board, or purchased on the Hong Kong Stock Exchange, by the Trustee at the cost of the Company and will be held by the Trustee on trust for Selected Employee(s) under the Scheme before vesting. The Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Hong Kong Listing Rules, and is a discretional scheme of the Company.

On 26 August 2021, the Trustee purchased an aggregate of 6,042,500 shares on the Hong Kong Stock Exchange for the purpose of the Scheme, funded by the Company's internal resources. Details of the aforementioned purchases and the information about the shares held by the Trustee are as follows:

Date of purchases:	26 August 2021
Aggregate number of shares purchased:	6,042,500
Percentage of issued share capital of the Company:	0.5%
Consideration per share:	Ranging from HK$40.20 to HK$42.95
Total consideration, excluding transaction costs:	HK$253,287,800
Balance of number of shares held by the Trustee immediately after the purchase:	6,042,500

Since the date of adoption of the Scheme and up to 31 December 2021, no new shares had been issued to the Trustee pursuant to the rules and trust deed of the Scheme and no shares had been granted to Selected Employee(s) under the Scheme.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company believes that in addition to the sustained increase of earnings per share and the intrinsic value per share, the repurchase of the Company's shares at the appropriate timing could also be an important metric to enhance long-term value of our shareholders.

At the annual general meeting on 15 May 2020, the Company's shareholders granted a general mandate to the Directors to repurchase shares of the Company, pursuant to which the Company is allowed to repurchase up to 10% of the total number of issued shares of the Company as at the date of the annual general meeting.

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

HUMAN RESOURCES

As at 31 December 2021, the Group employed 37,591 permanent employees, 11% increase from 33,735 employees as at 31 December 2020. Despite highly automated in the production process, the increase in number of permanent employees was corresponding to the rebound of business after the disturbance of COVID-19 during the course of 2020 as well as increased production capacity in the Group's optics and acoustics product lines to cope with customers' requirement. As the overall market environment becomes stable, the Group adapted a different approach on workforce acquisition during the course of 2021. Replacement of the flexible but unstable hourly rate workers by permanent employees was another major contributor to this variance, which the Group believed to be beneficial to both parties.

Employees of the Group are remunerated based on their individual performance, professional qualifications, experience in the industry and relevant market trends. Management from time to time reviews the Group's remuneration policy and appraises the work performance of its employees. In addition to basic salaries, allowances, social insurance and mandatory pension fund contribution, certain employees and employee groups are also eligible for the Group's bonus plan and share award scheme.

As required by the relevant regulations, the Group participates in the social insurance schemes operated by the relevant local government authorities in the PRC. The Group also participates in the mandatory pension fund and social insurance schemes for its employees in the Czech Republic, Denmark, Finland, Hong Kong, India, Japan, Malaysia, Singapore, South Korea, Taiwan, the United Kingdom, the United States and Vietnam.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms not less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as mentioned in Appendix 10 to the Hong Kong Listing Rules.

On specific enquiries made, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding the Directors' securities transactions during the year ended 31 December 2021.

CLOSURES OF REGISTER OF MEMBERS

For attending and voting at the annual general meeting
The registers of members of the Company will be closed from 6 May 2022 to 12 May 2022, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible for attending and voting at the forthcoming annual general meeting, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 5 May 2022.

DESPATCH OF ANNUAL REPORT

The Company's annual report containing the Directors' report and consolidated financial statements for the year ended 31 December 2021 will be published on the Company's website at www.aactechnologies.com and the website of the Hong Kong Stock Exchange on or around 6 April 2022.

The annual report and the notice of annual general meeting will be dispatched to Shareholders on or around 7 April 2022. All of these will be made available on the Company's website.

IMPORTANT NOTE

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

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

By order of the Board
AAC Technologies Holdings Inc.
Zhang Hongjiang
Chairman

Hong Kong, 23 March 2022

As at the date of this announcement, the Board comprises Mr. Pan Benjamin Zhengmin, Mr. Mok Joe Kuen Richard and Ms. Wu Ingrid Chun Yuan, together with four Independent Non-executive Directors, namely Mr. Zhang Hongjiang, Mr. Au Siu Cheung Albert, Mr. Peng Zhiyuan and Mr. Kwok Lam Kwong Larry.